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3 Advantages Of Arbitrating IP Disputes

By **Caroline Simson**

Law360, New York (April 11, 2016, 1:45 PM ET) -- As the trend toward arbitrating intellectual property disputes becomes more widespread, it behooves members of the IP bar to know why it could be beneficial to bring their dispute into international arbitration.

It has historically been somewhat atypical for companies to arbitrate their disputes, but over the last decade or so IP lawyers have become more aware of international arbitration as a dispute resolution mechanism and the advantages it can have over litigation. Technology companies have begun to incorporate arbitration clauses into their IP contracts as a matter of course, many of which arise out of settlements for a previous dispute that ended up in court.

The climbing statistics are due not only to the growing number of IP disputes generally, but also to their increasingly complex and multijurisdictional nature. Arbitration provides a neutral setting for dispute resolution and allows parties to consolidate multiple proceedings into one venue rather than pursue multiple disputes around the globe.

"With a business deal or settlement, it's become very common to have arbitration clauses," said Morrison & Foerster LLP of counsel Grant L. Kim. "That's especially the case if you have parties from different countries, because neither side wants to give up the home court advantage."

Here, Law360 takes a look at some of the advantages that arbitration offers over litigation.

Enforceability

Without question, according to Mayer Brown LLP partner B. Ted Howes, the No. 1 advantage of arbitrating an intellectual property dispute is the enforceability of international arbitration awards. Members of the IP bar are increasingly aware that litigation awards can be difficult to enforce abroad, and that's not the case with an international arbitration award.

"I think the reason there's an increasing trend is because there's more and more awareness in international transactions that litigation judgments are difficult to enforce abroad," he said. "That's not the case for arbitration awards."

He noted that under the New York Convention, international arbitration awards — including those arising from IP disputes — are enforceable in the courts of more than 140 countries.

"That's what the whole international arbitration system is built upon, and it's been fantastically successful," he said. "It's really been the grease for international trade over the last 60 years."

Some jurisdictions, such as Hong Kong, have even begun taking steps to ensure that parties know they will be able to enforce arbitration awards there. The Hong Kong government has proposed a new law making clear that enforcement of an arbitral award would not be refused in Hong Kong because of any confusion as to whether an IP dispute can be arbitrated, or if the award goes against Hong Kong public policy because it involves intellectual property rights.

"Traditionally, there have been concerns about whether IP disputes are able to be resolved by arbitration in Hong Kong," Donovan Ferguson and Gareth Hughes, a senior associate and partner, respectively, at Ashurst LLP, said in an email. "These concerns are reducing and we are seeing an increase in the number of clients who agree to arbitrate IP disputes. This trend looks likely to continue."

Specialization

In the past, many technology companies weren't very keen on arbitration because of a perceived lack of expertise among arbitrators. But institutions like the Singapore International Arbitration Centre, the Hong Kong International Arbitration Centre, the Silicon Valley Arbitration & Mediation Center, and the World Intellectual Property Organization now offer lists of arbitrators with a specialization in IP.

Even for those institutions that may not offer a special list of such experts, they're likely to have IP lawyers on their regular panel lists.

"Clients are very interested in knowing that a specialist tribunal will decide their dispute, particularly an IP dispute," Ferguson and Hughes said.

While there are many judges in the U.S. with specialized knowledge of resolving IP disputes, a jury in a U.S. court case is almost certainly not going to have expertise on the intellectual property at issue in any given dispute, which can be unnerving to companies who have invested significant resources in developing their technology.

But such expertise may actually be perceived as a disadvantage if a company isn't all that confident in its technology, according to Kim.

"Generally speaking, once a dispute actually arises it’s hard to get agreement because one side will see arbitration as advantageous, and the other side may say, 'No, I'd rather have a jury,'" he said.

Speed

As intellectual property disputes become increasingly more complex, so too has the road to a judgment. Even once a company gets obtains a favorable outcome, the losing party is almost certain to lodge an appeal, drawing out the proceedings even further.

Enter arbitration, where awards are binding and, with only limited exceptions, there can be no appeal. A party can apply to have the award set aside in the courts of the seat of arbitration under a limited number of grounds, which may vary depending on the seat. U.S. courts may refuse to enforce an award for a few reasons, such as if the award violates principles of morality and justice or is fraudulent.

In general, however, parties have few options when they receive an unfavorable outcome. Naturally, that cuts both ways, according to Kim.

"Arbitration tends to be quite expensive and time consuming, but in the case of a patent litigation, even after you go to trial and get a verdict, it often gets reversed and then you have to do the trial again. So the litigation can drag on much longer," he said. "That's an advantage of arbitration, but only if you win, of course."

He noted that the lack of an appeal mechanism has caused some technology companies to shy away from arbitration, and that's still probably true when it comes to technology that is the company's bread and butter.

Nevertheless, in disputes where time is of the essence — perhaps because the company is seeking an award before the technology is rendered moot or because it lacks the resources for a multiyear dispute — such finality can be a godsend, particularly since many companies have seen their legal budgets slashed in recent years.

"Companies are going to be less willing — unless it’s really a 'bet the company' dispute — to spend millions of dollars and have the uncertainty that goes with years of major litigation if they can get a matter resolved ... expeditiously," said Chris Compton, founding director of the Silicon Valley Arbitration & Mediation Center.

--Editing by Jeremy Barker and Emily Kokoll.
