The Arbitration of IP Disputes

On 9 June 2021, Fox Williams LLP and the Silicon Valley Arbitration and Mediation Centre co-hosted a webinar about "Arbitrating IP disputes: how to anticipate and manage them". The speakers were: Fox Williams Partners Simon Bennett (Head of IP) and Ben Giaretta (Co-Head of International Arbitration); Luciano Filippi, the Head of Legal at INEOS Technologies & Catalyst; and James Hargrove, Partner at Orrick. The webinar was moderated by Sarah Lee of Debevoise & Plimpton.

The key takeaways were as follows.

1. Arbitration is increasingly used in IP disputes

Simon Bennett explained that arbitration is increasingly being used in IP disputes. The two sectors where arbitration is particularly popular are the technology sector and the medical sector. This is because both are multinational industries, and arbitration can provide a better forum for the resolution of international disputes than national courts (depending on where you are in the world), and also gives the opportunity of appointing people with specialist knowledge and expertise as arbitrators in your dispute. Arbitration in these sectors is likely to grow as these industries expand across the world, and become more complex.

He referred to statistics from the World Intellectual Property Organisation (WIPO): of the disputes that it oversees, 25% relate to patents (including disputes over the validity of patents and the infringements of patents), 23% relate to trade mark disputes (including disputes over the assignment, franchising and licensing of trade marks), 21% concern copyright disputes, 17% are about software licensing and development, and the remaining 14% include a wide range of other IP issues arising from commercial contracts.

2. This is all about risk management

Luciano Filippi emphasised that risk management is the key factor here. When drafting a contract, it is necessary to align the expectations of a business with the contractual rights. This includes trying to anticipate the issues that might arise in the future. Within IP licensing, in particular, arbitration can be a useful risk management tool because it guarantees that a dispute over commercially sensitive information can be resolved in a confidential setting. It also provides a neutral forum, which can be particularly important in some situations where you are dealing with a counterparty located in a jurisdiction where you believe you will be at a disadvantage in the local courts. The flexibility of the arbitration process can be attractive too, particularly the opportunity to appoint arbitrators who have specialist expertise in the relevant subject-matter. Finally, the system of enforcing arbitration awards round the world, via the New York Convention, can be very useful and important depending on who you are dealing with and where you might have to enforce the award.

In practice, of course, there is no real mystery about how best to approach a dispute. First, one should try to negotiate, usually via senior executive discussions or structured negotiations (such as a mediation). No business wants to get embroiled in an arbitration or litigation because that is a distraction from its core commercial activities. But if that does not work then it may be necessary to proceed to an arbitration.

3. Think about the end result

Many of the speakers emphasised the need to think carefully about what you are aiming for in an IP arbitration. Simon Bennett explained that there are, in general terms, two ways of calculating damages in an IP dispute (depending on the appliable law). One is to calculate the loss you have suffered, on the basis of a reasonable royalty on the use made of the IP by the Respondent. The other way is to estimate the benefit that the Respondent has gained and apply for an account of those profits. That might extend to estimating the value of an advantage that the Respondent has gained in a particular market as a result of its infringement (so-called "springboard damages").

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Luciano Filippi emphasised that there are often complexities in the calculation of damages. This is because it is a prediction of what you have lost – what sales you have lost, what royalty you have lost, etc – and that depends on several complicated factors including the state of the relevant market and the pricing policy that you would have adopted. This can be made even more difficult by the lack of comparable data: for example, technology pricing in a market is often unavailable in public sources because it is commercially confidential.

In addition, it is important to take into account how easy enforcement will be in the future, in the relevant country or countries. James Hargrove referred here to the specific issue of patent infringement. There are differing views around the world as to whether patent infringement can be referred to arbitration (i.e. the "arbitrability" of patent disputes). In some countries, such as Switzerland and Belgium, everything related to patents can be referred to arbitration; arbitrators even have the power to require that the patent register be amended. In other countries, such as Germany, Italy, France, China and Sweden, the validity of patents is reserved for the national courts, and only questions of patent infringement can be referred to arbitration. In the UK, the US, Japan and Singapore, there is a "halfway house" because disputes over the validity of patents can be referred to arbitration but only inasmuch as this affects the relationship between the parties to the arbitration, and not as far as it impacts third parties. It is important to be aware of these variations, and to take steps to ensure that relief gained at the end of the arbitration is effective.

4. Understand the process

It is also important to understand and anticipate the arbitration process itself. Ben Giaretta illustrated this by reference to the emergency arbitration procedures that have been adopted by many arbitration institutions. Since an emergency arbitration application must be made with notice to the other side (i.e. it is *inter partes* rather than *ex parte*), this creates the possibility of an inequality of arms. The applicant may have spent some time preparing its application, and then demand that the respondent give its answer within a very short period. On the other hand, if it appears to the emergency arbitrator that the applicant has spent too much time preparing, that might undermine the applicant's argument that there is an emergency which requires a remedy before the main arbitral tribunal is appointed.

Simon Bennett stressed that one needs to recognise that different experiences of national legal systems may bring different expectations of arbitration, for example in the amount of documentation that a tribunal might order to be disclosed: North American parties, for example, might seek discovery in the same manner as in the US courts, in contrast to more limited document production in many European countries. James Hargrove added that one must be comfortable in using the various tools and techniques available in arbitration, including giving proper instructions to technical experts (ensuring that they are looking at the same things), and organising hearings so as to deal with the issues and the evidence in the most efficient manner (such as hearing the expert witnesses first, so that the tribunal understands the technical issues before the factual witnesses give their evidence).

5. Spend early to save later

Finally, all the speakers agreed that the best way to minimize time and costs is to be organised. Luciano Filippi highlighted the important role that inhouse counsel play, in identifying what evidence is available and how well it is organised, and also in persuading a business to invest at the beginning of a dispute in the proper investigation and organisation of the evidence. Ben Giaretta stressed the importance of having a good list of issues at the start of an arbitration, which will be a yardstick for the parties' presentation of their evidence and arguments. James Hargrove added to this the need to have a list of expert issues, in particular, in order to identify what common ground there is between the experts and to narrow down the issues in dispute between them.

Overall, the speakers emphasised that the way to get the best value out of IP arbitration is to understand the particular characteristics of IP claims; to appreciate what can and cannot be done in arbitration; and to plan ahead so that there is a clear goal in mind.

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