International Arbitration of Patent Disputes

M. Scott Donahey
Arbitrator and Mediator – Palo Alto
adr@scottdonahey.com; www.scottdonahey.com
Reasons to Arbitrate Patent Disputes

- **Cost of Litigation**
  - Litigation costs very high (US$ 2 - 4 million to take case to trial in US alone)
  - Financing litigation in multiple jurisdictions
  - Cost and risks of enforcing judgments in multiple jurisdictions
Cost of Arbitration

- Including agreed limited discovery, attorneys fees, fees of three arbitrators, and two week hearing
- $1,000,000 to $1,500,000
Expert Decision Makers

• Arbitrators familiar with patent law and patent litigation, arbitrators familiar with particular technology.
• Judges may or may not be familiar with patent law or given technology. You cannot choose your judge.
Confidentiality

- Hearings are private
- Filings are private
- Awards are not filed where they are voluntarily complied with – Licensees and potential licensees need not know of arguments made or of decision.
Control of the Process

• The parties choose the rules of procedure
  Can agree on limited, targeted discovery
  Can agree on time limits for presentation of the case at hearing
  Can agree on the format of the claim construction hearing and when in the course of the proceeding the claim construction hearing is to take place
Control of Process

• Can provide for summary judgment proceedings prior to hearing or can provide that the arbitrators cannot hear summary judgment motions
Control of the Process

• The parties choose what is to be decided
  – Can agree to no injunctive relief
  – Can agree on damages (lump sum royalty, reasonable royalty rate, etc.)

Arbitrators need never know. Only job is to determine validity and infringement
Control of the Process

• Can decide on form of decision
  – Can choose reasoned award or one-liner
  – Can choose one-liner with option in losing party to request reasoned award
Form of Decision

• Can require draft decision for parties’ comment followed by final decision expressly addressing parties’ comments

• Can require simply a finding of infringement, or a specification of which independent claims are infringed and which are not infringed
Arbitration vs. Litigation

• Litigation
  – Requires that IP rights be enforced against infringer in each sovereign jurisdiction in which infringement occurs
  – Requires establishment of personal jurisdiction over infringer
  – Involves litigation in foreign courts with different judicial systems and concepts of justice
Arbitration vs. Litigation

• Arbitration
  – Is private and confidential
  – No jurisdictional problems – agreement to arbitrate is submission to jurisdiction of the arbitrators
  – Can resolve multi-jurisdictional disputes in one proceeding
  – Provides a neutral forum, with no perceived “home court” advantage
Ease of Enforcement

• Litigation
  – No treaty dealing with enforcement of foreign judgments

• Arbitration
  – New York Convention – International Treaty dealing with enforcement of foreign arbitral awards
New York Convention

• Makes arbitration awards readily enforceable around the world
• Only defenses to enforcement of awards in nature of due process defenses, e.g. lack of notice, no opportunity to present case, procedure fundamentally unfair, etc.
Arbitrability of Patent Issues

• In some jurisdictions issues of infringement and validity of a patent are freely arbitrable – U.S., Australia, Switzerland.

• In other jurisdictions arbitration awards are only effective *inter partes*
Arbitrability of Patent Issues

• In some jurisdictions patent issues may not be arbitrable – France, the Netherlands
• Parties and arbitrators dealing with patents outside the jurisdictions noted in previous slides must be careful in structuring the relief to be granted
Structure of Relief

• Rather than a finding of invalidity the arbitrators should be asked to find that under the conditions in which a court would find the patent invalid the arbitrators would find the patent unenforceable against the other party to the arbitration.
Structure of Relief

• Rather than a finding of “infringement,” the arbitrators should be asked to find that under the conditions in which a court would find the patent infringed the arbitrators would find the patent holder entitled to receive royalties from the other party to the arbitration.
Royalties

• The arbitrators may be empowered to fix royalties based on units sold, or lump sum royalties, or the parties may agree on the royalties to be paid if the arbitrators should find that royalties are due.
Arbitrator Considerations

• Must make process expeditious – may involve wasting assets
• Need to watch confidentiality – IP, commercial know-how involved
• Must attend to process organization – make complex simple
• Need to watch form of award – patent “unenforceable,” not “invalid”