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Is there an alternative to litigation: the role of A.D.R. in patent disputes

a continental perspective

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The dramatic increase of the number of international patent applications clearly shows the combined growth of international trade and of the field of industrial property.

As arbitration is now a natural way of dispute resolution, a similar increase of arbitration for patent disputes could have been expected.

But the available statistics show a standstill in IP-related arbitrations: IP-related disputes represent only a fraction of arbitrated disputes.

This situation is consistent with the current uncertainties hanging currently over arbitration in patent litigation in continental Europe.

Despite obvious advantages (**1.**), arbitration suffers from drawbacks which certainly explain its current stagnation (**2.**).

1. Advantages of arbitration for patent disputes

Without considering all the reasons that may convince parties to have their matter arbitrated rather than judged – some of these reasons, like greater speed in obtaining a decision or greater involvement of the arbitrators, not being specific to industrial property – some features of arbitration that are particularly interesting in patent litigation must be recalled.

Some of these advantages are related to the nature of arbitration (**1.1.**), others pertain to its technical aspects (**1.2.**).

1.1. The nature of arbitration

One of the unanimously praised advantages of arbitration in the field of patent litigation is the **confidentiality** of the proceedings.

Hearings before Courts are public, and judgments are issued publicly; moreover, anyone is entitled to obtain a copy of the judgment.

On the contrary, confidentiality is a fundamental rule of arbitration.

The debates as well as the award are thus confidential, and the arbitrators as well as the parties must respect the secret of the debates.

This rule is particularly important in the field of patent litigation.

It may be of major importance that arguments concerning the parameters of a process or the features of a product remain secret.

In another respect, a competitor may wish to publicize a dispute, which may destabilize the parties and ruin their commercial positions.

All these risks may be avoided by choosing arbitration rather than to file a suit to solve the dispute.

But it must be kept in mind that the dispute will remain confidential only if the award is spontaneously complied with by the parties : if an *exequatur* proceedings is necessary, then the award will become accessible to the public like a judgment issued by a national Court.

Another advantage of arbitration is that it often **preserves business relationship** during and after the arbitration proceedings.

As a matter of fact, in the field of industrial property, disputes do not arise exclusively at the end of the relationships between the parties, but also (and often) during these relationships.

Such disputes may concern the scope of a licence, or its interpretation, or the royalties, and are not supposed to put an end to the contractual relationship.

The traditional conviviality of arbitration is then to play an essential role in maintaining this relationship: whereas a writ of summons before a national Court is often perceived as a declaration of war, in the hushed atmosphere of a closed hearing before an arbitral Court, the tone is less charged and the declarations less passionate.

Finally, **arbitration is well adapted to solve disputes between parties having a very homogeneous professional background** and who are well acquainted.

In such a case, the award will generally be well accepted, and thus spontaneously executed.

1.2. The technical aspects of arbitration

One of the main advantages of arbitration is that it allows to **choose the judges** who will examine the case.

The arbitral panel may thus include an arbitrator aware of the technical domain of the patent at issue.

Another feature of arbitration is that it is **well adapted to the resolution of international disputes**.

Arbitration allows to avoid the preliminary phase of solving a probable conflict of jurisdiction.

It also allows to avoid to locate the proceedings in one of the parties' country, which is often a major cause of concern for the other party: even if the neutrality of the national judges is not suspected, one may feel uneasy about following a proceedings in its opponent's language and appearing before the national Court of its opponent.

In short, arbitration is well adapted to international disputes whose subject require technically skilled judges, which is the case for patent disputes.

Hence a question: why has arbitration not so developed in civil law countries as in some common law countries?

2. Drawbacks to arbitration in patent disputes

Three main reasons may explain that arbitration has not yet developed as well as one may have expected.

Two are specific to patent law: on the one hand, patent litigation is essentially tortious (**2.1.**); on the other hand, uncertainties still remain about the arbitrability of certain patent disputes (**2.2.**).

The other one is specific to the continent, and concerns the cost of a judicial proceedings compared to the cost of an arbitration proceedings (**2.3.**).

2.1. Patent litigation is essentially tortious

In most cases, arbitration relies on an arbitration clause.

An arbitration is rarely initiated on the basis of a compromise agreement reached when the dispute is borne: generally the parties do not wish to form any kind of links, even only in order to agree on the mode of resolution of the dispute.

And patent litigation is essentially tortious : for instance, contractual disputes represent less than 10 % of the disputes submitted annually to the Court of Paris, while infringement disputes represent more than 80 % of the disputes.

2.2. Arbitrability of patent disputes

The arbitrability of intellectual property disputes is a touchy matter.

National approaches in this regard, though quite close, deserve a separate review.

2.2.1. In France

Without going into the details of its complete history, the matter was dealt with very clearly in France until 1968: there was no question of arbitration in the field of intellectual property, because matters related to patents were considered to be "*causes communicables*", whereby a case had to be referred to the public prosecutor ("*Procureur de la République*") for an opinion before any judgment could be issued, within the meaning of Article 1004 of the former Code of Civil Procedure, and which could not be the subject of arbitration.

It was thus out of the question to enter into an arbitration for matters relating to patents.

The Ttrademark Act of 31 December 1964 on and the Patent Act of 2 January 1968 appeared to confirm the impossibility of arbitration, by providing for the exclusive jurisdiction of the high courts *("Tribunaux de Grande Instance")* in matters of industrial property, i.e. patents and trademarks.

Indeed, academic authors scrutinised the origins of these laws and noted that exclusive jurisdiction should not be confused with exclusion of arbitration.

However, the practice was extremely reluctant as it was influenced by the former texts, and did not seek to innovate.

Soon after the laws of 1964 and 1968, there appeared in the field of arbitration an amendment to Article 2060 of the Civil Code, by the law of 5 July 1972, which sought to expand the possibilities of arbitration.

However, it obscured the matter by providing that "*matters relating to public policy"* were not arbitrable.

Indeed, the connection of the rules on exclusive jurisdiction provided for by the laws of 1964 and 1968 together with the prohibition of arbitration in matters relating to public policy strengthened the positions of those sceptical as to the arbitrability of industrial property disputes.

That is why, at the request of interested groups, the Patent Act of 13 July 1978 was enacted and provided that rules on exclusive jurisdiction *"are not an obstacle to resorting to arbitration within the conditions prescribed by articles 2059 and 2060 of the Civil Code"*.

This provision has now been codified as article L. 615-17 of the French Intellectual Property Code of 1992.

The same provision is included in the Trademark Act of 4 January 1991, now codified as article L. 716-4 of the 1992 Intellectual Property Code.

It is now established, by these statutory provisions, that arbitration is not excluded by the sole fact that such disputes lie ordinarily within the exclusive jurisdiction of the Courts of first instance.

A recent judgment has definitively cleared up the matter as to patent law; however the same decision let the sword of Damocles of Article 2060 of the Civil Code - which prohibits the arbitration of matters relating to public policy - still hanging over our heads[1].

One must therefore select and determine, among the questions that may be submitted to arbitration, which are by nature related to public policy, and which are not.

One negative certainty is definite: a criminal action for infringement cannot be arbitrated.

[1] *Cour d'Appel* of Paris, March 24, 1994, *Revue de l'arbitrage* 1994, No. 3, p. 515: *"The rule of general attribution of jurisdiction to national Courts prohibits arbitration only in the fields of the law which interest public policy."*

Criminal matters cannot be arbitrated: no criminal action for infringement, whether it be patent, trademark, model or copyright, is arbitrable.

There are some positive certainties as well.

The arbitrability of disputes of a purely contractual nature with respect to an intellectual property right where the validity of this right is not questioned, is not disputable.

For example, when the dispute simply involves a request for payment of royalty fees, or when a contract provides for the disclosure of certain know-how in addition to granting a patent licence and the licensee requests sanctions for failure to provide the necessary know-how, these disputes, being contractual, are wholly arbitrable.

The arbitrability of matters of ownership of intellectual property rights is not questioned either.

Also, if a dispute arises from a joint venture or a development agreement, it is clear that the dispute is arbitrable.

However, things are different when the dispute involves an employment relationship.

On the one hand, a dispute between an employer and an employee relating to the right to an invention by the employee, at least during the performance of the contract of employment, is not arbitrable under French law.

On the other hand, once the contract of employment has expired, the parties are perfectly free.

It is then possible, within the framework of a compromise arbitration, to submit the dispute to arbitration.

This is now permitted in certain countries, where arbitration awards of this kind, signed by eminent arbitrators, are beginning to appear.

When it comes to the arbitrability of a dispute concerning the validity of a patent, things become delicate.

It is now clear that arbitrators cannot issue an award nullifying a patent *erga omnes*.

This is unquestionable if only because an arbitration has a fundamentally contractual and bilateral nature.

But a more subtle question is: may an arbitral Court nullify a patent *inter partes* only?

In France, at present, there seems to be no such precedent.

A good number of academic writers, as well as the business, favour the possibility for an arbitral Court to issue an award about the validity of a patent *inter partes* for reasons of simplicity and efficiency of the resolution of the dispute.

But some authors are opposed to such a conception: they argue that validity or invalidity are not to be considered *ratione personae* since these concepts concern a title and not a person and hence necessarily bear effect *erga omnes*; rather than invalidity, they prefer the concept of "unenforceability"[2].

And, since recent case law has reaffirmed its opposition to arbitration when it concerns provisions that are at the heart of industrial property law[3], a Court would probably apply the same reasoning if such a case appeared.

Last, nothing prohibits, theoretically, that a civil action for infringement be arbitrated.

However such a case remains very rare.

These disputes being tortious, arbitrations are exceptional.

Moreover, the alleged infringer will typically rely on the invalidity of the patent, and this matter, as previously seen, seems to remain in the exclusive jurisdiction of national Courts.

2.2.2. In Germany

The possibility for the parties to resort to arbitration is, under German law, a constitutional guarantee (*Grundgesetz*, Article 101).

Arbitration in itself is regulated by Book 10 of the *Zivilprozeßordnung* (Code of Civil Procedure), in Paragraphs 1025 to 1066.

Paragraph 1025 deals with arbitrability of disputes.

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[2] Charles Jarrosson, under *Cour d'Appel* of Paris, March 24, 1994, *Revue de l'arbitrage* 1994, No. 3, p. 515 – Georges Bonet and Charles Jarrosson, *« L'arbitrabilité des litiges de propriété industrielle »*, in *« Arbitrage et propriété intellectuelle »*, I.R.P.I., Litec, p. 64

[3] *Cour de cassation*, February 1, 2001, *Revue de l'arbitrage* 2001, No. 1, p. 232

German law resorts to the criterion of the alienability of the right at issue: a compromise agreement is valid when the parties are permitted to conclude such an agreement on the subject matter of the dispute, and this is generally the case when they may freely alienate the rights at issue.

In spite of some debates, it was rapidly accepted that intellectual property rights may be alienated by the parties, since their holder has an active role regarding their birth and extinction.

A patent is granted upon an application, which may freely be withdrawn ; the patentee may also partially or totally abandon its right et ask for the patent to be struck off the register.

On several occasions, the Federal Court of Justice (*Bundesgerichtshof*) has stated that the rights held by virtue of a patent may constitute the subject matter of a transaction, therefore of a contract[4].

Therefore there is no general prohibition under German law concerning the arbitrability of a case dealing with an industrial property right.

Thus, an action for infringement may be arbitrated, as well as an action concerning a licence.

On the other hand, the jurisdiction of an arbitral Court on a case concerning the grant, the limitation or the nullity of a patent is questionable.

According to the majority of the authors, the nullification of a patent by an arbitral Court would constitute a violation of the public order with regard to patent law.

The jurisdictions of the Patent Office (*Patentamt*), of the Federal Patent Court (*Bundespatentgericht*) and of the federal Court of Justice (*Bundesgerichtshof)* are strictly exclusive:

- the grant of a title by the Patent Office constitutes an act of a public authority based on a review on the merits which determines the validity of the patent,
- besides, an award could not take the place of a nullity decision of the Federal Patent Court since it is not in the parties' capacity to rule on the validity of a title.

[4] For an example, see *Auspuffkanal für Schaltgase*, BGH, December 7, 1978, GRUR 1979, 308

However, some German authors, among whom Professor Schlosser, believe that a dispute concerning the validity of a patent may be arbitrated, with the restriction that the award would have effect only *inter partes*.

The parties could thus agree on a limitation of the claims, or consider that the patent is not enforceable against the alleged infringer.

The exclusive jurisdiction of the Office and of the different Courts would then only concern the decisions bearing effect *erga omnes.*

However this trend remains marginal, and the reform of the Arbitration Act, which came into force on January 1st, 1998, did not modify the situation.

2.3. Cost of an arbitration proceedings

A major factor in the reluctance on the Old Continent to resort to arbitration is the cost of such a proceedings.

Whereas, in some common law countries, arbitration is a cheaper way to solve a dispute, in continental Europe, the opposite situation prevails.

A recent survey revealed that, in France, the cost of a patent litigation before national Courts varies between € 35,000, for a simple case in first instance, and € 300,000, for a complex case which goes up to the *Cour de Cassation* (supreme court)[5].

The figures for Germany are respectively € 45,000 and € 380,000, which remains well below the British and American ones.

The explanation resides in the features of the different legal systems: discovery, motion, deposition, examination and cross-examination are time-consuming and cost-inducing common law features that are unknown to our civil law countries.

It must also be noted that in an arbitration proceedings, the parties have to pay not only their counsels', but also the arbitrators' fees, contrary to a proceedings before a national Court, at least in France (in Germany, the Court also perceives a fee).

Moreover, arbitral hearings are often longer and more frequent than before national Courts.

[5] *« Propriété industrielle – Le coût des litiges »*, Ministry of Economy, Industry and Finances, 2000

Finally, in an arbitration proceedings, the counsels as well as the arbitrators are particularly devoted to their mission: arbitrators feel probably more involved in the search for a solution than national judges, and counsels generally bear a particular attention to arbitration cases.

All these factors make for the total cost of an arbitration proceedings being much higher than for a proceedings before a national Court, which remains relatively cheap on the continent compared to common law countries.

Unfortunately, this higher cost is not always made up for by a superior legal safety, due to uncertainties concerning the arbitrability of disputes concerning the validity of industrial property rights.

All these reasons explain why arbitration has not yet emerged as a real alternative to litigation in continental Europe.

Therefore a development of arbitration is possible, and is eminently desirable ; initiatives supporting such a development, like the ones of the World Intellectual Property Organisation, must be supported.