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The Rumors of Arbitrability's Death have been Greatly Exaggerated: Revisiting Arbitrability of IP Disputes from a Transatlantic Perspective

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His present research focuses on the arbitrability of intellectual property rights under the US and EU jurisdictions. Parts of this paper were written when the author was a Visiting Scholar at Harvard Law School from September 2019 through June 2020. The author wishes to thank Dayana Zasheva for excellent research assistance.

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Abstract

As intellectual property (IP) plays an ever-increasing role in the world economy, disputes over IP ownership, validity, licensing, infringement et cetera, become more frequent. For some time now, businesses have recognized the benefits of having IP disputes resolved through arbitration rather than in courts. This is particularly true in the international context, as the recourse to arbitration offers many advantages, including the confidentiality of the proceedings, the experience of arbitrators, and the international recognition and enforcement of awards.

While very few legal systems today exclude arbitration of IP disputes altogether, national legal systems tend to take different approaches to the issue of arbitrability of disputes concerning intellectual property rights. It is therefore important to know what types of disputes can be brought before arbitration.

For these reasons, this study aims at providing legal certainty in this area and compares US law to that of the EU and its major jurisdictions. The study distinguishes between two basic types of IP rights: those that ordinarily require registration and those that do not. It is important to distinguish different issues that may give rise to legal disputes regarding each of those types of IP rights: existence and validity, ownership, contractual obligations arising from the transmission or the licensing of the exploitation of IP rights, and non-contractual obligations emerging from the breach of those rights. The study further analyses and critiques normative implications of arbitrability in the different jurisdictions, in light of the public policy issues of IP.

Contents

Introduction

Arbitrability refers to the types of disputes that may be resolved by arbitration under the applicable laws.[1] Both the scope of application of the New York Convention[2] as well as that of the UNCITRAL Model Law are limited to disputes that are 'capable of settlement by arbitration'.[3] Arbitrability, conceptually and usually also in time, precedes jurisdiction.[4] It concerns the question of whether the parties can submit a specific dispute to arbitration in the first place. This paper is not concerned with subjective arbitrability, i.e. the question of whether the parties themselves have the legal capacity to submit a dispute to arbitration. Rather, the issue discussed in this paper is the question of objective arbitrability, i.e. whether the type of dispute is capable of being submitted to arbitration. This study is confined to objective arbitrability because intellectual property (IP) poses unique questions of public policy implications that deserve particular attention.[5] Because IP arbitration is a private means of dispute settlement with public consequences (at the very least through the recognition and enforcement of awards), each state decides which types of disputes may or may not be brought before arbitration according to its own political, social and economic policy.[6]

Classic examples for the restriction of arbitrability are the need to protect the weaker party in employment or consumer contracts (subjective arbitrability), criminal or tax issues, that have a particularly strong connection to public authorities. Often mentioned are also IP rights,

[1] Nigel Blackaby and others, *Redfern and Hunter on International Arbitration* (6th edn, Oxford University Press 2015) 110.
[2] The Convention on the Recognition and Enforcement of Foreign Arbitral Awards (adopted 10 June 1958, entered into force 7 June 1959) 330 UNTS 3 (New York Convention).
[3] See Arts II(1) and V(2)(a) New York Convention; Arts 34(2)(b)(i) and 36(1)(b)(i) UNCITRAL Model Law on International Commercial Arbitration (entered into force 21 June 1985, with amendments as adopted in 2006) UN Doc A/40/17, Annex I (UNCITRAL Model Law).
[4] Karim A Youssef, 'The Death of Inarbitrability' in Loukas A Mistelis and Stavros Brekoulakis (eds), *Arbitrability: International and Comparative Perspectives* (Kluwer Law International 2009) 49.
[5] Matthias Lehmann, 'A Plea for a Transnational Approach to Arbitrability in Arbitral Practice' (2004) 42 Colum. J. Transnat'l L. 753, 755.
[6] Blackaby and others (n 1) 111.

which have a strong connection to the territory (IP protection being territorially limited) and public authorities (those IP rights that are granted by the state) as well.[7] Arbitrability of IP rights is sensitive because IP, in a way, might be considered monopolies granted by the states for the use and commercial exploitation of intangible goods.[8] Because of the implications for public policy then, arbitrability naturally may (and should)[9] vary across countries. This variation is also important to consider in international IP arbitration as arbitrability has to be judged from different national perspectives, most importantly by the *lex loci arbitri* and the law of the state where enforcement is sought.[10]

Despite these differences domestically, a trend towards expansion of arbitrability of IP disputes has been observed but this expansion is still uneven and varies across jurisdictions.[11] This is in line with the general trend of an expansion of the parties' freedom to arbitrate,[12] but one that has been identified as going beyond purely private disputes.[13] There is a steady rise of arbitrations dealing with IP disputes globally, as evidenced, for example, by increasing numbers of IP cases resolved by WIPO arbitrations.[14]

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[7] Henning G Ruse-Khan, 'The Private International Law of Access and Benefit-Sharing Contracts' in Carlos Correa and Xavier Seuba (eds), *Intellectual Property and Development: Understanding the Interfaces Liber amicorum Pedro Roffe* (Springer 2019).

[8] Dário M Vicente, 'Arbitrability of intellectual property disputes: a comparative survey' (2015) 31(1) Arbitration International 151, 152.

[9] Roberto M Unger, *Free Trade Reimagined: The World Division of Labor and the Method of Economics* (Princeton University Press 2010) 187–188(arguing that '[a] global trading regime hospitable to democratic experimentalism must not wed itself to the particular system of intellectual property that has come to be established in the rich North Atlantic countries.')

[10] See Art. 34(2)(b)(i) of the UNITRAL Model Law; Art.V:2 (a) of the New York Convention, and 36:1 (b) i) of the UNCITRAL Model Law. Ruse-Khan (n 7) For a more detailed analysis, see Lehmann, (n 5) 758.

[11] Peter Chrocziel and others, *International arbitration of intellectual property disputes: A practitioner's guide* (C.H. Beck; Hart; Nomos 2017) 122 See also Vicente (n 8) 161.

[12] Youssef (n 4) 49.

[13] Deborah R. Hensler and Damira Khatam, 'Re-Inventing Arbitration: How Expanding the Scope of Arbitration Is Re-Shaping Its Form and Blurring the Line Between Private and Public Adjudication' (2018) 18 Nevada Law Journal 381-426, 381.

[14] See the statistics from 2013-2019, available at <https://www.wipo.int/amc/en/center/caseload.html> accessed on 13 October 2020. See also Hensler and Khatam (n 13) 408.

Be that as it may, the precise contours of arbitrability in international commercial arbitration present complex legal issues and are often controversial. These controversies must be understood against the background of general questions of IP protection and public policy. Consider the discussions around access to medicines, for example.[15] But even more broadly, IP rights directly pertain to public policy interest because of their specific purpose. The traditional economic justification for granting monopoly-like rights for IP is often found in incentivizing innovation.[16] Hence, IP is 'a means to an end and not an end in itself.'[17] Public policy and, thus, public interest in IP is engaged.

Because arbitration, specifically in the context of investment arbitration, has been met with considerable criticism,[18] it is worthwhile revisiting the arbitrability of IP disputes. Also, since most of the evolution in this area is evident in the US and Europe, a transatlantic perspective might shed light on the issues of arbitrability and the expansive approaches to it that initially stemmed from common law jurisdictions, but that now also appear in European civil law countries.[19] The purpose of this comparative assessment is to define the ends that IP purports to serve and to analyze how arbitration impacts the realization of these ends.

To this end, this paper is structured as follows: first, this paper discusses the rationale behind the concept of arbitrability, looks at the types of IP disputes that arise, and briefly turns to the history of arbitrability of IP. Then, it succinctly mentions the current state of the law in the US and various EU jurisdictions regarding arbitrability of IP disputes to understand the

[15] Susan K Sell, 'TRIPS and the Access to Medicines Campaign' (2001) 20 Wisconsin International Law Journal 481.
[16] Mark A Lemley, 'Ex Ante versus Ex Post Justifications for Intellectual Property' (2004) 71 University of Chicago Law Review 129, 129. See also the discussion of arguments undermining these assumptions, Gregory S Alexander and Eduardo M Penalver, *An Introduction to Property Theory* (Cambridge University Press 2012) 188.
[17] Susan K Sell, 'Remarks' (2014) 108 Proc annu meet- Am Soc Int Law 317, 318.
[18] Michael Waibel, Asha Kaushal, Kyo-Hwa Liz Chung, Claire Balchin (eds), *The Backlash against Investment Arbitration: Perceptions and Reality* (Kluwer Law International 2010), xlviii- xlix
[19] Youssef (n 4) 52.

differences and where those are rooted. Finally, the paper offers a critical assessment of the state of the law and practice inspired by contemporary critiques of arbitration in order to offer a new perspective on arbitrability.

The Rationale of Arbitrability

Because arbitration is fundamentally based on the principle of party autonomy (this tenet of arbitration being traceable all the way back to Roman law),[20] arbitrability is, essentially, a question of the extent of that autonomy. In abstract terms, it is clear that party autonomy ends where public policy (or *ordre public*) begins.[21] In other words, arbitrability is the 'jurisdictional reflection of public policy'.[22] This means that parties are at liberty to submit their disputes to arbitration provided that they do not invade the demarcated realm reserved for the state (domaine réservé), its courts or other decision-maker.[23] The rationale for arbitrability, therefore, assumes that when a private right is intertwined with the public interest, the public has an interest in the 'proper' enforcement of this right.[24] This is because any decision made also implicates society at large and therefore has effects beyond the respective parties to the dispute.[25] A further assumption here is that arbitrators would not do justice to these matters of public interest, perhaps by under-enforcing public laws.[26] It is for these reasons that most of the discussion around arbitrability of IP disputes revolves around the question of whether a certain dispute

[20] Daniel K Kaneko, *EU-Einheitspatent und Schiedsverfahren: Zugleich ein Beitrag zur objektiven Schiedsfähigkeit der Patentnichtigkeitsklage* (Schriften zum geistigen Eigentum und zum Wettbewerbsrecht vol 100, Nomos 2018) 109.
[21] Trevor Cook and Alejandro García, *Arbitration of intellectual property disputes* (Kluwer Law International 2010) 50.
[22] Youssef (n 4) 50.
[23] Cook and García (n 21) 50.
[24] Youssef (n 4) 50.
[25] ibid.
[26] ibid.

engages public policy.[27] The most obvious example of this occurs when arguments for arbitrability are made based on the claim that, because parties can dispose of a certain IP right, a dispute concerning this right should be arbitrable.[28] Thus, arbitrability of IP disputes boils down to two main concerns: (1) aspects of IP rights are viewed as not to be freely disposable by the parties; (2) some IP disputes are viewed to be within the exclusive realm of the state, its courts or other regulatory bodies.[29]

On the other hand, there is an explanation of the expansion of IP arbitrability that does not find its root in this distinction but in the change in arbitration itself. Here the argument invokes the historic perception of the inappropriateness of 'commercial men' deciding such disputes, which had to be resolved by assimilating arbitrators to judges.[30] This coincided with a growing trust in arbitration as a formal legal dispute settlement mechanism.[31] In international commercial arbitration this formalization and judicialization has been criticized as well, leading to more rigid formalism in arbitral proceedings that cause longer duration and higher costs, defeating the very advantages arbitration is supposed to offer in the first place.[32]

Another piece of the puzzle important to understand why arbitrability needs to be revisited is the process of arbitration itself. The consensus around arbitration has begun to shift as well, as evidenced by the almost world-wide backlash against investment arbitration, for

[27] Cook and García (n 21) 51.
[28] Youssef (n 4) 51.
[29] Anna Mantakou, 'Arbitrability and Intellectual Property Disputes' in Loukas A Mistelis and Stavros Brekoulakis (eds), *Arbitrability: International and Comparative Perspectives* (Kluwer Law International 2009) 265.
[30] See also Deborah R. Hensler and Damira Khatam (n 13) 408.
[31] Youssef (n 4) 50–52.
[32] Luke Nottage, 'A Weather Map for International Arbitration: Mainly Sunny, Some Clouds, Possible Thunderstorms' in Stavros Brekoulakis, Julian D.M. Lew, Loukas Mistelis (eds), *The Evolution and Future of International Arbitration* (Kluwer Law International B.V. 2016) 59, 62.

example.[33] The latter, for now, culminating in an international reform process that seeks to address shortcomings of arbitration, and in the context of the EU being (partly) replaced by an investment court system.[34]

Taking these developments together then, arbitration is no longer (if it ever was) viewed as the most suitable means of dispute resolution for certain kinds of disputes. Thus, the question of arbitrability seems to be as relevant as ever.

Types of IP Disputes

Before turning to the state of the law on arbitrability in different jurisdictions, it is important to understand the different types of IP disputes and their natures, not all of which raise public policy concerns. Some IP disputes arise out of contractual arrangements, such as IP licenses or agreements for the transfer of IP.[35] Still, these contracts also need to be distinguished from ordinary 'one-shot' commercial transactions as they tend to be longer lasting, usually for the duration of IP protection.[36]

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[33] Rob Howse, 'International Investment Law and Arbitration: A Conceptual Framework' in Hélène Ruiz Fabri (ed), *International Law and Litigation: A Look into Procedure* (1st edn. Nomos Verlagsgesellschaft mbH & Co. KG 2019) 363.

[34] See among others the work of UNCITRAL Working Group III concerning reform of investment arbitration, UNCITRAL Working Group III 'Possible reform of investor-State dispute settlement (ISDS)' (27 November - 1 December 2017) 34th session A/CN.9/WG.III/WP.142. See also UNCITRAL Working Group III 'Possible reform of investor-State dispute settlement (ISDS) - Security for cost and frivolous claims' (5-9 October 2020) 39th session A/CN.9/WG.III/WP.192. See also UNCITRAL Working Group III 'Possible reform of investor-State dispute settlement (ISDS) - Shareholder claims and reflective loss' (5-9 October 2020) 39th session A/CN.9/WG.III/WP.170. See also Comprehensive Economic and Trade Agreement (CETA) between Canada, of the one part, and the European Union and its Member States, of the other part [2017] OJ L11/23, Chapter 8 ('Investments') Section F ('Resolution of investment disputes between investors and states') Articles 8.18 to 8.45. See also Free Trade Agreement between the European Union and the Republic of Singapore [2019] OJ L294/3, Chapter 13 ('Transparency') Section C ('Dispute Settlement Procedures') Articles 14.4 to 14.19. See also European Commission 'Investment provisions in the EU-Canada free trade agreement (CETA)' (2016).

[35] Mantakou (n 29) 264–265.

[36] Francois Dessemontet, 'The specificity of intellectual property arbitration' in Paul Torremans (ed), *Research Handbook on Cross-border Enforcement of Intellectual Property* (Edward Elgar 2014) 607.

Because IP involves mostly exclusive rights (patents, trademarks, copyrights, for instance) their existence and validity derives from the legislative acts of the state and therefore escape the free determination of parties.[37] This also means that disputes over such issues are not necessarily covered by unlimited party autonomy, as IP regulation is territorial and mandatory with side-effects of licensing transactions, for example, that engage antitrust legislation and practice.[38]

As a result, IP disputes may arise in connection with existence, ownership, validity, scope and infringement claims.[39] These may or may not have a contractual basis. In practice, validity or ownership questions often arise as preliminary issues in disputes over license agreements.[40] Contractual disputes may arise out of agreements on the transmission or licensing of their exploitation.[41] Other IP disputes are mostly tortious, surrounding issues such as illicit copying and counterfeiting, where no arbitration agreement exists between the parties.[42]

This is not the place to introduce a comprehensive taxonomy of different IP disputes that might arise in arbitration. What is important here is to understand the underlying practical relations between the parties in order to see, as this paper will show below, the implications for public policy of IP enforcement through courts or arbitration.

[37] ibid 608.
[38] ibid 607.
[39] Chrocziel and others (n 11) 14.
[40] Mantakou (n 29) 264–265.
[41] Vicente (n 8) 152.
[42] Mantakou (n 29) 264–265.

A Brief History of the Arbitrability of IP Disputes

European states have been historically divided on the question of the arbitrability of IP disputes. For example, the International Council for Commercial Arbitration met in 1976 to discuss, among other issues, the arbitrability of patent rights.[43] In France, the matter of patent validity and infringement was reserved for the courts;[44] (the Federal Republic of) Germany accepted patent infringements -- but not validity -- as arbitrable; and Switzerland was open to both.[45] Uncertainty regarding arbitrability of patents in Europe prevailed at that conference.[46] The reasons for denying arbitrability for patent validity in France, for instance, was grounded on three considerations.[47] First, the creation of the patent validity rules is reserved for the public authorities. Second, this exclusive discretion of the state leads to the fact that the patent system applies to and affects the general public simultaneously, whereas, the arbitral award can only bind the parties to the dispute. Third, this *inter partes* effect can cause contradictions, because third parties will not be prevented from initiating proceedings, and this can lead to conflicting decisions regarding the same patent.[48]

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[43] Werner Melis, 'The ICCA Interim Meeting, Vienna September 29 – October 1, 1976' in Pieter Sanders (ed) *ICCA Commercial Arbitration Yearbook* (Kluwer 1977) 267.

[44] Patent Law No. 68-1 (2 January 1968) provided that all patent disputes were to be adjudicated by courts. It was held that therefore such disputes were non-arbitrable. Cass., 18 November 1975, JCP G, 1977, No. 18545, note M. Santa Croce. A dispute relating to a licensing agreement arose between two parties. The claimant alleged that the defendant had concealed the patent's improvements, constituting a breach of contract. The defendant argued lack of jurisdiction, based upon an arbitration clause included in the licensing agreement. The judge dismissed the jurisdictional challenge. The decision was upheld by the Bordeaux Court of Appeal, and confirmed by the Cour de Cassation as cited by Edouard Fortunet, 'Arbitrability of Intellectual Property Disputes in France' (2010) 26(2) Arbitration International 281, 282. Edouard Fortunet, 'Arbitrability of Intellectual Property Disputes in France' (2010) 26(2) Arbitration International 281, 282-283 ('Since its creation, and until the second half of the twentieth century, the French courts precluded arbitration for disputes relating to the infringement of intellectual property rights'). See the state of the law in 1995 in France, Pierre Veron, 'Arbitration of Intellectual Property Disputes in France' (1995) 23 International Business Lawyer 132, 132-133.

[45] Melis (n 43) 269.

[46] Ibid 270; Philip J. Jr. Moy, 'Arbitration of United States Patent Validity and Infringement under 35 U.S.C. 294' (1983) 17 Geo. Wash. J. Int'l L. & Econ. 637, 661.

[47] Fortunet (n 44) 290.

[48] Ibid

In Germany, arbitrability of disputes concerning intellectual property rights granted by registration was controversial.[49] In the context of patents, it was mostly considered that the arbitration can decide issues that the owner of the patent can dispose of, such as declaring that no rights will be claimed or submitting an application for the removal of the patent from the register.[50] Patent validity disputes were out of reach, based on the reasoning that the exclusive jurisdiction for patent validity claims belonged to the Federal Patent Court, as confirmed by the German Supreme Court (Bundesgerichtshof) in 1996,[51] and that the public legal nature of the patent monopoly required only domestic courts to solve these types of disputes.[52] Then, the law of arbitration was significantly reformed in the late 1990s. From 1 January 1998 on, the new law (based on the UNCITRAL Model Law on International Commercial Arbitration)[53] aimed at promoting the country as a seat for international arbitration.[54] Before that reform, all matters that the parties could settle by private agreements were considered arbitrable under the German law.[55] In respect to disputes concerning intellectual property rights without registration the limits to arbitrability were contract law and *ordre public*.[56]

[49] Daniel Paul Simms, 'Arbitrability of Intellectual Property Disputes in Germany' (1999) 15(2) Arbitration International 193, 194.
[50] Ibid
[51] See Bundesgerichthof [BGH] [Federal Court of Justice] (3 March 1996) 1 Entscheidungen des Bundesgerichtshofes in Zivilsachen [BGHZ] 278.
[52] M. A. Smith and others, 'Arbitration of Patent Infringement and Validity Issues Worldwide' (2006) 19(2) Harvard Journal of Law & Technology 299, 334-335.
[53] UNCITRAL Model Law on International Commercial Arbitration (entered into force 21 June 1985, with amendments as adopted in 2006) UN Doc A/40/17, Annex I (UNCITRAL Model Law).
[54] Bundesgesetzblatt (Federal Legal Gazette), Teil I (1997) No. 88, S. 3224, Gesetz zur Neuregelung des Schiedsverfahrensrechts (Schiedsverfahrens-Neuregelungsgesetz - SchiedsVfG) See also Daniel Paul Simms, 'Arbitrability of Intellectual Property Disputes in Germany' (1999) 15(2) Arbitration International 193.
[55] Simms (n 49) 193.
[56] Ibid 193-194.

In the US, after historic reluctance regarding arbitration stemming from common law,[57] Congress passed the United States Arbitration Act in 1925 allowing certain disputes to be arbitrated.[58] However, patent validity and infringement disputes were held not to be arbitrable.[59] On the other hand, patent licensing agreements, for instance, were held to be arbitrable.[60],[61]

In the US context, an important articulation of a public policy argument in favor of non-arbitrability of patent validity and infringement was offered by the US Supreme Court in 1969. Emphasizing that worthless patents unduly restrict the free competition of ideas and inventions in the public domain, the Court ruled in *Lear, Inc. v. Adkins* that the market requires matters concerning infringement and validity of patents to be decided in open proceedings, namely by domestic courts, and not in private arbitration.[62] The case law in *Lear* was relied on in several later cases to conclude that public policy concerns prevent arbitrability of patent validity and infringement disputes.[63] A string of cases show courts viewing the issue of validity to be too closely linked to public policy to be arbitrable.[64]

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[57] Before the US Arbitration Act of 1925, the US followed the English common law view that restricted enforceability of arbitration agreements to existing disputes, but also subject to unilateral revocation. ; Mark A. Farley, 'The Role of Arbitration in the Resolution of Patent Disputes' (1986) 3 Touro Law Review 47, 52.

[58] United States Arbitration Act, ch. 213, 43 Stat. 883 (1925) (codified U.S.C. §§ 1-14 (1982)). Mark A. Farley, 'The Role of Arbitration in the Resolution of Patent Disputes' (1986) 3 Touro Law Review 47, 52. See also Levin v. Ripple Twist Mills, Inc. (549 F.2d 795 (3d Cir. 1977)) (disputes concerning royalty rates and termination of contracts are arbitrable, as they do not touch upon the validity of the patent). See also Hanes Corp. v. Millar (531 F.2d 585 (D.C. Cir. 1976)) (disputes about the timely payment of royalties are arbitrable)

[59] See also *Levin* (n 58). See also *Hanes Corp.* (n 58). See Farley (n 57) 53.

[60] See, e.g., *Schweyer Electric and Mfg. Co. v. Regan Safety Devices Co*., 4 F.2d 970, 974 (2d Cir. 1925), cert. denied, 268 U.S. 690 (1925); and *Cavicchi v. Mohawk Mfg. Co*., 34 F. Supp. 852, 854 (S.D.N.Y. 1940), appeal dismissed, 308 U.S. 522, reh'g denied, 308 U.S. 639 (1940); cited in Payne and Brunsuold, 'Five Important Clauses: A Practical Guide' (1983) 6 LICENSING L. & Bus. REP. 82, 83.

[61] See also Farley (n 57) 52-53.

[62] *Lear, Inc. v. Adkins* 395 U.S. 653 (1969) at 663-64 (citing *Pope Manufacturing Co. v. Gormully* 144 U. S. 224, 2 144 U. S. 34 (1892)). See however the rejection of such arguments for their lack of consistency as many jurisdictions provide for the possibility to settle IP disputes without the need for a public record of such settlement; the same goes for licenses that may be validly granted without publicity. See Francis Gurry, 'Objective Arbitrability – Antitrust Disputes – Intellectual Property Disputes' (1994) Swiss Arbitrational Series 6 (1994): 116.

[63] *Beckman Instruments, Inc. v. Technical Development Corp.* 433 F.2d 55 (7th Cir. 1970) at para 29. See also *Diematic Mfg. Corp. v. Packaging Industries, Inc.* 381 F. Supp. 1057 (S.D.N.Y. 1974) at 1062-63.

[64] *Zip Mfg. Co. v. Pep Mfg. Co.* 44 F.2d 184 (D. Del. 1930) (interpreting the Arbitration Act of 1925 as not covering validity and infringement issues of patents as they were not related to a controversy involving commerce or a

In 1982, legislation changed US law on patent arbitrability considerably. With the policy of encouraging technological advancement, [65] arbitration was viewed as a tool to lessen the risk of costly and time-consuming patent litigation.[66] In 1982 Ronald Reagan signed Public Law 97-247, which specifically provides for the voluntary arbitration of a broad range of patent disputes, including questions of validity and infringement,[67] clearing the path towards broad arbitrability of IP disputes that we see today.

Current State of the Law of Arbitrability of IP Disputes in EU and US

General Considerations

The following is intended to provide a sense of the trends in IP arbitration, not a complete, exhaustive or comprehensive overview. What cannot be denied is a global shift towards the use of arbitration for IP disputes and enforceability of IP arbitral awards.[68] That shift

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maritime transaction.); *Leesona Corp. v. Cotwool Mfg. Corp.* 204 F. Supp. 141 (W.D.S.C. 1962), aff'd, 315 F.2d 538 (4th Cir. 1963) (the Court ruled that in order to prevent unfairness and conflicting judgements arbitration proceedings for infringement of a patent and payment of royalties must be stayed when the validity of the same patent is being questioned before the court and when the outcome of the domestic decision will have effect on the ruling of the arbitration); *Hanes Corp.* (n 58) (the Court, faced with a patent for a technique for weaving hosiery, held that patent validity and infringement disputes are not arbitrable, as arbitrators do not have the necessary expertise to solve such complex technical issues involving the application of complicated domestic legislation); *Beckman Instruments, Inc.* (n 63) (ruling that the outcome of disputes concerning the validity of a patent affects not only the parties to the proceedings but also the public in general and therefore they are non-arbitrable); *Diematic Mfg. Corp.* (n 63) (faced with a claim for a stay of arbitration proceedings, the court concluded that due to public policy concerns patent validity and infringement disputes are not arbitrable); *N.V. Maatschappij Voor Industriele Waarden v. A.O. Smith Corp.* 532 F.2d 874 (2d Cir. 1976) (the court held that disputes concerning failure to perform obligations under licensee and know-how agreements and disclosure of confidential information are arbitrable, while disputes about validity of a patent are non-arbitrable); *Foster Wheeler Corp. v. Babcock and Wilcox Co.* 440 F. Supp. 897 (S.D.N.Y. 1977) (the court held that it is settled case law that patent validity disputes are non-arbitrable due to public concerns).

[65] Position Paper by the Committee for Economic Development, Subcommittee on Technology Policy (Report of Group Four - Patents) March, 1979.

[66] Farley (n 57) 62-63. See also H.R. 6260, 97th Cong., 2d Sess., 128 CONG. REC. 3203-05 (1982); H.R. REP. No. 97-542, 97th Cong., 2d Sess. (1982); H.R. Rep. No. 97-542, 97th Cong., 2d Sess. (1982)

[67] Farley (n 57) 82.

[68] Jacques De Werra, 'Arbitrating International Intellectual Property Disputes: Time to Think beyond the Issue of (Non-)Arbitrability' 2012 Int'l Bus. L.J. 299, 310.

is also evidenced by legislation in France or the US, that authorizes arbitrability of IP disputes.[69] On the other hand, it is a fact that most IP cases deal with contractual issues, which does not raise arbitrability issues in most jurisdictions.[70] Still, the global trend towards arbitrability has changed attitudes and perceptions of practitioners too. In particular, practitioners in Austria, Greece and Portugal considered all types of IP disputes including issues of validity arbitrable with *inter partes* effect.[71]

Despite such trends, however, decision-making in IP is still a sensitive issue. This is demonstrated by the fact that, despite a push by the EU to include IP judgments in the scope of application of the newly concluded 2019 Convention on the Recognition and Enforcement of Foreign Judgments in Civil or Commercial Matters,[72] which aims to ensure that a judgment originating in one contracting state is recognized and enforced in another, IP was excluded from the scope of application.[73]

An important distinction is between two basic types of IP rights: those that (generally) require registration and those that do not.[74] The distinction is relevant because IP arbitration becomes an issue when IP rights confer 'a monopoly and require the intervention of the State to grant it, such as trademarks and patents. To allow the arbitration of questions of grant or validity of patents or trademarks challenges the contractual nature of arbitration, since a private arbitrator

[69] Jacques De Werra, 'Arbitrating International Intellectual Property Disputes: Time to Think beyond the Issue of (Non-)Arbitrability' 2012 Int'l Bus. L.J. 299, 311

[70] Trevor Cook and Alejandro I. Garcia, *International Intellectual Property Arbitration,* vol 2 (Kluwer Law International 2010), 52.

[71] Ibid 51-52. For Austria see, Alexander Zojer, 'Arbitrability of Patent Law Disputes under Austrian Law' in Gerold Zeiler and Alexander Zojer (eds), *Resolving IP Disputes: A Selection of Contemporary Issues* (NWV 2018) 122 For a global overview see also Chrocziel and others (n 11) 19–24.

[72] Convention of 2 July 2019 on the Recognition and Enforcement of Foreign Judgments in Civil or Commercial Matters (not yet in force), <https://www.hcch.net/en/instruments/conventions/full-text/?cid=137> accessed on 13 October 2020.

[73] See further Lydia Lundstedt, 'The Newly Adopted Hague Judgments Convention: A Missed Opportunity for Intellectual Property' (2019) 50(8) IIC 933.

[74] Vicente (n 8) 152.

is not authorized to dictate legal effects *erga omnes*. An award ruling on the ownership or validity of a monopoly right also usurps the power of the State in granting the monopoly.'[75] For these reasons, some states reject arbitrability of such matters altogether, or exclude it when rights of third parties are affected.[76] On the other hand, copyrights (moral rights are a separate issue discussed below) and contractual disputes such as licensing disputes arising in connection with patents and trademarks are arbitrable in most jurisdictions in the EU and the US.[77]

However, even in those contractual disputes, issues of validity or ownership of a patent or a trademark can arise as preliminary questions or are raised as a defense in the context of infringement or transfer of licenses.[78] This is not seen as a legal problem by arbitrators because of it being only a preliminary matter.[79] But this also means that the award will only have *inter partes* effect and only the competent national court will be able to invalidate the IP right. In other words, should the award rule a patent invalid as a preliminary issue of a contractual dispute, the patent itself is still in force.[80]

The question of arbitrability has been directly addressed only in some states. Belgium -- in Article 51(1) of the Belgian Patents Act, Switzerland, in the 15 December 1975 Decision of the Federal Office of Intellectual Property --, and the United States (35 USC section 294) expressly provide for the arbitrability of certain IP disputes.[81] Only South Africa explicitly prohibits arbitrability of patent disputes involving patents issued in its jurisdiction.[82] And even in

[75] Youssef (n 4) 52.
[76] ibid 52–54.
[77] ibid 53.
[78] ibid 52–54.
[79] Case No 6097 (1989), (1993) 4(2) International Court of Arbitration Bulletin 78-79. See also ibid 53.
[80] ibid.
[81] ibid 52–54. Cook and García (n 21) 51–52.
[82] Article 18(1) of the Patents Act 1978 (subsequently amended by Patents Amendment Act No. 58 of 2002). Vicente (n 8) 153 See also the South African Law Commission that concluded that the restriction on patent disputes

these cases, those exclusions operate usually only with regard to rights that are 'mandatorily subject to registration on a public register, such as those that derive from patents.'[83] This has led some authors to conclude that, in fact, despite the lack of express provisions in most jurisdictions, 'international arbitration law and practice demonstrate that most objections to resolving IP disputes by way of international arbitration lack merit.'[84]

Validity and Ownership of IP rights

As we have seen, the most controversial issues arise out of validity and ownership of IP rights. Because infringement and licensing issues generally are arbitrable in most jurisdictions, the issue of validity and ownership of IP rights is more complex. The reason being that, because those are rights granted by the state, it is primarily that state's court competence to rule on disputes regarding these issues. The general argument in favor of arbitrability of such issues lies in the understanding of the *inter partes* effect of arbitral awards. This means, so the reasoning goes, that the jurisdiction of the state to decide on validity and ownership of IP rights is not affected. Also, incidental questions of patent validity are less of an issue, as they similarly do not have effects for third parties. In Italy, Portugal and Spain, arbitrators can decide on issues of nullity or forfeiture of a patent only incidentally, when raised as a defense, for example.[85] In

is 'logical to the extent that the validity of an act of registration by a state official is in issue'. <https://www.justice.gov.za/salrc/reports/r_prj94_dom2001.pdf> accessed on 13 October 2020.
[83] ibid.
[84] Cook and García (n 21) 51–52.
[85] For Italy see *Giordani v. Battiati*, Cass., October 3 1956, No. 3329.

these cases the arbitral awards are without *res judicata* effect, and are binding only *inter partes*.[86] This seems to be permissible in most jurisdictions.[87]

In Germany, this is still controversial, here the Federal Patent Court (Bundespatentgericht) has exclusive jurisdiction to declare the nullity of patents, according to section 65(1) of the German Patent Law (Patentgesetz)[88]"[89] Trademark disputes in Germany with respect to registration, invalidation and expiration are said to be non-arbitrable.[90]

Full Arbitrability

Some jurisdictions provide for full arbitrability of IP disputes. While validity disputes can be arbitrated in the US with *inter partes* effect only,[91] Switzerland and Belgium go all the way. These states allow arbitral awards to annul a patent with subsequently *res judicata* effect, and that annulment can be registered, thus resulting in *erga omnes* effect.[92] In Belgium, the award can be registered with the patent authority, subject to opposition by third parties.[93] In Switzerland, the award is the basis for modification or cancellation of the patent after being

[86] Vicente (n 8) 156.
[87] For example see for France *Liv Hidravlika D.O.O. v. SA Diebolt*, 28 Feb., 1st chamber, JurisData No 2008-359055. Chrocziel and others (n 11) 19–24; Fortunet (n 44) 293.
[88] But differences in opinions exist and existed, see e.g. Simms (n 49); and Karl Heinz Schwab and Gerhard Walter, Schiedsgerichtsbarkeit (6th edn, Munich, Beck, 2000) 39. A different point of view is expressed by Erik Schäffer, 'Arbitrability of Intellectual Property Law Disputes in Germany' in Loukas Mistelis and Stavros Brekoulakis (eds), Arbitrability: International and Comparative Perspectives (Kluwer 2009) 953ff, arguing that such matters may be decided as incidental issues in disputes submitted to arbitration.
[89] Vicente (n 8) 154.
[90] Chrocziel and others (n 11) 22; MüKoZPO/Münch, Joachim 5. Aufl. 2017, ZPO § 1030 Rn. 33.
[91] [91] 35 U.S.C. § 294(c); Chrocziel and others (n 11) ibid 24. M. A. Smith and others (n52) 323. Youssef (n 4) 53 Chrocziel and others (n 11) 18.
[92] Cook and García (n 21) 71. Cook and Garcia (n 70) 71. See for Belgium Art. 51 § 1 of the Belgium Patent Act of (providing that 'When a patent is annulled, in whole or in part, by a judgment or decision or by an arbitral award, the annulment decision has the force of res judicata with respect to all parties, subject to third party opposition') [translation by the author].
[93] Ibid Art. 51 §1 of the Belgium Patent Act. Chrocziel and others (n 11) 19.

declared enforceable by Swiss courts.[94] It is interesting to note here that Switzerland does not consider granting IP rights a 'sovereign act'.[95]

Unregistered IP Rights and Moral Rights

Unregistered IP rights are those that exist independently of any registration, such as copyrights, unregistered trademarks, unregistered design rights, trade secrets, and know-how. These are generally considered arbitrable in most jurisdictions as they do not involve a public authority with exclusive jurisdiction over these matters.[96] However, there are exceptions, specifically in systems where the moral rights of authors are protected, such as in France,[97] Germany,[98] Switzerland[99] and Portugal.[100] In these jurisdictions, the moral rights concerning ownership or authenticity of literary, artistic or scientific works[101] (either because they concern non-disposable rights, such as in civil-law countries where these moral rights may only be owned by the author/creator,[102] or because of the criterion of economic nature of claims) are non-arbitrable.[103] On the other hand, in cases where these moral rights are exercised, e.g.

[94] ibid 24; Vicente (n 8) 157.
[95] Decision of 15 December 1975 of the Federal Office of Intellectual Property.
[96] Chrocziel and others (n 11) 18.
[97] See art 2059 of the French Civil Code (establishing that 'All persons may compromise on the rights of which they have free disposal.') [translation by the author].
[98] See § 1030(1) of the German Code of Civil Procedure (ZPO) (which states that 'Any claim involving an economic interest can be the subject of an arbitration agreement. An arbitration agreement concerning claims not involving an economic interest shall have legal effect to the extent that the parties are entitled to conclude a settlement on the issue in dispute.').
[99] See art 177(1) of the Federal Law on Private International Law (which provides that 'All pecuniary claims may be submitted to arbitration.').
[100] See art 1(1) of the Portuguese Voluntary Arbitration Law of 2011 (according to which 'Any dispute involving economic interests may be referred by the parties to arbitration, by means of an arbitration agreement, provided that it is not exclusively submitted by a special law to the State courts or to compulsory arbitration.').
[101] Anna P. Mantakou, 'Arbitrability and Intellectual Property Disputes' (2007) 60 Revue hellénique de droit international 1, 4.
[102] ibid.
[103] Vicente (n 8) 159.

contractually transferred, they are generally arbitrable.[104] Similarly, patrimonial rights, such as rights of reproduction or distribution are generally arbitrable in France.[105] In general therefore, the argument in many jurisdictions is that disputes are arbitrable over such rights that can be assigned or waived under the applicable law, such as a ghostwriting agreement or an infringement claim of a moral right.[106]

This review of certain issues of arbitrability of IP disputes in US and European states showed a trend towards more liberal attitudes of states. However, it is also clear that important differences exist in this regard, and a lot depends on how a state organizes its IP enforcement system and what institutions it sees as competent to realize certain policy goals. It is also worthwhile to take a closer look at the justifications and rationalizations of why certain IP disputes are suitable for arbitration. Not all of them withstand closer scrutiny, as the next section will argue.

Revisiting Arbitrability of IP Disputes

The Public/Private Divide

Clearly, arbitrability is a question of public policy. It demarcates the spheres of private dispute settlement and public adjudication.[107] Implicit in this demarcation is the drawing of a line between arbitrability of disputes that are essentially of a private nature and thus covered by party autonomy and such disputes of a public nature that implicate policy decisions of the state. As we

[104] Mantakou (n 100) 4..
[105] ibid 160. Fortunet (n 44) 296.
[106] Chrocziel and others (n 11) 19. See also Mantakou (n 29) 266.
[107] Youssef (n 4) 49–50.

have seen, those disputes relating to rights of a purely private nature are generally viewed as not posing specific problems. However, what has also become apparent is a change in the perception of what is considered a dispute of a 'purely private nature' in the first place. If anything, critical legal studies and the American realist tradition have deconstructed this seemingly obvious distinction.[108] Then, if arbitrability is about the perception of the public/private distinction as apolitical,[109] we should question that perception itself. For this, it is worth recalling a major insight from almost one hundred years ago, when Robert Hale demonstrated that coercion is ubiquitous in private relations among parties and that 'private' law is largely determined by 'public' policies.[110]

A Matter of Policy: Means to an End?

But even without such critique, the very nature of IP being acknowledged as a policy instrument to incentivize innovation (among other purposes) means that any such private rights are necessarily entangled with public policy.[111] IP, specifically patents, also limit competition and therefore significantly affects the interest of consumers to benefit from lower prices due to competition.[112] IP disputes are thus very close to the public interest. This is fundamentally so because any given state and its public has an interest in the outcome and effects of the enforcement of these rights for society at large.[113]

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[108] William W Fisher, Morton J Horowitz and Thomas A Reed, *American legal realism* (Oxford Univ. Press 1993) Chapter IV See also Robert L Hale, 'Coercion and Distribution in a Supposedly Non-Coercive State' (1923) 38(3) Political Science Quarterly 470.
[109] Amr A Shalakany, 'Arbitration and the Third World: A Plea for Reassessing Bias Under the Specter of Neoliberalism' (2000) 41(2) Harvard International Law Journal 419-468, 466.
[110] ibid; Hale (n 108) See further Fisher, Horowitz and Reed (n 108) Chapter IV.
111 See also Youssef (n 4) 50.
[112] Lehmann (n 5) 756.
[113] Kaneko (n 20) 111.

Whether arbitrating IP disputes contributes to or hinders the objectives of IP legislation seems to be a natural inquiry. This is not the place to conduct an empirical study on the matter. But it is worthwhile considering, in a rather impressionistic fashion, potential hypotheses for any such inquiry that can be formulated based on existing theories and the literature.

This seems even more relevant considering the recent reevaluation of arbitration, specifically in the context of investor-state arbitration. Here, critics argue that arbitration in this domain is used by powerful corporations to 'challenge democratically-adopted health, safety, and environmental protection regulations.'[114] They also criticize the fact that it is illegitimate for public policy disputes to be decided by privately-paid individuals acting in their private capacity.[115] This expansion of investor-state dispute settlement to IP issues was criticized as potentially disrupting 'regulations governing everything from public health, energy, finance, education, privacy, and free expression. Under these provisions, investors can attack domestic social bargains and, if successful, override legitimate sovereign regulatory discretion.'[116]

In addition to the critiques of specific practices of arbitration, the myth that private mechanisms are inherently superior to institutions of the state has also been recently debunked.[117] One might question, then, whether arbitration as a private dispute settlement mechanism is really well-suited for disputes that affect public policy. The perception of

[114] Deborah R. Hensler and Damira Khatam (n 13) 385 See also Lise Johnson, Lisa Sachs and Jeffrey Sachs, 'Investor-State Dispute Settlement, Public Interest and U.S. Domestic Law' (2015) CCSI Policy Paper <http://ccsi.columbia.edu/files/2015/05/Investor-State-Dispute-Settlement-Public-Interest-and-U.S.-Domestic-Law-FINAL-May-19-8.pdf> accessed on 13 October 2020.

[115] Deborah R. Hensler and Damira Khatam (n 13), 385; Johnson, Sachs and Sachs (n 113) 3 ('[investor-state arbitration] provides significant substantive and procedural rights to individuals and corporations based solely on their foreign nationality, and outsources development and interpretation of law to private arbitrators insulated from crucial checks and balances. Through this grant of rights and transfer of lawmaking power, ISDS threatens to undermine legal systems and policymaking at the domestic level.'

[116] Sell (n 17) 317.

[117] Mariana Mazzucato, *The entrepreneurial state: Debunking public vs. private sector myths* (Public Affairs 2018).

arbitrators as 'commercial men', for example, illustrates this.[118] Arbitrators are selected often because of their industry knowledge and their commercial sensibilities, not for their sense of public policy issues. Indeed, arbitration has been criticized for its bias against public regulatory initiatives.[119] As US federal judge Swygert put it '[issues such as patent validity and enforceability are] inappropriate for arbitration proceedings and should be decided by a court of law, given the great public interest in challenging invalid patents.'[120] While it is true that arbitral awards have only *inter partes* effect (with the exception of Switzerland and Belgium), this does not do away with indirect third-party consequences. Consider, for example, the invalidation of a patent in an arbitration. Succeeding with a claim of invalidity in arbitration allows the prevailing party to use the patent while third parties are still prevented from using it, resulting in a competitive advantage over others.[121] 'The function of intellectual property rights is to bar any potential competitor from competing with the rightsholder. This universal effect is the reason why some intellectual property rights are registered by a central authority. The entry into such a register, as well as the removal from it, is excluded from arbitration.'[122] Clearly public interest is at issue here.

The broader issue with arbitrating IP has to do with the particular nature of IP. It is best conceptualized as a temporary monopoly privilege 'that the state grants to encourage both creation and dissemination of new knowledge.'[123] It is therefore not just like any other

[118] Youssef (n 4) 50.
[119] Shalakany (n 109) 424.
[120] *Beckman Instruments, Inc.* (n 63) at para 29.
[121] Kaneko (n 20) 113.
[122] Lehmann (n 5) 773.
[123] Sell (n 17) 318.

commodity over which private parties have broad powers that includes the right to dispose of it through private contracting.[124]

Furthermore, shifts in the specific contours and scopes of IP rights have a significant impact on societies.[125] **'**Intellectual property rights are a source of authority and power over informational resources on which the many depend – information in the form of chemical formulae, the DNA in plants and animals, the algorithms that underpin digital technologies and the knowledge in books and electronic databases. These resources matter to communities, to regions and to the development of states.'[126] Indeed, some re-evaluation of IP protection from the perspective of law and political economy has recently surfaced. Katherina Pistor, for example, finds that

> 'Even with a comprehensive system of intellectual property rights in place, most authors, composers, and inventors receive only a tiny return for their creativity. The ultimate beneficiaries of the legal monopolies that intellectual property rights create are corporations that extract returns from patents for the financial benefits of their shareholders. Indeed, most patents in the United States today are filed not by individuals, but by corporate entities, creatures of law that have neither intellectual power nor creativity of their own. Between 2002 and 2015, more than 4.6 million patents were granted by the US Patent Office to US and foreign patent holders. About 12 percent went to individuals, less than 1 percent to governments, but 43.5 percent to foreign and 44.1 percent to US corporations. These numbers highlight that the power of patents is more closely associated with commercial use than gratification for creativity.'[127]

There are even economic arguments for decreased IP protection.[128] Pistor continues that

> 'Granting monopolies is always about creating gains for some (the monopolists) and costs for the rest; it may be justified in exceptional circumstances but requires a careful balancing act between the costs and benefits on both sides of the equation. The

[124] ibid.
[125] See also Peter Drahos and John Braithwaite, *Information Feudalism: Who Owns the Knowledge Economy* (Earthscan Publications 2002) 12–13.
[126] ibid.
[127] Katharina Pistor, *The Code of Capital* (Princeton University Press 2019) 115.
[128] Herman M Schwartz, 'Wealth and Secular Stagnation: The Role of Industrial Organization and Intellectual Property Rights' (2016) 2(6) RSF: The Russell Sage Foundation Journal of the Social Sciences 226, 226 See also Pistor (n 127) 132.

> social costs of enclosing knowledge can be huge, because control over knowledge is monopolized even though it could benefit everyone without taking anything away from the inventor. And yet, states have supported the enclosure of knowledge and left it to the code's masters and official agents in patent offices to police its borders, with only sporadic court oversight.'[129]

The move toward arbitration for IP disputes only further removes IP from enforcement in the public interest.[130]

From the Law of the Land to the Law of the Firm?

As a consequence, submitting IP disputes to private arbitration could threaten to replace the law of the state with the 'law' of the firms.[131] This is because arbitration can affect substantive rights, as cases in mass arbitration showed.[132] It has been observed that

> '[w]ith commercial *regulation*, a government establishes obligations or restrictions on the commercial behavior of private actors through legislation. Commercial regulation involves mandates. It is mandatory because governments often direct regulation at conduct they look to change (either by limiting or prohibiting it). These mandates constrain private parties' freedom to contract. Because regulation looks to alter behavior, strong governmental enforcement may be viewed as a necessary component to the regulatory scheme. Regulatory obligations are subject to enforcement (i) by government action, (ii) by private action through government institutions, such as government-sponsored courts, or (iii) through some combination of private and public action. Banking laws and regulations, for example, are enforced solely through public action; insolvency and intellectual property laws set mandatory rules but are enforced mostly through private action;'[133]

[129] ibid 115.
[130] ibid.Amy Kapczynski, 'The Right to Medicines in an Age of Neoliberalism' (2019) 10(1) Humanity 79.
[131] To paraphrase Margaret J Radin, *Boilerplate: The Fine Print, Vanishing Rights, and the Rule of Law* (Princeton University Press 2013) 16 (referring to mass contracting as replacing 'the law of the state with the "law" of the firm'.)
[132] AT&T Mobility LLC v. Concepcion and American Express Co. v. Italian Colors Restaurant. See also Radin (n 131) 16.
[133] Susan Block-Lieb, 'Soft and Hard Strategies: The Role of Business in the Crafting of International Commercial Law' (2019) 40(3) Michigan Journal Of International Law 433-477, 445.

Of course, state courts have a supervisory role in arbitration by enforcing awards, but because most awards are not publicly available, these are less likely to impact future conduct.[134] This might result in public policy being governed by private actors themselves. It therefore seems only consistent that companies and business organizations have an interest in settling disputes that arise with respect to IP and their usage in commerce on their own terms. Arbitration is the most suitable instrument for this. There is a potential risk that the process of arbitration could be used to unsettle the rights and privileges granted through democratic processes.[135] Policy goals might suffer as a result, as would competition. Without state courts as a corrective, certain rightsholders with considerable bargaining power may exercise outsized influence in the market, where IP is enforced through private arbitration.[136] As many jurisdictions illustrate, arbitrability is excluded in instances in which the legislator views one party as 'socially' weaker (and wants to ensure protection through the state court system). Implicit in this legislation appears to be the understanding that arbitration is not suitable for parties with unequal bargaining power.[137]

Looking at actual business practices in the area of IP justifies some of these worries. As Drahos and Braithwaite show in their study, 'players' in the 'knowledge game' pursue a basic strategy that leads to a global 'knowledge cartel'. They write that

> '[the players'] laboratories would produce knowledge that would be developed into products, for which their legal divisions would secure an impregnable patent position. Use was also made of trade marks, trade secret law and copyright. The quest for knowledge was really the quest for monopoly. Competitors could be kept out or made to pay high royalties, depending on the way the numbers panned out. Alternatively, intellectual property rights and licences could be used to structure a global knowledge cartel.'[138]

[134] ibid 446.
[135] Radin (n 131) 16.
[136] Drahos and Braithwaite (n 125) 3.
[137] MüKoZPO (n 90) Rn. 3.
[138] ibid 52–53.

In their view, patent-sharing agreements, for example, 'did exactly the same things that good old-fashioned cartel agreements did. They divided up territories, set prices and controlled production.'[139] Giving some historical examples, Drahos and Braithwaite also show that arbitration plays an important role in this, finding that 'Players in the knowledge game had, in other words, a way to deal with the enforcement problem that had beset the commodity cartels of earlier years'[140]

Indeed, if the top three technology companies would agree to arbitrate all their claims against each other regarding patent infringement, there would be no way to challenge this arrangement. And this despite the fact that the public would have an interest in knowing whether the respective patents were valid and the extent of their protection.[141] Furthermore, the

> 'public interest in patent validity proceedings may also conflict with the potentially confidential nature of arbitration. It is possible under most arbitration statutes[142] for the parties to keep the proceedings private and confidential. This, in turn, raises the possibility of collusion, since if neither of the parties were interested in fully probing the question of validity, they would be able to conceal even strong evidence of invalidity from the broader public. Moreover, since it is difficult and expensive to prove invalidity, the public interest might be best served if any evidence of invalidity were made available to the general public.'[143]

It is important to recognize that the potential for unintended side effects of IP arbitration are not about the level of individual IP rights.[144] Rather, 'the dangers of central command and loss of liberty flow from the relentless global expansion of intellectual property *systems* rather

[139] ibid 53.
[140] ibid 52–53.
[141] Hiro N. Aragaki, 'Re-Inventing Arbitration: The Metaphysics of Arbitration: A Reply to Hensler and Khatam' (2018) 18 Nevada Law Journal 541, 484. (referring to the US Patent Act that provides that an award resolving a claim for patent infringement is only effective once delivered to the Director of the Patent and Trademark Office, which is required to enter the award into the patent's prosecution history).
[142] See Alexis C. Brown, Presumption Meets Reality: An Exploration of the Confidentiality Obligation in International Commercial Arbitration, (2001) 16 American University International Law Review 969, 990-999.
[143] M. A. Smith and others (n52) 312.
[144] ibid 5.

than the individual possession of an intellectual property right. It is these expanding systems of intellectual property that have enabled a relatively small number of corporate players to amass huge intellectual property portfolios.'[145] The case in point for extremely harmful effects was the HIV/AIDS crisis in South Africa, where access to medicine was severely restricted due to expensive drugs.[146] The harmful practice is also described by Pistor:

> 'Generally speaking, when a large pharmaceutical company develops a therapeutic compound, it surrounds that compound with a wall of intellectual property protection. Patents are taken out on all aspects of the compound, including the compound itself, dosage methods and processes of making it. Some knowledge is held back and protected under trade-secret law, brand name identity is protected through trademark law and a lot of written information is protected by copyright. The whole point of building this wall is to ensure that protection lasts well beyond the term of any single patent and keeps cheaper generic manufacturers out of the market for as long as possible.'[147]

Taking all these practices into account suggests that arbitration might be susceptible to instrumentalization by dominant market players in order to shield them from competition. It therefore seems to be more sensitive to, as several jurisdictions have done, set up specialist IP courts that have the necessary (industry) knowledge and expertise,[148] to see through such practices and strictly enforce IP, but also competition and antitrust law.

Another argument against arbitrability of IP disputes is linked to the state's access to knowledge about regulatory impact. The extent of the privilege granted through IP protection and its role in the market should be transparent for states to assess how IP regulation serves its

[145] ibid.
[146] ibid 6.
[147] ibid.
[148] Alessandro L. Celli and Nicola Benz, 'Arbitration and Intellectual Property' (2002) 3 European Business Organization Law Review 593, 596-597.

purpose. However, as pioneering work in that area suggests, 'governments rarely take a cost-benefit approach to intellectual property.'[149] An important study found in this respect that the

> 'intellectual property standards we have today are largely the product of the global strategies of a relatively small number of companies and business organizations that realized the value of intellectual property sooner than anyone else. It is only now that these standards affect basic goods such as seeds, services and information flows in a global trading economy that their full costs to citizens and business in general are coming to be appreciated.'[150]

Again, this is not to say that arbitration is *per se* a threat to IP systems. What this paper attempts to highlight are some hypothetical issues that should be studied in more detail. And that inquiry should be done empirically. Only on the basis of solid data (and not an intuitive sense of what issues belong to a 'public' or 'private' sphere) may we be able to appreciate advantages and disadvantages, positive and negative effects, including side effects of IP arbitration.

Conclusion

The global trend towards broad arbitrability for IP disputes should be regarded with caution. Specifically, it is important to empirically look at the actual effects that broad arbitration of IP disputes has for the very public policy goals IP protection pursues. The paper has raised some, though certainly not all, potential pitfalls of an ever-increasing expansion of arbitration in this domain. This paper suggests that there seems to be an unstated assumption that private regulation of IP is the best way to achieve all policy goals. This is so, even though private arbitration makes it difficult to track the impact of this due to its confidentiality.

[149] ibid.
[150] ibid preface.

With the current Covid-19 pandemic, IP governance appears to be back on the agenda, and it might be an opportunity to revisit certain assumptions and to test them against empirical data. Developing hypotheses of potential pitfalls potentially to serve this purpose, perhaps. The paper therefore raised a number of possible issues around IP arbitration that deserve closer study. One thing is thus clear: the rumors of arbitrability's death[151] have been greatly exaggerated.[152]

[151] Youssef (n 4).

[152] Paraphrasing the popular misquote of a line attributed to Mark Twain, see Emily Petsko, 'Reports of Mark Twain's Quote About His Own Death Are Greatly Exaggerated' (2018) <https://www.mentalfloss.com/article/562400/reports-mark-twains-quote-about-mark-twains-death-are-greatly-exaggerated> accessed on 02.11.2020.