

Global Arbitration Review

The Guide to IP Arbitration

Editors

John V H Pierce and Pierre-Yves Gunter

In association with



The Guide to IP Arbitration

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John V H Pierce and Pierre-Yves Gunter

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Publisher's Note

Global Arbitration Review, in association with Intellectual Asset Management and World Trademark Review, is delighted to publish *The Guide to IP Arbitration*.

For those unfamiliar with GAR, we are the online home for international arbitration specialists; we tell them all they need to know about everything that matters. Most know us for our daily news and analysis service (you can sign up for our free headlines on www.globalarbitrationreview.com), but we also provide more in-depth content: books and regional reviews; conferences; and workflow tools. Visit www.globalarbitrationreview.com to learn more.

Being at the heart of the international arbitration community, we often become aware of gaps in the literature – topics yet to be fully explored. The intersection of IP and arbitration is one such area. Hitherto, the two fields have not mingled as well as one might expect. Large IP owners, such as banks, are known in arbitration circles as being sceptical about the medium. They shouldn't be. In many ways, international arbitration is perfect for them: a private, bespoke process, invented to bridge cultural divides. Above all else, it is internationally enforceable.

Recently, this antipathy towards arbitration has shown signs of fading. There are now IP owners who are international arbitration evangelists.

We are therefore delighted to publish the first edition of *The Guide to IP Arbitration*, in conjunction with two of our sister brands that cover the world of IP: Intellectual Asset Management and World Trade Mark Review.

This book is in five parts and will be of interest both to newcomers to arbitration and those who are already aficionados. Future editions will be expanded with the viewpoints of arbitrators and in-house counsel.

If you find it useful, you may enjoy other GAR Guides in the same series, which cover energy; construction; M&A disputes; advocacy; damages; mining; and challenging and enforcing awards. We are also very proud of our citation manual, UCIA (*Universal Citation in International Arbitration*).

Lastly, sincere thanks to our two editors, John V H Pierce and Pierre-Yves Gunter, for taking the idea that I pitched and running with it so well. I was on a skiing holiday at the time – my, those days seem a long time ago! And thank you to all of my Law Business Research colleagues for the élan with which they've brought our vision to life.

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Part I

Considerations Before a Dispute Has Arisen

2

Arbitrability of IP Disputes

Matthew R Reed, Ava R Miller, Hiroyuki Tezuka and Anne-Marie Doernenburg¹

The Common Law Perspective

Introduction

Arbitration is generally the result of a contract between parties, and most often the parties' contract determines rights and obligations only as between the parties to that contract. Even though the parties' contract establishes the matters that are subject to arbitration, the jurisdictional law where the arbitration will be held often delineates what subject matter the parties can agree to submit to arbitration. Whether a particular subject matter is arbitrable is often referred to as 'objective arbitrability'.² As used in this chapter, 'arbitrability' means the question of whether a particular issue in dispute is capable of resolution by arbitration or whether that issue is reserved for determination by the national courts or another forum under the relevant jurisdictional law.

Given that IP is eminently portable within and across national borders, most IP disputes are – or become – international in nature.³ IP rights are usually granted and governed by individual states,⁴ and national legal systems address issues of arbitrability differently. This

1 Matthew R Reed is a partner and Ava R Miller is an associate at Wilson Sonsini Goodrich Rosati, PC and Hiroyuki Tezuka is a partner and Anne-Marie Doernenburg is a foreign law associate at Nishimura & Asahi. Mr Tezuka and Ms Doernenburg wish to express their sincere gratitude to Yusuke Mizuno and Shuhei Sasayama, associates at Nishimura & Asahi, for their support in the preparation of the civil law section of this chapter.

2 For a distinction between objective arbitrability and subjective arbitrability, which refers to whether the parties to a particular matter are qualified to arbitrate, see M A Smith, M Cousté, T Hield, R Jarvis, M Kochupillai, B Leon, JC Rasser, M Sakamoto, A Shaughnessy, J Branch, *Arbitration of Patent Infringement and Validity Issues Worldwide*, *Harvard Journal of Law & Technology*, Vol. 1, 19, Number 2, Spring 2006 at 305 (Smith).

3 For a description of various contexts in which international IP disputes arise, see Ludovica Veltri, *International Arbitration in Intellectual Property Disputes: A Focus on the WIPO Arbitration Center* at 9–11 (Veltri).

4 However, some IP rights are granted and have effect in more than one sovereign state. For instance, the European Patent Office may grant a European patent that has effect in multiple jurisdictions. See generally, *European Patent Guide*.

chapter describes the various IP rights that may be arbitrated, explains unique issues that arise in the context of arbitrating these IP rights, and provides examples of the extent to which various common law jurisdictions allow arbitration of IP disputes.

Nature of IP rights and IP disputes

Most jurisdictions recognise the same general categories of IP rights: patents, trademarks, copyright, trade secrets and domain names. Article 2(viii) of the Convention Establishing the World Intellectual Property Organization of 14 July 1967 (amended on 28 September 1979) defines intellectual property to include rights related to:

- literary, artistic and scientific works;
- performances of performing artists, phonograms, and broadcasts;
- inventions in all fields of human endeavour;
- scientific discoveries;
- industrial designs;
- trademarks, service marks, and commercial names and designations;
- protection against unfair competition; and
- all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.

IP litigation and arbitration arise from disputes over infringement, validity, ownership, or breach of contract relating to IP rights.⁵ As discussed in more detail below, infringement and breach of contract claims are considered arbitrable in most jurisdictions; however, because decisions as to the validity of IP typically require enforcement by the relevant country's IP office, validity challenges are often considered either not arbitrable at all or arbitrable with the limitation that any award binds only the parties to the arbitration. There are only a few jurisdictions, such as South Africa, that prohibit arbitrating intellectual property disputes entirely.⁶

Applicable law

Challenges to the arbitrability of a particular dispute can be presented to either a national court or an arbitral tribunal. Both courts and arbitral tribunals take into consideration whether the underlying arbitration agreement contains a choice of law provision in determining the applicable law for arbitrability determinations. Absent a choice of law provision, a court generally will apply its own country's laws and public policy considerations while an arbitral tribunal will typically apply either the law of the seat of the arbitration or the law of the jurisdiction in which the arbitral award is likely to be enforced.⁷

⁵ Thomas Legler, Arbitration of Intellectual Property Disputes, *ASA Bull.* 2/2019 at 291 (Legler).

⁶ Therese Jansson, Arbitrability Regarding Patent Law – An International Study, *Juridisk Publikation* 1/2011 at 58–59.

⁷ *id.*

The common law perspective

One reason that arbitration is particularly attractive as a means of resolving international commercial disputes is that awards rendered by international tribunals are readily enforceable in most jurisdictions worldwide. This is in large part because of the New York Convention,⁸ which provides for the enforcement of arbitral awards in the territory of any contracting state rendered in the territory of another contracting state. As of 2020, 166 states are signatories to the New York Convention, including the vast majority of the UN member states.⁹ Article II(1) of the New York Convention provides for recognition of an international arbitration agreement ‘concerning a subject matter capable of settlement by arbitration’.¹⁰ Among the limited grounds for opposing enforcement of an award under the Convention is when the national courts where enforcement is sought determine that ‘[t]he subject matter of the difference is not capable of settlement by arbitration under the law of that country.’¹¹ This raises the threshold question of arbitrability: what is – and what is not – capable of settlement by arbitration.

The existence of distinct national legal systems necessarily means that the scope of arbitrable subject matter varies from state to state. For the most part, national courts will enforce arbitral awards resolving disputes that are the subject of written agreements between parties. However, a subject matter may be determined to be ‘not capable of settlement by arbitration’ if national law forbids or restricts the arbitrability of particular claims or disputes.¹² Examples of non-arbitrable disputes include criminal, bankruptcy and consumer matters,¹³ usually on grounds that private resolution of such disputes would be contrary to public policy.

With respect to IP rights specifically, issues such as the existence, validity, ownership, and scope of those rights are often in dispute. Some IP disputes involve rights or obligations derived from contracts, such as assignments of ownership or licence agreements, and such disputes are generally accepted as arbitrable. However, other IP disputes involve rights that devolve from local or central governmental entities, such as infringement or validity.¹⁴ Whether these disputes are arbitrable varies by jurisdiction. The national law of many common law states allows arbitration of all IP disputes – including both infringement and validity of the IP – but awards determining infringement and validity might be enforceable only as between the parties to the arbitration. Such awards are deemed to have no effect as to the rights and obligations of third parties. A further explanation of the effect of such awards plus an examination of the arbitrability of IP disputes in select common law states follows.

⁸ See NY Convention.

⁹ See https://uncitral.un.org/en/texts/arbitration/conventions/foreign_arbitral_awards/status2.

¹⁰ NY Convention, Article II(a).

¹¹ *id.*, Article V(2)(a).

¹² Gary Born, *International Commercial Arbitration* (2nd edition, Wolters Kluwer) at § 6.02 [C].

¹³ *id.*, at § 6.02 [D].

¹⁴ While the precise definition of validity may vary from country to country, validity can be understood to mean the continuing existence or enforceability of the IP right. See Wei-hua Wu, *International Arbitration of Patent Disputes*, 10 *J. Marshall Rev. Intell. Prop. L.* 384 (2011) at 388.

Arbitral awards may have effect erga omnes or inter partes

Within a jurisdiction, IP rights are typically enforceable against all third parties: patent rights, trademarks, copyright, etc., normally can be enforced against any infringer in a national or local court of a sovereign state. Such rights have effect *erga omnes*, or ‘towards all.’ For example, in national courts, an IP owner can assert its rights against nearly any accused infringer. If, during the course of the court proceedings, the IP is deemed invalid by the national court, such a determination typically will have effect *erga omnes* and the owner cannot later assert the invalid IP against a third party. In contrast, a determination may be held to have effect only *inter partes*, or ‘between the parties,’ in certain circumstances.

Whether an arbitral award has an *inter partes* or *erga omnes* effect varies by jurisdiction as well as by type of IP.¹⁵ In common law countries, most IP disputes are considered arbitrable at least to some extent. In many jurisdictions, an arbitral decision on patent validity only applies as to the parties in the arbitration because patent rights are considered to be an issue of public policy and usually can be deemed invalid only through state action.¹⁶ Typically, therefore, only a national court decision as to patent validity can have effect *erga omnes*.¹⁷ For this reason, some IP owners will consider arbitration less risky than court action because even if the arbitrator invalidates their IP, they will lose only the right to enforce that IP against the adverse party in the arbitration, rather than as to all third parties. There are trade-offs, however, because a determination of validity by a court may have some value vis-à-vis third parties, providing IP owners with increased certainty going forward and potentially limiting or eliminating the time and cost of repeatedly litigating the validity of the same IP.

With this understanding of the differences between awards that have effect *erga omnes* and *inter partes*, it is instructive to examine the arbitrability of IP disputes under the national law regimes of several common law jurisdictions.

United Kingdom

In the United Kingdom – comprising England and Wales, Scotland, and Northern Ireland – there is no statutory recognition of the arbitrability of IP disputes in the Arbitration Acts 1950, 1979 or 1996.¹⁸ Moreover, the UK Patents Act 1977 explicitly allows for arbitration in only very limited circumstances;¹⁹ for instance, when an application for a compulsory patent licence is opposed, the Comptroller General of Patents may order the proceedings, or any question or issue of fact arising in them, to be referred to an arbitrator if either the

15 Kenneth R Adamo, Overview of International Arbitration in the Intellectual Property Context (2011) 2 *Global Bus. L. Rev.* 7 at 16 (Adamo); Legler.

16 Legler.

17 *id.*

18 Final Report on Intellectual Property Disputes and Arbitration, 9 *ICC International Court of Arbitration Bulletin* 42–43 (1998) (https://library.iccwbo.org/content/dr/COMMISSION_REPORTS/CR_0013.htm?l1=Bulletins&l2=ICC+International+Court+of+Arbitration+Bulletin+Vol.+9%2FNo.1+-+Eng#footnote12). The Arbitration Act of 1996 generally provides that parties have the freedom to agree on how disputes will be resolved, as long as this agreement is not contrary to public policy. Arbitration Act 1996 § 1(b).

19 *id.*

parties consent to arbitration, or the proceedings require a prolonged examination of documents or any scientific or local investigation that cannot, in the opinion of the Comptroller, conveniently be made before him or her.²⁰

Instead, the arbitrability of IP disputes has largely been recognised judicially.²¹ Trademark and copyright disputes are both fully arbitrable,²² and while patent validity is as well, a validity determination only has *inter partes* effect under English law.²³ In general, English courts have interpreted arbitration agreements broadly.²⁴

United States

In the United States, federal statutory law expressly provides that parties can agree to arbitrate patent disputes, either by including an arbitration provision in a contract between them that involves a patent (i.e., a licence agreement, a joint development agreement, etc.) or by agreeing to arbitrate an existing patent dispute. The statute reads as follows:

*A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to the patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.*²⁵

The same statute specifies that a resulting arbitral award will have only *inter partes* effect:

*An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other persons.*²⁶

During an arbitration under this statute, an accused patent infringer could raise defences of non-infringement, unenforceability or invalidity. However, even if the asserted patent is determined to be invalid, that determination only has effect *inter partes*. In other words, an arbitral award invalidating a patent in the United States will not preclude the patent owner from asserting the same patent against third parties.

20 UK Patents Act 1977 § 52-(5).

21 *Final Report on Intellectual Property Disputes and Arbitration*, 9 ICC International Court of Arbitration Bulletin 42–43 (1998) (https://library.iccwbo.org/content/dr/COMMISSION_REPORTS/CR_0013.htm?l1=Bulletins&l2=ICC+International+Court+of+Arbitration+Bulletin+Vol.+9%2FNo.1+-+Eng#footnote12); Maurizio Crupi, *Patent arbitration: a European comparative analysis* at 58–62.

22 Adamo at 18–19.

23 *id.*

24 Dr Maxi Scherer, Kay Weinberg, Francis Hornyold-Strickland, Memorandum to IBA Subcommittee on how the English Courts Address the Issue of ‘Arbitrability’ in the Context of The New York Convention, at 9; Pascal Hollander, IBA Subcommittee Report on the concept of ‘Arbitrability’ under the New York Convention, at 13.

25 35 U.S.C. § 294(a).

26 35 U.S.C. § 294(c).

Unlike for patent disputes, there is no statute in the United States that expressly provides for binding arbitration of copyright disputes. However, US courts have held that copyright claims, including claims under the Digital Millennium Copyright Act, are arbitrable.²⁷ This includes the validity of a copyright.²⁸ Similarly, no US statute expressly provides for binding arbitration of trademark disputes.

Canada

There is no Canadian counterpart to the US statute that explicitly authorises patent arbitration and the Federal Court of Canada has exclusive authority to make rulings that affect the registration of the patent and impact the rights of third parties.^{29,30} Still, an arbitral award in Canada that concerns a patent generally can be enforced as between the parties to the arbitration.³¹ That is, an arbitral award relating to the validity of the patent has effect *inter partes* but the Canadian Patent Office will not recognise arbitral awards that determine a patent is invalid.³²

With respect to the arbitrability of copyright disputes, the Supreme Court of Canada has recognised that '[t]he parties to an arbitration agreement have virtually unfettered autonomy in identifying the disputes that may be the subject of the arbitration proceeding'.³³ In its 2003 decision, the court interpreted Article 2639 of the Civil Code of Quebec, which excludes from arbitration 'disputes over the status and capacity of persons, family matters or other matters of public order'.³⁴ According to the Supreme Court, 'the Court of Appeal took the view that cases relating to ownership of copyright, as well as cases concerning the scope and validity of copyright, must be assigned exclusively to the courts because the decisions made in such cases may, as a rule, be set up against the entire world'.³⁵ The Supreme Court found that the lower court 'was in error when it said that . . . problems relating to the

27 See *Packeteer, Inc. v. Valencia Systems, Inc.*, 2007 WL 707501, 82 U.S.P.Q.2d 1216 (N.D. Cal. 2007) ('Courts, however, have held that copyright issues are subject to arbitration. The Ninth Circuit has assumed that copyright validity is arbitrable.'). *Boss Worldwide LLC v. Crabill*, 2020 WL 1243805 (S.D.N.Y. 2020) (holding that 'plaintiff's DMCA claim falls within the scope of the arbitration clause' and rejecting argument that 'Congress precluded DMCA claims from arbitration').

28 *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1199 (7th Cir. 1987) ('We hold that federal law does not forbid arbitration of the validity of a copyright, at least where that validity becomes an issue in the arbitration of a contract dispute') abrogation on other grounds recognised by *Glickenhans & Co. v. Household Intern., Inc.*, 787 F.3d 408 (7th Cir. 2015).

29 Canadian Patent Act (R.S.C., 1985, c. P-4) § 60(1); Haller, *IP rights enforcement in Canada* at 1 (Haller).

30 Likewise, the Federal Court has exclusive jurisdiction to invalidate a trademark, or to issue a declaration of non-infringement. See Haller at 1.

31 Smith at 330 ('An arbitral award relating to the validity of the patent is in personam and thus acts *inter partes*' and 'Among the parties to the arbitration, the award of an arbitral tribunal can be enforced through the provincial superior courts of Canada').

32 Steven Garland, *Patent litigation in Canada: overview* at 18.

33 *Desputeaux v. Éditions Chouette (1987) inc.*, 2003 SCC 17 (Can. 2003) at 198.

34 *id.*, at 207 (quoting Civil Code of Quebec, S.Q. 1991, C. 64, Art. 2639).

35 *id.*, at 210.

ownership of copyright must be treated in the same manner as questions of public order, because they relate to the status of persons and rights of personality, and must therefore be removed from the jurisdiction of arbitrators.³⁶ The Supreme Court went on to state:

The [Copyright] Act is primarily concerned with the economic management of copyright, and does not prohibit artists from entering into transactions involving their copyright, or even from earning revenue from the exercise of the moral rights that are part of it. . . . In addition, the Quebec legislation recognizes the legitimacy of transactions involving copyright, and the validity of using arbitration to resolve disputes arising in respect of such transactions.

One indicator of the pro-arbitration sentiment in Canada can be seen in Quebec's 'Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters'.³⁷ Section 37 of that Act, which applies to 'every contract between an artist and a promoter which has a work of the artist as its object',³⁸ states as follows:

*In the absence of an express renunciation, every dispute arising from the interpretation of the contract shall be submitted to an arbitrator at the request of one of the parties.*³⁹

As a result of this statute, arbitration is the default mechanism for resolving disputes between artists and promoters that arise from the interpretation of contracts regarding their artistic works.

Australia

No statute speaks to the arbitrability of IP disputes in Australia, but Australian courts historically have started from the premise that 'any claim for relief of a kind proper for determination of a court' is arbitrable.⁴⁰ Specifically with respect to patents, the Supreme Court of New South Wales had occasion to address the arbitrability of patent disputes in *Larkden Pty Limited v. Lloyd Energy Systems Pty Limited*.⁴¹

In that case, two parties – Larkden and Lloyd – entered into a licensing agreement that contained an arbitration provision. When Lloyd raised a dispute regarding ownership of an invention on which it obtained a patent, Larkden objected that the dispute was not arbitrable. That is, Larkden argued that Lloyd improperly sought to use arbitration as a means of determining whether patent rights would be granted, which power, it claimed, vested exclusively with the Commissioner of Patents or the Federal Court.⁴²

³⁶ *id.*, at 214.

³⁷ Quebec Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters (R.S.C., 1988, c. S-32.01).

³⁸ *id.*, § 30.

³⁹ *id.*, § 37.

⁴⁰ *Elders CED v. Dravco Corp* [1984] 59 ALR 206. See also *Larkden Pty Limited v. Lloyd Energy Systems Pty Limited* [2011] NSWSC 268, [62] ('Generally, any dispute or claim which can be the subject of an enforceable award is capable of being settled by arbitration').

⁴¹ *Larkden Pty Limited v. Lloyd Energy Systems Pty Limited* [2011] NSWSC 268.

⁴² *id.*, [43].

The Supreme Court upheld the jurisdiction of the arbitrator, noting that '[n]on-arbitrable matters include . . . whether or not a patent or trade mark should be granted. These matters are plainly for the public authorities of the state. Patents and trade marks are monopoly rights that only the state can grant.'⁴³ The Supreme Court also determined that arbitrators cannot determine validity in a situation in which the grant of a patent is opposed.⁴⁴

However, the Supreme Court declared that there is 'no impediment to the parties investing in the arbitrator power to resolve a dispute as between themselves as to their rights in and entitlements to a patent application, or for that matter an invention.'⁴⁵ The Supreme Court was clear that the arbitral award would 'not, nor could it, bind the Commissioner of Patents or the Federal Court to declare who, as between [the parties], is or is not an eligible person under the Patents Act or who, as between them, should or should not be granted any patent.'⁴⁶

In sum, while arbitrators in Australia cannot resolve IP disputes in such a way as to bind third parties or the public at large, arbitrators can issue determinations declaring the IP rights of parties.

Singapore

In Singapore, the Intellectual Property (Dispute Resolution) Act of 2019 amended Singapore's Arbitration Act and the International Arbitration Act to specifically allow for the arbitration of IP disputes, regardless of whether an IP right is the central issue or incidental to the central issues in dispute.⁴⁷ Under the amendment, arbitral awards concerning IP rights have effect *inter partes*.⁴⁸

The amendment includes the following IP rights: patent, trade mark, geographical indication, registered design, copyright, right in a protected layout-design of an integrated circuit, grant of protection in respect of a plant variety, right in confidential information, right in trade secret or know-how, right to protect goodwill by way of passing off or similar action against unfair competition, or any other IP right of whatever nature.⁴⁹ The amendment also encompasses the following IP disputes: '(a) a dispute over the enforceability, infringement, subsistence, validity, ownership, scope, duration or any other aspect of an IPR; (b) a dispute over a transaction in respect of an IPR; and (c) a dispute over any compensation payable for an IPR.'⁵⁰ Thus, the amendment explicitly authorises arbitration over patent validity with effect *inter partes*.

43 id., [64].

44 id., [66].

45 id., [67].

46 id., [75].

47 Singapore Intellectual Property (Dispute Resolution) Act 2019.

48 id.

49 id.

50 id.

Hong Kong

On 23 June 2017, as part of its ongoing efforts to become a leading centre for arbitration, Hong Kong issued the Arbitration (Amendment) Ordinance 2017 (the ‘Arbitration Ordinance’) to ‘clarify that disputes over IP rights may be arbitrated and that it is not contrary to the public policy of Hong Kong to enforce arbitral awards involving IP rights.’⁵¹ The Arbitration Ordinance provides that ‘an IPR dispute is capable of settlement by arbitration as between the parties to the IPR dispute’ and applies ‘whether the IPR dispute is the main issue or an incidental issue in the arbitration.’⁵²

The Arbitration Ordinance is similar in language to the Singapore Intellectual Property (Dispute Resolution) Act of 2019 and defines an IPR as a patent, trade mark, geographical indication, design, copyright or related right, domain name, layout-design (topography) of integrated circuit, plant variety right, right in confidential information, right in trade secret or know-how, right to protect goodwill by way of passing off or similar action against unfair competition, or any other IPR of whatever nature.⁵³ The Arbitration Ordinance defines an IP right dispute as ‘(a) a dispute over the enforceability, infringement, subsistence, validity, ownership, scope, duration or any other aspect of an IPR; (b) a dispute over a transaction in respect of an IPR; and (c) a dispute over any compensation payable for an IPR.’⁵⁴ In addition, the Arbitration Ordinance goes one step further and states that Hong Kong’s Patents Ordinance (Cap. 514) ‘does not prevent a party from putting the validity of a patent in issue in arbitral proceedings.’⁵⁵

Along with standard patents, which extend rights to the owner for a maximum of 20 years, Hong Kong also offers protection of IP under short-term patents, which are renewable after four years from filing for a maximum term of eight years.⁵⁶ Under Hong Kong’s Patents Ordinance (Cap. 514), the owner of a short-term patent may only commence proceedings before a court to enforce its rights in the short-term patent if the following requirements are met:

- (a) a certificate of substantive examination has been issued in respect of the patent;*
- (b) a request for substantive examination of the patent has been made under section 127B and the examination has not been terminated by a court order under section 101A(4)(b); or*
- (c) a certificate has been granted by a court under section 84(1), certifying the court’s finding that –*
 - (i) the patent is wholly valid; or*
 - (ii) if the enforcement proceedings relate to a relevant respect of the patent, the patent is valid in that respect.*⁵⁷

51 Hong Kong Arbitration (Amendment) Ordinance 2017; Teo and Hanusch (<https://globalarbitrationnews.com/new-arbitration-provisions-confirm-ip-disputes-arbitrable-hong-kong>).

52 Hong Kong Arbitration (Amendment) Ordinance 2017.

53 *id.*

54 *id.*

55 *id.*

56 See https://www.ipd.gov.hk/eng/intellectual_property/patents/how_to_apply.htm.

57 Hong Kong Patents Ordinance (Cap. 514) § 129(1).

However, under the Arbitration Ordinance, short-term patent rights can be arbitrated regardless of whether any of the above requirements have been met, unless the patent owner is seeking an injunction in an interlocutory proceeding.⁵⁸ As is the case in court proceedings in Hong Kong, in arbitrations it is the short-term patent owner's burden to establish the validity of the patent, and the fact that the patent has been granted is not itself evidence of validity.⁵⁹

Conclusion

In sum, whether by statute or judicial determination, the trend in many common law countries is generally to allow arbitration of IP disputes, but awards determining certain issues, such as validity, might only have *inter partes* effect. Therefore, it is important for parties to consider the law and policies of the particular jurisdiction in which an arbitration would take place when drafting and seeking to enforce an arbitration agreement.

The Civil Law Perspective

Kinds of IP disputes

As in most common law jurisdictions, IP disputes between private parties are to a large extent considered arbitrable in civil law jurisdictions. This is particularly so for IP arbitrations involving contractual claims and obligations.

Conversely, genuine IP right issues such as patent validity disputes are still brought largely before national courts and deemed non-arbitrable (or only arbitrable to a limited extent) in many jurisdictions. This is mainly because a patent is a right that is granted by a state to a patent holder and that is limited to a specific subject matter, territory and time.⁶⁰ Where the validity of a patent is in dispute, generally, only the national courts or competent patent authorities may declare that patent null and void *erga omnes*. Overall, three main tendencies can be distinguished in civil law jurisdictions:

- express recognition of full arbitrability, including patent invalidity declarations by arbitral tribunals (e.g., Switzerland and Belgium) or express prohibition (e.g., South Africa, considered as a hybrid legal system),⁶¹ which is the exception;

58 Hong Kong Arbitration (Amendment) Ordinance 2017.

59 id.; Hong Kong Patents Ordinance (Cap. 514) § 129(2).

60 See, e.g., Erik Schäfer, 'Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Intellectual Property Related Disputes in Germany', in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, page 910.

61 Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, pages 153 and 157; David Rosenthal, 'Chapter 5: IP & IT Arbitration in Switzerland', in Manuel Arroyo (ed), *Arbitration in Switzerland: The Practitioner's Guide*, 2nd edition, Kluwer Law International, 2018, pages 957–960; Thomas Legler, 'Arbitration of Intellectual Property Disputes', in Matthias Scherer (ed), *ASA Bulletin*, Kluwer Law International, 2019, 37(2), pages 293–294; Alejandro Garcia and Sophie Lamb, 'Arbitration of Intellectual Property Disputes', *The European & Middle Eastern Arbitration Review 2008*, Global Arbitration Review.

- the acceptance of *inter partes* awards or incidental decisions on patent validity without *res judicata* effect (e.g., France, Italy and Portugal);⁶² and
- absent express laws, so far a matter of debate (e.g., Spain and China).⁶³

The approach of different legal systems to arbitrability of IP disputes

Against this background, this chapter assesses the arbitrability of patent validity disputes in key modern civil law jurisdictions. In doing so, first we briefly set out the situations in Switzerland and France where arbitral tribunals have the power to decide on patent validity *erga omnes* or *inter partes*, respectively.

Then we assess the legal practice in their respective jurisdictions: Germany and Japan. Despite being known for their arbitration-friendly climates, traditionally neither Germany nor Japan recognised patent validity arbitrations. Rather, patent validity questions are subject to the exclusive competence of special courts (in Germany) or the patent office (in Japan). This may now be changing, following reforms introduced in 1998 and 2004, respectively, as is discussed below in more detail.

Switzerland

Switzerland has undoubtedly adopted one of the most liberal and pro-arbitration stances among other civil law jurisdictions.⁶⁴ Under Swiss law, IP disputes have long been considered arbitrable and not subject to any statutory restrictions.⁶⁵ Specifically in the context of international arbitration, Section 177(1) of the Swiss International Private Law contains a broad definition of arbitrability and stipulates that '[a]ll pecuniary claims may be submitted to arbitration'.⁶⁶ Swiss courts have regularly interpreted this to cover any claims with a pecuniary value for the parties.⁶⁷ Arbitral awards on patent validity are recognised and enforced by the Swiss Federal Institute on Intellectual Property (for the purposes of

62 Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, pages 154–156.

63 'Chapter 5: The Arbitrability of Matters in International Arbitration', in Miguel Gómez Jene, *International Commercial Arbitration in Spain*, Kluwer Law International, 2019, pages 61–62; 'Chapter 8: Arbitrability and Arbitral Scope', in Lin Yifei, *Judicial Review of Arbitration: Law and Practice in China*, Kluwer Law International, 2018, pages 218ff; William Grantham, 'The Arbitrability of International Intellectual Property Disputes', *Berkeley Journal of International Law* 14, 1996, page 204.

64 See, e.g., David Rosenthal, 'Chapter 5: IP & IT Arbitration in Switzerland', in Manuel Arroyo (ed), *Arbitration in Switzerland: The Practitioner's Guide*, 2nd edition, Kluwer Law International 2018, pages 957–958.

65 In 1945, the Swiss Federal Supreme Court recognised that IP rights are not subject to the exclusive jurisdiction of the courts. Subsequently, in 1975 the Federal Office of Intellectual Property held that arbitral tribunals are competent to decide on patent issues, including their validity. See Robert Briner, 'The arbitrability of intellectual property disputes with particular emphasis on the situation in Switzerland', in WIPO, Worldwide Forum on the Arbitration of Intellectual Property Disputes, 3–4 March 1994, Para. 2.2.

66 See the English translation of the Swiss International Private Law, available at: <https://www.trans-lex.org/602000>.

67 'Chapter 6: Nonarbitrability and International Arbitration Agreements', in Gary B Born, *International Commercial Arbitration*, 2nd edition, Kluwer Law International 2014, pages 960–961.

making the necessary entries in the patent register) provided that they have been declared enforceable by a Swiss court. Through that process, recognised arbitral awards will have an *erga omnes* effect.⁶⁸

Remarkably, the Swiss approach remained unchanged even after the establishment of the Federal Patent Court in 2012. Despite its exclusive jurisdiction in civil matters relating to patent validity and infringement, the majority view in Switzerland continues to allow patent arbitrations.⁶⁹

France

An alternative, more restrictive tendency to patent validity arbitrations has recently emerged in France. Contrary to Switzerland, France traditionally denied IP arbitrations.⁷⁰ In 2008, the Paris Court of Appeal accepted the arbitrability of patent validity as long as the issue was raised incidentally as a defence or counterclaim in a contractual dispute. Arbitral awards on patent validity would, however, not have *res judicata* force and remain *inter partes*.⁷¹ Subsequently, the arbitrability of IP disputes was expressly stipulated in Law No. 2011-525 dated 17 May 2011 (amending the Intellectual Property Act).⁷²

68 This involves a certificate of enforceability by the Swiss court at the seat of the arbitral tribunal pursuant to Section 193(2) of the Swiss International Private Law. Such a certificate does not involve a merits review of the award. Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, page 157; Thomas Legler, *Arbitration of Intellectual Property Disputes*, page 294; Alejandro Garcia and Sophie Lamb, *Arbitration of Intellectual Property Disputes*, *The European & Middle Eastern Arbitration Review 2008*, Global Arbitration Review.

69 David Rosenthal, 'Chapter 5: IP & IT Arbitration in Switzerland', in Manuel Arroyo (ed), *Arbitration in Switzerland: The Practitioner's Guide*, 2nd edition, Kluwer Law International 2018, page 959.

70 This was in spite of the fact that the rather broad rule under Section 2059 of the French Civil Code provides that matters subject to the parties' free disposition may be arbitrated. See unofficial English translation of the French Civil Code, available at: <http://www.fd.ulisboa.pt/wp-content/uploads/2014/12/Codigo-Civil-Frances-French-Civil-Code-english-version.pdf>. Section 2060(1) of the French Civil Code excludes from arbitration matters of status or capacity of natural persons, divorce or legal separation and public policy. The latter exclusion does not apply in international arbitration. See Court of Appeal of Paris, *Ganz v. Société Nationale des Chemins de Fer Tunisiens (SNCFT)*, 29 March 1991, Rev. Arb., 1991, page 478. The Court of Appeal held that 'in international arbitration, an arbitrator ... is entitled to apply the principles and rules of international public policy ... except in cases where the non-arbitrability is a consequence of the subject-matter in that it implicates international public policy and absolutely excludes the jurisdiction of the arbitrators because the arbitration agreement is void'. See also Court of Appeal of Paris, *Société Labinal v. Sociétés Mors et Westland Aerospace*, 19 May 1993, Rev. Arb., 1993, page 654, where the Court of Appeal ruled that 'the arbitrability of a dispute is not excluded by the mere fact that rules belonging to public policy are applicable to the disputed legal relationship'.

71 Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, page 155; Yves Derains and Laurence Kiffer, 'National Report for France (2013 through 2020)', in Lise Bosman (ed), *ICCA International Handbook on Commercial Arbitration*, ICCA and Kluwer Law International 2020, Supplement No. 110, April 2020, pages 25–26.

72 Article L 615-17 of the Intellectual Property Act, as amended by Law No. 2011-525 dated 17 May 2011 provides: 'Civil actions and claims related to patents ... are exclusively submitted to courts of great instance ... The preceding provisions do not prevent recourse to arbitration in the conditions set forth in articles 2059 and 2060 of the civil code ...' See also Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, pages 154–155.

Germany

Introduction

In Germany, arbitrations concerning genuine IP law issues, such as patent validity, remain rare.⁷³ As in France, IP disputes were traditionally considered non-arbitrable. Instead, patent litigation continues to be the norm. This is particularly attributable to the fact that Germany operates under a ‘split’ or ‘bifurcated’ patent litigation system. Other countries following the bifurcated system include Austria, Hungary, Korea, China and – with certain restrictions (see below) – Japan.⁷⁴

Unlike in many jurisdictions,⁷⁵ patent validity proceedings are tried separately from infringement claims. The latter involve an action by a patent holder for damages or injunctive relief resulting from an alleged infringement of the patent. In Germany, jurisdiction over infringement claims is concentrated in 12 regional courts with specialised divisions.⁷⁶ Conversely, patent validity disputes (also known as ‘revocation actions’) are subject to the exclusive jurisdiction of the Federal Patent Court (FPC) in Munich.⁷⁷ The FPC’s decision to partially or fully revoke a patent it considers invalid has *erga omnes* effect.⁷⁸

73 Erik Schäfer, ‘Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Intellectual Property Related Disputes in Germany’, in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, page 908. While the exact number is unknown, according to Schäfer, the IP share of published institutional cases (e.g., ICC, DIS) ranged from 3 per cent to 10 per cent. See Wolfgang Kellenter and Benedikt Migdal, ‘Patent litigation in Germany: overview’, Practical Law, 2020.

74 See World Intellectual Property Indicators 2018, Special theme, page 13, available at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018-chapter1.pdf. Matthew Bultman, ‘What You Need to Know about Patent Litigation in Germany’, Law 360, 2018.

75 Jurisdictions with non-bifurcated patent litigation systems include Switzerland, France, Netherlands, the United States and the United Kingdom. See World Intellectual Property Indicators 2018, Special theme, page 13, available at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018-chapter1.pdf.

76 Section 143(2) of the German Patent Act (GPA). English translation of the GPA, available at: http://www.gesetze-im-internet.de/englisch_patg/. The 12 specialised patent courts in Germany are the regional courts in Berlin, Braunschweig, Düsseldorf, Erfurt, Frankfurt, Hamburg, Leipzig, Magdeburg, Mannheim, Munich I, Nuremberg and Saarbrücken. The vast majority of cases are filed before the regional courts in Düsseldorf, Mannheim, Munich I and Hamburg. See Wolfgang Kellenter and Benedikt Migdal, ‘Patent litigation in Germany: overview’, Practical Law, 2020. Proceedings are heard by three-judge panels with substantial experience in technical matters.

77 Sections 22(1), 65(1) and 81(1), (4) of the GPA. See website of the Federal Patent Court (FPC), available at: https://www.bundespatentgericht.de/EN/TheCourt/theCourt_node.html. The FPC has seven ‘Nullity Boards’ each consisting of five judges – three of which have technical training, while the other two are legally qualified. The average annual caseload amounts to approximately 200–300 revocation actions, of which around 75 per cent are at least partially successful. See Federal Patent Court, Annual Report 2019, Business Report 2019, pages 163–164; Bardehle Pagenberg, Patentnichtigkeitsverfahren, IP Fachbroschüre, 2019, available at: <https://www.bardehle.com/de/ip-news-wissen/publikation/publikationen/ipnews/info/patentnichtigkeitsverfahren.html>.

78 The revocation is subsequently noted in the patent register and published in the patent bulletin. See Sections 22(1), 30(1) and 81 of the GPA.

Revocation actions are typically a response by the alleged infringer to an infringement claim.⁷⁹ Despite their interrelation, both proceedings are tried separately and at a considerably different pace.⁸⁰

Unsurprisingly, the bifurcated system has been subject to considerable criticism. A key concern, apart from the additional costs of parallel proceedings, has been the fact that an alleged infringer cannot bring a defence or counterclaim based on patent invalidity in infringement proceedings.⁸¹ Since infringement claims are regularly concluded before revocation actions,⁸² patent holders may provisionally enforce a successful infringement judgment, irrespective of a pending appeal or parallel revocation action. This increases the risk that a patent may be enforced despite actually being invalid, leaving the parties in a state of legal uncertainty until the revocation action has been decided (the ‘injunction gap’).⁸³

Under the current law, an alleged infringer has the following three main options:

- making an application for suspension of the infringement proceedings;⁸⁴
- seeking a provisional stay of enforcement of the infringement judgment;⁸⁵ or
- seeking an action for retrial of the case.⁸⁶

79 A revocation action is inadmissible, as long as an ‘opposition proceeding’ can be filed before the German Patent and Trademark Office in the case of regular German patents, or the European Patent Office in the case of European patents, both of which are located in Munich. An opposition proceeding is admissible within nine months of the publication of a patent grant, and if successful, results in the partial or total revocation of such patent. See, in particular, Sections 21, 26, 27, 59, 61 and 81(2) of the GPA.

80 Revocation actions in the first instance typically last for around 27.8 months, with upward tendency. A judgment by the FPC can be appealed exclusively before the Federal Court of Justice both on points of fact and law. Federal Patent Court, Annual Report 2019, Business Report 2019, pages 163–165. In contrast, infringement proceedings only take around a year in the first instance. An appeal on points of fact and law can be filed before the higher regional courts and, with restrictions, a further appeal on points of law before the Federal Court of Justice. Daniel Seitz, Bill of the German Federal Ministry of Justice and Consumer Protection for a Second Act concerning the Simplification and Modernisation of German Patent Law (Second Patent Law Modernisation Act (2. PatMoG)), 2020.

81 European Patent Office, *Patent Litigation in Europe: An Overview of National Law and Practice in the EPC Contracting States*, 5th edition, 2019, page 37; Wolfgang Kellenter and Benedikt Migdal, ‘Patent litigation in Germany: overview’, Practical Law, 2020.

82 See footnote 80 above.

83 Katrin Cremers, Fabian Gässler, Dietmar Harhoff, Christian Helmers and Yassine Lefouili, ‘Invalid but Infringed? An Analysis of the Bifurcated Patent Litigation System’, *Journal of Economic Behavior and Organization*, 2016, 131, page 221.

84 Section 148 of the German Code of Civil Procedure (GCCP): ‘Where the decision on a legal dispute depends ... on the question of whether a legal relationship ... exist[s], and this relationship forms the subject matter of another legal dispute that is pending ... the court may direct that the hearing be suspended until the other legal dispute has been dealt with and terminated ...’

85 Sections 719(1) and 707(1) of the GCCP (by analogy): ‘Section 707 Temporary stay of compulsory enforcement: (1) ... the court may direct, upon corresponding application being made, that compulsory enforcement be temporarily stayed, against or without provision of security, or that it be pursued only against the provision of security, and that the enforcement measures are to be revoked against provision of security ...’; ‘Section 719 Provisional termination in the case of appellate remedies and protests having been filed: (1) Insofar as a judgment declared provisionally enforceable is protested against or appealed, the stipulations of section 707 shall apply mutatis mutandis.’

86 Section 580 No. 6 of the GCCP: ‘An action for retrial of the case may be brought: ... 6. Where judgment by a court of general jurisdiction, by a former special court, or by an administrative court, on which the judgment had been based, is reversed by another judgment that has entered into force’.

Suspension applications are subject to the (infringement) courts' discretion and are generally denied. A patent holder's interest in the continuation of the proceedings is considered to outweigh the alleged infringer's interest in a suspension in light of the registration of the patent and limited duration of the right of exploitation.⁸⁷ In order to succeed, an applicant must show that a patent will 'in all probability' be revoked.⁸⁸ A suspension will also be granted where the FPC notifies the infringement court that it considers the patent invalid (or revokes it).⁸⁹

The second option, a request for provisional stay of enforcement, applies where an appeal against an infringement judgment is pending. As in the case of a suspension, provisional stays are granted in limited cases (i.e., where irreversible damage is at stake or the judgment was manifestly incorrect), but will generally succeed where the FPC subsequently revokes the patent.⁹⁰

Once an infringement court judgment has become final and binding, an infringer's last resort is an action for retrial. A patent revocation by the FPC may constitute a ground for retrial, provided the infringer could not raise a particular defence earlier or through an appeal.⁹¹ A failure to appeal an infringement judgment, however, does not necessarily make an action for retrial inadmissible. It has been held that, after all, an infringement court would not have been competent to decide on patent validity.⁹²

In January 2020, to remedy the effects of an injunction gap and to avoid an injunction before a decision on patent validity has been rendered, the German government introduced a bill stipulating the possibility for the FPC to notify the infringement court *ex officio* of its preliminary view on patent validity.⁹³ This should increase the chances that an infringement

87 Pursuant to Sections 1, 9 and 16 of the GPA, a patent holder is granted the exclusive exploitation right of an invention for 20 years.

88 OLG Düsseldorf (2. Zivilsenat), Beschluss vom 24 August 2017 – 2 U 75/16. See also BGH (Kartellsenat), Beschluss vom 17 July 2018 – KZR 35/17, Para. 10. In a rare decision in 2018, the Federal Court of Justice granted a suspension since it considered it 'appropriate in order to guarantee a uniform interpretation' between the infringement court and the FPC. However, the Federal Court of Justice did not expressly override the principles established in its prior case law requiring a high probability for a suspension to be granted. See BGH (X. Zivilsenat), Beschluss vom 5 June 2018 – X ZR 58/16.

89 See, e.g., BGH (Kartellsenat), Beschluss vom 17 July 2018 – KZR 35/17. This notification requirement is stipulated under Section 83(1) of the GPA, which does not, however, expressly require that the FPC notify the (infringement) court: 'In the proceedings for revocation of the patent . . . the Federal Patent Court shall indicate to the parties as early as possible those aspects which will presumably be of particular significance in respect of the decisions or which are helpful for concentrating the oral proceedings upon the issues which are essential for the decision'.

90 BGH, Beschluss vom 16 September 2014 – X ZR 61/13; BGH (Kartellsenat), Beschluss vom 17 July 2018 – KZR 35/17.

91 Section 582 of the GCCP: 'An action for retrial of the case may admissibly be brought only if the party, through no fault of its own, was unable to assert the cause for retrial of the case in the earlier proceedings, in particular by filing a protest or an appeal, or by joining an appeal'.

92 LG München I (21. Zivilkammer), Schlussurteil vom 13 December 2013 – 21 O 19618/12. See also OLG Düsseldorf, Urteil vom 19 December 2019 – 2 U 41/19.

93 Section 83(1) sentence 2 of the bill amending the GPA: 'Such indication should take place within six months of the service of the claim. If a patent litigation case is pending, such indication should also be communicated to the other court *ex officio*'. Diskussionsentwurf des Bundesministeriums Justiz und für Verbraucherschutz Entwurf eines Zweiten Gesetzes zur Vereinfachung und Modernisierung des Patentrechts, available at: <https://www.bmjjv>.

court may take into account the FPC's view and suspend its proceedings. The bill is expected to pass the German Federal Parliament in early 2021. Whether this effort to streamline infringement and revocation proceedings will be fruitful remains to be seen.

Arbitrability of patent validity disputes

The bifurcated patent litigation system in Germany has traditionally been used to explain its reluctance to accept patent validity arbitrations.⁹⁴ So far, German law does not expressly regulate whether patent validity disputes are arbitrable. At the same time, following the amendments of the German Code of Civil Procedure (GCCP) in 1998,⁹⁵ a new debate has sparked with increasing voices recognising patent validity arbitration.⁹⁶

Section 1030 of the GCCP is modelled after Section 177(1) of the Swiss International Private Law and reads:

Eligibility for arbitration

- (1) Any claim under property law may become the subject matter of an arbitration agreement. An arbitration agreement regarding non-pecuniary claims has legal effect insofar as the parties to the dispute are entitled to conclude a settlement regarding the subject matter of the dispute.*
- (2) An arbitration agreement regarding legal disputes arising in the context of a tenancy relationship for residential space in Germany is invalid . . .*
- (3) Any stipulations of the law outside of the present Book, according to which disputes may not be subjected to arbitration proceedings, or only if specific prerequisites have been met, shall remain unaffected hereby.*

de/SharedDocs/Gesetzgebungsverfahren/Dokumente/DiskE_2_PatMoG.pdf?__blob=publicationFile&v=1.

See also Entwurf eines Zweiten Gesetzes zur Vereinfachung und Modernisierung des Patentrechts, dated 28 October 2020, available at: https://www.bmjv.de/SharedDocs/Gesetzgebungsverfahren/Dokumente/RegE_PatMog2.pdf?sessionid=E807C54CC4D836923BDD7CE57AE2B069.2_cid334?__blob=publicationFile&v=2.

⁹⁴ See, e.g., different positions under Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Paras. 7 and 14.

⁹⁵ See website of the Federal Ministry of Justice and Consumer Protection for the English translation of the GCCP, available at: https://www.gesetze-im-internet.de/englisch_zpo/index.html.

⁹⁶ See Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 333–334. Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Para. 14. Stein, Jonas (eds), *Kommentar zur Zivilprozessordnung*, §1030, 22nd edition, 2002, Para. 3. Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, page 241.

As under Swiss law, German law adopts the general principle that all proprietary and pecuniary claims⁹⁷ may be subject to an arbitration agreement, and thus be arbitrated. Patents, as exclusive exploitation rights granted to a patent holder, fall under this category.⁹⁸ Non-pecuniary claims under Section 1030(1), sentence 2 of the GCCP, in contrast, may only be submitted to arbitration insofar as they can be the object of a settlement.⁹⁹

Exceptions to the rule of arbitrability only arise from arbitration agreements in connection with residential leases, which are considered void (Section 1030(2)) and express provisions outside the GCCP rules on arbitral proceedings (Section 1030(3)). While the exact scope of disputes excluded from arbitration under Section 1030(3) is arguable, certain disputes related to, for instance, employment law, family law and insolvency law are considered non-arbitrable (or are subject to restrictions).¹⁰⁰ It is in this regard that the arbitrability of patent validity matters continues to cause friction. After all, even if an arbitral tribunal were to admit a patent validity dispute, the annulment or enforcement courts may reach a different conclusion.¹⁰¹ At the same time, case law on this has yet to provide guidance.¹⁰²

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- 97 Pecuniary claims involve rights to which a commercial or financial value is attached. These include monetary claims or claims directed at assets and rights with a commercial or monetary value, irrespective of whether the underlying legal relationship is of a non-pecuniary nature. Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Para. 1; Final Report on Intellectual Property Disputes and Arbitration, *ICC International Court of Arbitration Bulletin* 9(1), 1998, page 37, Para. 2.17. Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, page 240.
- 98 See footnote 87 above. Final Report on Intellectual Property Disputes and Arbitration, *ICC International Court of Arbitration Bulletin* 9(1), 1998, page 37, Para. 2.17. Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Para. 1; Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, page 240; Anna Mantakou, 'Part II Substantive Rules on Arbitrability, Chapter 13 Arbitrability and Intellectual Property Disputes', in Loukas A. Mistelis and Stavros Brekoulakis (eds), *Arbitrability: International and Comparative Perspectives*, International Arbitration Law Library, Kluwer Law International, 2009, 19, page 266.
- 99 In other words, a right or claim must be disposable. In the past, this 'disposability' criterion also applied to pecuniary claims but was limited to non-pecuniary claims during the 1998 GCCP amendment to allow for a broader scope of arbitrability. Bundesjustizministerium, Kommission zur Neuordnung des Schiedsverfahrensrechts: Bericht mit einem Diskussionsentwurf zur Neufassung des Zehnten Buchs der ZPO, 1994, pages 91–92. Gesetzesentwurf der Bundesregierung, Entwurf eines Gesetzes zur Neuordnung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, page 34.
- 100 Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Para. 1a; Musielak-Voit, §1030, 17th edition, 2020, Paras. 2–3; MüKoZPO/Münch, §1030, 5th edition, 2017, Para. 33; BeckOK ZPO, Vorwerk–Wolf, §1030, 37th edition, 2020, Paras. 12–13.
- 101 Under the GCCP, an arbitral award may be annulled where the subject matter of the dispute is not eligible for arbitration under German law, or the recognition or enforcement of the arbitration award would be contrary to public order. See Section 1059(2) No. 2(a), (b) of the GCCP. Similarly, the New York Convention provides that an award need not be recognised or enforced if it has been set aside, the award concerns a subject matter not amenable to arbitration in the state of recognition, or the award violates principles of public policy in the enforcement state. See Article V(1)(e), V(2)(a) and V(2)(b) of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards.
- 102 Annulment and enforcement courts appear to generally show deference to tribunals' awards and to decide in favour of arbitrability, particularly where there is an arbitration agreement between the parties.

Reservation to Federal Patent Court as a 'special court'

The proponents of a restrictive interpretation of 'arbitrability' point to the creation of the FPC as a 'special court' to decide revocation claims pursuant to Section 65(1) of the German Patent Act (GPA), which they consider an explicit exclusion provision within the meaning of Section 1303(3) of the GCCP.¹⁰³ While admitting that an 'exclusive jurisdiction' provision alone is not sufficient to reject arbitrability, a different consideration would apply when a 'special court' (such as the FPC) has been established. This is what the Federal Parliament's commentary to the bill for the 1998 GCCP revision would provide. Other IP disputes (including infringement claims) merely subject to an exclusive jurisdiction would remain arbitrable.¹⁰⁴

According to the opposing view, the mere existence of a special court (or exclusive jurisdiction) for certain matters cannot be equated with an express prohibition to arbitrate such matters. Reference is made to an expert report commissioned by the Federal Ministry of Justice (prior to the Federal Parliament's commentary) unequivocally confirming that all pecuniary claims are arbitrable, including patent validity disputes – despite their reservation to the FPC. Coincidentally, the language of the Federal Parliament's commentary is not regarded as entirely conclusive.¹⁰⁵

State monopoly and patent disposability

Another key consideration raised relates to the intent and purpose of the GPA. The traditional view rejecting the arbitrability of patent validity suggests that state monopoly over these matters ought to be guaranteed. Since patents concern rights granted by sovereign act, they may only be judged and revoked *erga omnes* by the state (i.e., the FPC).¹⁰⁶

According to the contrary view, this point essentially concerns the 'disposability' of a patent. As mentioned above, this criterion is now limited to non-pecuniary claims that are considered to warrant special protection by the state and thus are not at a private person's disposition. Conversely, disposability should, so the argument goes, be irrelevant for assessing pecuniary claims as a patent remains at its holder's full disposal. A patent holder may voluntarily surrender a patent anytime by making the necessary representations

103 See, e.g., Musielak-Voit, *Zivilprozessordnung*, §1030, 17th edition, 2020, Para. 3; MüKoZPO/Münch, §1030, 5th edition, 2017, Para. 33. See generally Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, page 306.

104 Gesetzesentwurf der Bundesregierung, Entwurf eines Gesetzes zur Neuordnung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, page 35. See also Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Paras. 4, 7 and 14; Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 335–336.

105 Bundesjustizministerium, Kommission zur Neuordnung des Schiedsverfahrensrechts: Bericht mit einem Diskussionsentwurf zur Neufassung des Zehnten Buchs der ZPO, page 92; Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, pages 241–242; Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Paras. 4, 7 and 14; Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 306–307.

106 Gesetzesentwurf der Bundesregierung, Entwurf eines Gesetzes zur Neuordnung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, page 35. See generally Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 306–307. BGH, 25 January 1983 – X ZR 47/82.

before the competent authority.¹⁰⁷ The judiciary does not initiate revocation proceedings or actively investigate the validity of patents on its own motion, unless a revocation action is filed and the necessary evidence adduced. In fact, some voices stress that all commercial arbitration is based on the state's willingness to cede part of its decision-making power, as even private rights are granted by the sovereign. Hence, the same would apply to patent validity arbitration.

Effect of arbitral awards

Closely linked to the above argument of state monopoly is concern about the limited powers of arbitral tribunals. Only the FPC (not a tribunal or any other German court) would be competent to revoke a patent.¹⁰⁸

While recognising the above, those with the opposing view counter that arbitral awards generally only have *inter partes* effect and leave the FPC's competence to an *erga omnes* patent revocation fully intact.¹⁰⁹ Arbitral awards on patent validity could thus be twofold:

- First, they could make a finding on patent validity and order the patent holder to relinquish the patent under the applicable domestic procedures. Such an award should be unproblematic as it would only affect the parties at issue.¹¹⁰
- Alternatively, a tribunal may examine the patent validity issue incidentally. The resulting award would thus be for damages, specific performance or otherwise. No finding on patent validity would be made. Any incidental conclusion on the patent's validity would not have preclusive effect. This is particularly so since preclusion under German law (*Rechtskraft*) would be limited to the actual relief granted, not the reasoning or incidental determinations.¹¹¹

These alternatives would eventually coincide with the Swiss and French approaches presented above.

107 See Sections 20, 58 and 64 of the GPA. Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, page 24; Jochen Pagenberg, 'The Arbitrability of IP disputes in Germany', 1994; Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 306–307.

108 See, e.g., Musielak-Voit, *Zivilprozessordnung*, §1030, 17th edition, 2020, Para. 3.

109 See, e.g., Stein, Jonas (eds), *Kommentar zur Zivilprozessordnung*, §1030, 22nd edition, 2002, Para. 3; Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, pages 242–243; Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 307 and 336–337; Final Report on Intellectual Property Disputes and Arbitration, *ICC International Court of Arbitration Bulletin* 9(1), 1998, Para. 2.17.

110 Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 335–336; Peter G. Picht, 'Einheitspatentsystem: Die Kompetenzreichweite des Mediations- und Schiedszentrums', *GRUR International*, 2018, 67(1), page 4; ICC, Final Report on Intellectual Property Disputes and Arbitration, *ICC International Court of Arbitration Bulletin* 9(1), 1998, Para. 2.17.

111 Erik Schäfer, Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Intellectual Property Related Disputes in Germany, in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, pages 913 and 916 and footnote 47. Contrary to the German law concept of *Rechtskraft* the common law understanding of 'preclusion' or 'res judicata' is wider.

EU developments

Recent developments in the EU also seem to support the view that patent validity disputes are arbitrable. The EU is in the process of revamping its patent system with the unitary patent (UP) and the Unified Patent Court (UPC).¹¹² The new system reaches beyond the existing European patent (EP) and is intended to harmonise the protection of EPs and UPs within the EU. In the future, national patents will coexist with EPs and UPs, but under separate systems. The UPC will hear disputes concerning EPs and UPs, including revocation claims. An affiliated patent mediation and arbitration centre will be established. Remarkably, as in the case of Germany, the applicable EU framework does not expressly prohibit patent validity arbitrations. While an arbitral tribunal may not revoke a patent,¹¹³ it may order a party to surrender its patent.¹¹⁴ The latter appears to indicate that *inter partes* awards on EP and UP validity will be possible.¹¹⁵

Summary

In Germany, opinion seems to be shifting towards an increased acceptance of patent validity arbitration. This is based on the broad language of Section 1030 of the GCCP and the lack of an express prohibition in the law. It is generally recognised that tribunals can sufficiently address the parties' interests via *inter partes* awards while guaranteeing state monopoly and protecting public interests.¹¹⁶ This is also the path the EU appears to be taking. This trend further conforms to the principle of effectiveness: if infringement claims are arbitrable, it would be odd to prohibit an alleged infringer from disputing the patent validity in the same arbitration or a separate (counter-)claim. Future case law will tell which approach tribunals and courts will be adopting.

¹¹² The UP and UPC is expected to be operative by 2022 but has suffered setbacks following the UK's Brexit and the German Federal Constitutional Court's latest decision dated 13 February 2020 declaring void Germany's ratification of the UPC project. See: <https://www.epo.org/law-practice/unitary.html>. <https://www.unified-patent-court.org/news/federal-constitutional-court-decision>.

¹¹³ Article 35(2), sentence 3 UPC Agreement, available at: <https://www.unified-patent-court.org/sites/default/files/upc-agreement.pdf>; see also Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, pages 245–246.

¹¹⁴ See Rule 11(2) of Preliminary set of provisions for the Rules of Procedure of the Unified Patent Court, 18th draft, 1 July 2015 (as updated on 15 March 2017), available at: https://www.unified-patent-court.org/sites/default/files/upc_rules_of_procedure_18th_draft_15_march_2017_final_clear.pdf ('Pursuant to Rule 365 the Court shall, if requested by the parties, by decision confirm the terms of any settlement or arbitral award by consent (irrespective of whether it was reached using the facilities of the Centre or otherwise), including a term which obliges the patent owner to limit, surrender or agree to the revocation of a patent or not to assert it against the other party and/or third parties.'). See also UPC website in general, available at: <https://www.unified-patent-court.org/>.

¹¹⁵ Erik Schäfer, Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Intellectual Property Related Disputes in Germany, in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, page 915; Thomas Legler, 'Arbitration of Intellectual Property Disputes', in Matthias Scherer (ed), *ASA Bulletin*, Kluwer Law International, 2019, 37(2), pages 294–295.

¹¹⁶ Some commentators argue that patent validity arbitrations are contrary to public policy but have failed to explain why.

Japan

Introduction

Japan is another civil law jurisdiction that has adopted the German bifurcated system. Traditionally, the bifurcation of revocation claims and infringement claims was strict. However, in the early 2000s, and in light of the criticism of the bifurcated system, Japan started innovating its patent litigation. As a result, Japan substantially eased the separation between infringement and validity proceedings, thus distinguishing itself from the German model.¹¹⁷ This, in turn, has had the interesting effect of potentially increasing the acceptance of patent validity arbitrations seated in Japan.

In Japan, infringement proceedings are subject to the exclusive jurisdiction of either the Tokyo or Osaka District Courts with special divisions for IP matters.¹¹⁸ Meanwhile, only the Japan Patent Office (JPO) in Tokyo has exclusive authority to revoke an invalid patent.¹¹⁹ This means that an alleged infringer could not bring a revocation claim or defence against an infringement claim, unless the JPO had first decided on patent validity. In order to correct the defects of the bifurcated system, Japanese infringement courts increasingly admitted validity defences.

In 2000, the Supreme Court accepted the infringement courts' practice in its seminal *Kilby* ruling and held that an infringement claim could be dismissed where obvious sufficient grounds for patent invalidity exist.¹²⁰ Subsequently, the *Kilby* precedent was cast into law during the 2004 amendments of the Patent Act. Pursuant to Article 104-3(1) of the Patent Act, infringement courts are now expressly authorised to refuse to enforce a patent if they consider that there are sufficient grounds for invalidation:

117 See further Simon Klopschinski, *Der Patentverletzungsprozess in Japan und Deutschland – Bericht über ein internationales Symposium der Deutsch-Japanischen Juristenvereinigung (DJJV), der Japan Intellectual Property Association (JIPA), der Japan Patent Attorneys Association (JPAA) und der International Association for the Protection of Intellectual Property of Japan (AIPPI Japan) am 23. September 2009 in Munich, GRUR International* 2020, 309.

118 An initial appeal may be brought before the IP High Court in Tokyo on points of fact and law, and further to the Supreme Court on points of law. Article 6(1)(3) of the Code of Civil Procedure, Articles 7(i) and 16(i) of Court Act and Article 2(i) of the Law for Establishing the IP High Court. The IP High Court was established as a special branch of the Tokyo High Court for IP matters in 2005 and decides in panels of three or five judges. Appeals to the Supreme Court are heard by five judges from one of its three benches.

119 Articles 178(6) and 123 of the Japanese Patent Act. See website of the JPO available at: <https://www.jpo.go.jp/e/>. As in infringement disputes, an appeal may be brought first to the IP High Court which can only decide on whether to confirm or vacate the JPO's decision (but not revoke a patent) and then to the Supreme Court.

120 Judgment of the Supreme Court of Japan, 11 April 2000, Minshu Vol. 54, No. 4 at 1368. The Supreme Court ruled that: '[a] court considering a claim of patent infringement should be capable of judging whether or not there obviously exists sufficient grounds to invalidate the patent, even prior to the issuance of a final decision invalidating the patent. If during the hearings the court finds that there obviously exist sufficient grounds to invalidate the patent, a claim of injunction, damages, or other claims based on such patent would be an abuse of rights beyond the scope contemplated under the act unless it can be demonstrated that circumstances exist which justify special treatment.'

*If it is found, in litigation involving the infringement of a patent right or the violation an exclusive license, that the patent should be invalidated . . . the rights of the patentee or exclusive licensee may not be exercised against the adverse party.*¹²¹

However, given that an infringement court's determination on patent validity only has *inter partes* effect, there was a risk that a patent would remain valid *erga omnes* if the JPO decided not to revoke it. To address this risk of conflicting decisions, Article 168 of the Patent Act empowers both infringement courts and the JPO to suspend their respective proceedings and requires them to notify each other of any pending patent claims, much like the recent reforms in Germany.¹²²

Article 168 of the Patent Act reduces the risk of conflicting decisions but does not eliminate it. Where such conflict arises due to a patent revocation after an infringement judgment (in favour of a patent holder) has become final and binding, such conflict cannot be 'corrected' with an action for retrial. Previously, a JPO decision could potentially qualify as a ground for initiating a retrial,¹²³ but ever since the introduction of Article 104-4 of the Patent Act in 2011 this is now prohibited.¹²⁴ This may however lead to the somewhat

121 In the interest of a swift resolution of patent disputes, the requirement of an 'obvious' patent invalidity under the *Kilby* case was dropped.

122 Article 168 of the Patent Act: '(1) Where deemed necessary during a trial, the [JPO] proceedings may be suspended until the ruling on an opposition to a granted patent or the decision in another trial has become final and binding or court proceedings have been concluded. (2) Where an action is instituted or a motion for order of provisional seizure or order of provisional disposition is filed, the court may, if it considers it necessary, suspend the court proceedings until the [JPO] decision becomes final and binding. (3) Where an action with respect to infringement of a patent right . . . is instituted, the court shall notify the [JPO] thereof. . . (4) Where the [JPO] receives the notice as provided in the preceding paragraph, the [JPO] shall notify the court of whether a request for a [JPO proceeding] with regard to the said patent right has been filed. . . (5) Where the court receives the notice [by the JPO], if a document stating a method of allegation or defence as provided in Article 104-3(1) has already been submitted . . . the court shall notify the [JPO] thereof. (6) Where the [JPO] receives the notice as provided in the preceding paragraph, the [JPO] may request the court to deliver copies of any record of the said action which the trial examiner considers necessary for the trial.' The power of the JPO and infringement court to suspend proceedings under Article 168(1) and (2) already existed prior to the 2004 reform of the Patent Act. Article 168(3)-(6), however, were newly introduced in 2004.

123 Before 2011, a JPO decision determining patent invalidity was considered an 'administrative decision' modifying the original patent grant, and could thus qualify as a valid ground for an action for retrial pursuant to Article 338(1)(viii) of the Code of Civil Procedure: 'If any of the following circumstances are present, a party may protest a final judgment that has become final and binding through a demand for a retrial; provided, however, that this does not apply if a party, when filing the appeal to the court of second instance or the final appeal, alleged those circumstances or knew of them but did not allege them: . . . (viii) the civil or criminal judgment or other judicial decision, or the administrative disposition, on which the judgment in question was based has been modified by a subsequent judicial decision or administrative disposition'. However, according to a line of thought (supported by case law) a retrial based on a decision by the JPO invalidating a patent ought to be admitted in limited cases only. See judgment of the Supreme Court of Japan, dated 24 April 2008, Minshu Vol. 62, No. 5 at 1262; judgment of IP High Court, dated 14 July 2008, Hanrei-jiho No. 2050 at 137.

124 Article 104-4: 'If one of the following ruling or decision on a trial or appeal has become final and binding after a final judgment becomes final and binding in litigation involving the infringement of a patent right, . . . a person that was a party to the litigation may not assert that the trial or appeal in respect to the final judgment . . . : (i) a ruling to the effect that the patent is to be revoked or a decision on the trial or appeal to the effect that the patent is to be invalidated; . . .'

unsatisfactory result that the JPO's revocation of a patent may not 'trump' an infringement court's judgment.¹²⁵ Effectively, the JPO's exclusive authority to make *erga omnes* decisions appears to have been weakened. Time will tell how these developments will shape the future of Japan's IP litigation.

Arbitrability of patent validity disputes

Japan is generally recognised as an arbitration-friendly jurisdiction, albeit still lagging behind Germany in terms of caseload and international arbitration practice. In the past 15 to 20 years, Japan has been undertaking substantial efforts to promote itself as an international arbitration hub,¹²⁶ which has led to the establishment of various arbitration and mediation facilities, including the Japan International Dispute Resolution Centre (JIDRC) in Osaka and Tokyo, the Japan International Mediation Centre (JIMC) in Kyoto and the International Arbitration Centre in Tokyo (IACT) for IP disputes.¹²⁷ Meanwhile, Japan is in the process of amending its Arbitration Act of 2003.¹²⁸

The current Arbitration Act does not contain any explicit provision on arbitrability. However, Articles 2(1) and 13(1), which regulate the scope of a valid arbitration agreement, provide:

Article 2(1) The term 'Arbitration Agreement' as used in this Act means an agreement to refer the resolution of all or certain civil disputes which have already arisen or which may arise in the future in respect of a certain legal relationship (irrespective of whether contractual or not) to one or more arbitrators, and to accept the award made therefor (hereinafter referred to as an 'Arbitral Award').

Article 13(1) Except as otherwise provided for in laws and regulations, an Arbitration Agreement shall be effective only when the subject thereof is a civil dispute (excluding disputes of divorce or dissolution of adoptive relation) which can be settled between the parties.

125 See also Christopher Heath, 'Two Decisions on Patent Law: "Seaweed Purifying Apparatus" and "Fuminosuke Original Ball Point Pen"', *ZJapanR*, 17 No. 33 (2012), pages 244–245.

126 On a background of the introduction to the 2003 Arbitration Act, see Hiroyuki Tezuka, 'New Arbitration Act and International Commercial Arbitration' in Koichi Miki et al, *International Arbitration and Corporate Strategy*, Yuhikaku, 2014.

127 Separately, the Japan Intellectual Property Arbitration Center (JIPAC), founded in 1998 by the Japan Patent Attorneys Association and the Japan Federation of Bar Associations, offers various IP dispute resolution services including arbitration and mediation. The IACT is more globally oriented than JIPAC and focuses on international IP disputes (e.g., standard essential patents) with an international panel of arbitrators. See <https://www.ip-adr.gr.jp/eng/> and <https://www.iactokyo.com/>. See also Lars Markert and Anne-Marie Doernenburg, 'Japan's dawn of a new era – also in international arbitration?', IBA, 2019, available at: <https://www.ibanet.org/Article/NewDetail.aspx?ArticleUid=FA52ADC9-09FB-4D3B-9F32-E4B12FA0B03F>

128 See Act No. 138 of 2003. See also the report of the Study Group for the Amendment of Arbitration Law (Hiroyuki Tezuka, co-author of this chapter, participated as a member), 2020, available at https://www.jurists.co.jp/sites/default/files/tractate_pdf/ja/13711.pdf; Hiroyuki Tezuka and Yutaro Kawabata, 'New Trends of International Commercial Arbitration and Further Modernisation of Arbitration Law', *Jiyu to Seigi*, 67(7), 2016, pages 14–20.

Article 13(1) allows a civil dispute to be arbitrated if the parties can freely dispose of it.¹²⁹ The disputes that are ineligible for arbitration and must remain under the exclusive power of the state include divorce matters, dissolution of adoptive relations and certain labour disputes.¹³⁰ While no express restrictions exist in relation to infringement or patent validity arbitrations,¹³¹ only infringement claims have regularly been considered arbitrable.¹³² Patent validity arbitrations remain contested.

Express reservation of revocation competence

Traditionally, patent validity arbitration has been disputed by reference to the JPO's exclusive authority to grant and revoke patents under Articles 66, 123 and 178(6) of the Patent Act. This provision has thus been regarded as an express restriction of arbitrability since all matters related to patents were considered to be reserved to the state, including any (incidental) determination of their validity.¹³³

As in Germany, the opposing line of thought points to the fact that patent holders may dispose of their patents anytime by way of surrender.¹³⁴ Consequently, in light of a patent's disposability, patent validity disputes ought to be arbitrable. The JPO's exclusive authority of revocation with *erga omnes* effect would remain intact since arbitral awards are only *inter partes*.

Post-Kilby approach

Following the relaxation of the bifurcated system with the *Kilby* case and the 2004 Patent Act reform, the traditional view that Article 178(6) of the Patent Act per se precludes patent validity arbitration appears to have become moot.¹³⁵ Instead, in line with the past opposing view's reliance on a patent's disposability, it is argued that just as it is possible to raise validity challenges before infringement courts, the same ought to apply to arbitral tribunals. If an infringement court is empowered to issue an *inter partes* judgment on

129 Takashi Inomata, 'Arbitration Agreement: Its Purpose and Arbitrability', *JCA Journal* 2, 2006, 53(7), pages 3–4.

Article 13(1) is in line with the French Civil Code (see footnote 70 above) but differs from German law in that under the latter, the disposability criterion now only applies to non-pecuniary claims. See footnote 99 above.

130 Masaaki Kondo et al (eds), 'Arbitration Act: a Commentary', 2003, page 48. Article 4 of the Supplementary Provisions of the Arbitration Act.

131 Matthew A. Smith, Marina Couste, Temogen Hield et al, Arbitration of patent infringement and validity issues worldwide, *Harvard Journal of Law and Technology*, 2006, 19, page 352.

132 Takeshi Kojima and Takashi Inomata, *Arbitration Law*, 2014, pages 81–82; Yoshimitsu Aoyama, 'Article 786: Conditions of an Arbitration Agreement', in Yasuhei Taniguchi and Harunori Inoue (eds), *New Commentary with Judicial Precedents on the Code of Civil Procedure* 6, 1995, pages 623–624. See, e.g., Matthew A. Smith, Marina Couste, Temogen Hield et al, Arbitration of Patent Infringement and Validity Issues Worldwide, *Harvard Journal of Law and Technology*, 2006, 19, page 352.

133 Shigetoshi Matsumoto, 'Intellectual Property and Arbitration', *Jurist* 1988, 924, page 56, cited in Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19.

134 Yoichi Okada, 'Arbitrability of Patent Validity', *Horitsu Ronso*, 2016, 89(1), page 133–137.

135 See, e.g., Naoki Idei and Takayuki Miyaoka, *Q&A New Arbitration Act*, page 50; Takashi Kojima and Akira Takakuwa, *Arbitration Act: Commentaries and Issues*, 2007, page 62; Takeshi Kojima and Takashi Inomata, *Arbitration Law*, 2014, page 82.

patent validity, arbitral tribunals should be equally competent to do so.¹³⁶ Again, in neither case would the JPO's exclusive revocation authority be affected, as no *erga omnes* finding on patent validity would be made. This is particularly so absent any express statutory provisions to the contrary.

In fact, patent validity arbitration may also prevent contradictory results. While a final and binding infringement judgment may not be retried despite a subsequent patent revocation by the JPO due to Article 104-4 of the Patent Act,¹³⁷ no such prohibition exists under the Arbitration Act. Thus, an award granting a patent holder's claim could, in theory, be set aside on public policy grounds following the JPO's patent revocation.¹³⁸

Summary

Japan's recent changes to its patent litigation system may have loosened the strict separation of infringement and revocation proceedings but the possibility of conflicting decisions persists. This in turn may strengthen support for patent validity arbitration.

Conclusion

Patent validity arbitration, while still controversial in jurisdictions such as Germany and Japan, seems to be increasingly accepted in the civil law world, particularly in Switzerland and France. While Germany and Japan are making efforts to reform their patent litigation systems, in the (near) future, patent holders and alleged infringers may have a broader spectrum of dispute settlement methods to choose from.

In this regard, it might be worth citing an ICC arbitral tribunal that, as early as 1989, confirmed that it saw no conflict between the jurisdiction of national courts and arbitral tribunals.¹³⁹ The claimant, a Japanese company, had sued a German company based on alleged breaches of patent licensing contracts and patent infringement by the respondent. The latter in turn challenged the patent's validity. The tribunal found that it was empowered to find on patent validity in line with the parties' intention to confer on it broad jurisdiction and noted that any award would only have *inter partes* effect. Remarkably, the tribunal relied on Japanese law (which governed the contract) and its principle favouring arbitration over litigation, as well as German law (which governed the patent issue) emphasising that it did not expressly prohibit patent validity arbitration.

The outlook is promising.

136 Takao Asai, 'Pros and Cons of Use of Arbitral Proceedings', *NBL*, 2003, 755, page 44. See also 'Chapter 4: Arbitrability of IP Disputes', in Trevor Cook and Alejandro Garcia, *International Intellectual Property Arbitration, Arbitration in Context Series*, 2, Kluwer Law International, 2010, page 52.

137 See footnote 124 above.

138 Tatsuya Nakamura, 'Issues on Arbitration Law', *Seibundo*, 2017, page 105.

139 Interim Award in Case 6097, *ICC International Court of Arbitration Bulletin*, 1993, 4(2). 'Chapter 4: Arbitrability of IP Disputes', in Trevor Cook and Alejandro Garcia, *International Intellectual Property Arbitration, Arbitration in Context Series*, 2, Kluwer Law International, 2010, pages 74–75. In fact, it appears that a German federal judge acted as presiding arbitrator in this case. See Erik Schäfer, 'Part IV: Selected Areas and Issues of Arbitration in Germany', *Arbitration of Intellectual Property Related Disputes in Germany*, in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, page 914.

Appendix 1

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Until recently, large IP owners were hesitant about international arbitration – it was too scary (no prospect of appeal, etc.). Now, many are changing their minds.

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