



THE GUIDE TO IP ARBITRATION

SECOND EDITION

Editors

John V H Pierce and Pierre-Yves Gunter

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Second Edition

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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 in their chosen professional niche. 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, it is fair to say they have not intersected much – certainly less than perhaps expected. Large IP owners are regarded in arbitration circles as being sceptical about arbitration as a format (a bit like banks). Their fears are, for the most part, ill-founded. In many ways, international arbitration is perfect for them: a private, bespoke process invented to bridge cultural divides and that is – most important of all – internationally enforceable. And there are one or two segments of the IP world where use of international arbitration is quite common (the European headquarters of pharmaceutical and life sciences companies are consistent international arbitration users).

Recently, this openness to arbitration has shown signs of spreading. Through our colleagues on IAM and WTR, we are aware of fierce debate within IP about whether litigating in so many forums simultaneously is the best use of resources: why spend US\$100 million in legal fees when it could all be done for, say, US\$40 million in arbitration? Still a lot, but a saving of US\$60 million on both sides. It's rare for any group of users to find arbitration quicker and more cost effective than the alternative, but for large IP owners it is. So one now finds some IP owners who are international arbitration evangelists.

We are therefore delighted to publish the second 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 Trademark Review.

This book is in four 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, telecoms disputes, 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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Introduction

John V H Pierce and Pierre-Yves Gunter¹

We are enormously pleased to present this second edition of *The Guide to IP Arbitration*.

Having received very positive feedback about the first edition of this Guide, for which credit goes to the learned authors who contributed chapters and the excellent editorial team at Global Arbitration Review (GAR), we have not sought to change the book's basic structure and focus; rather, we have sought to update it, where appropriate, and expand its reach into new areas.

To that end, most of the chapters in the Guide have been thoroughly revised to address new developments in international IP arbitration since the first edition was published. In addition, we have added two new substantive chapters, which we hope will be of interest to our readers.

First, we have added a chapter focused entirely on WIPO arbitration, written by the leaders of the IP disputes section at the WIPO Arbitration and Mediation Center. We believe that this new chapter on recent trends in WIPO arbitration and mediation adds an important perspective from one of the most active and well-established institutions in the world of IP arbitration.

Second, we have expanded the book's discussion of the arbitrability of IP disputes by including a chapter on the arbitrability of IP disputes in Brazil. While the first edition covered the issue of arbitrability in common law jurisdictions and civil law jurisdictions in Europe and Asia (principally, Germany and Japan), the second edition adds an important perspective from the largest economy in Latin America – a region that was not represented in the first edition of the book.

¹ John V H Pierce is a partner at Latham & Watkins LLP, and Pierre-Yves Gunter is a partner at Bär & Karrer Ltd.

Historical limitations on international IP arbitration

Historically, most international IP-related disputes were decided before national courts rather than arbitral tribunals. In part, that is because arbitration is a creature of contract and, in many IP-related disputes (such as disputes over the ownership of intellectual property or the alleged infringement of IP rights), that contractual relationship is missing.

In addition, the laws of some jurisdictions placed limitations on the arbitrability of certain IP-related issues (such as the validity of patents, copyrights or trademarks), viewing disputes over such rights as implicating matters of public policy that should be settled by national courts. Moreover, for companies for whom IP assets are the proverbial crown jewels, the unavailability of appellate review of arbitral awards has often been sufficient to discourage the use of arbitration to resolve disputes over such assets.

Growth of international IP arbitration

Times have changed. While it is still the case that some types of IP disputes are litigated predominantly in national courts, the number of IP-related cases going to arbitration continues to grow. Indeed, one of the noticeable trends in international arbitration in the past several years has been the growing use of arbitration to resolve IP-related disputes.

The caseload of the WIPO Arbitration and Mediation Center, while not a perfect proxy, illustrates this trend. Filings at WIPO (which include mediations and expert determinations as well as arbitrations) increased by over 15 per cent from 2018 to 2019, and by over 450 per cent from 2012 to 2019. In addition, WIPO administered 24 per cent more cases in 2020 and 45 per cent more cases in 2021. As these statistics make clear, the growth of international IP arbitration continues to accelerate.

What accounts for this growth? Recent changes in national laws, in Singapore, Hong Kong and elsewhere, have affirmatively sought to make arbitration more attractive and effective in resolving international IP disputes. And the historical resistance to the arbitrability of IP disputes has given way, in most jurisdictions, to a more liberal and pro-arbitration approach, and to the perception that arbitral tribunals should generally be free to adjudicate IP rights, at least on an *inter partes* basis.

Arbitral institutions, too, are developing procedures to facilitate the resolution of IP disputes and make arbitration more attractive to users. For example, the Silicon Valley Arbitration and Mediation Center, the Swiss Chambers' Arbitration Institution, the Singapore International Arbitration Centre, the Japan Intellectual Property Arbitration Centre and the Hong Kong International

Arbitration Centre, among others, have worked to make IP arbitration more attractive by creating dedicated panels of arbitrators with the expertise and experience to capably handle IP-related disputes. In addition, most arbitration institutions have now adopted mechanisms such as expedited arbitration or emergency arbitrator protocols, which can be used, for example, by IP owners to seek speedy remedies to protect their IP rights.

The genesis and organisation of this Guide

The idea for this book emerged from the recognition of these trends and from the fact that IP-related arbitration is very much its own animal within the world of international arbitration. It has a distinct set of features and challenges, which this book aims to explore from a truly global perspective.

To that end, in collaboration with the terrific team at GAR, we have worked to bring together leading practitioners from a wide range of jurisdictions who have expertise and experience both in international arbitration and in IP-related disputes. The response from every corner has been enthusiastic, and we are fortunate to have received contributions from many internationally recognised leaders in the field. These include authors from common law and civil law countries around the world, including the United States, the United Kingdom, Japan, South Korea, Germany, France, Switzerland and Brazil.

We have divided this Guide into four parts, each covering a set of considerations that should be taken into account at different points in the arbitral process. This approach allows for a journey through the life cycle of an arbitration, touching on the most important procedural and substantive issues that may arise in IP-related disputes.

‘Part I: Considerations Before a Dispute Has Arisen’ explores the planning for international IP arbitration. It starts by tackling the essential, threshold question: ‘Why arbitrate international IP disputes?’ This chapter addresses various perceived advantages of arbitration for IP disputes (such as relative speed and efficiency, resolution in a single forum, neutrality and choice of decision makers, enforceability of awards and confidentiality) before acknowledging some potential perceived limitations of arbitration in this context (such as limited availability of preliminary remedies and injunctive relief, *inter partes* versus *erga omnes* relief and lack of broad disclosure).

Part I then addresses another threshold issue: arbitrability. This chapter examines the extent to which various kinds of IP disputes can be arbitrated under the national laws of certain key common law and civil law jurisdictions. As noted, the second edition expands this discussion by including a new chapter on arbitrability

from another important jurisdiction for international IP disputes: Brazil. Part I concludes by exploring specific issues and best practices in the drafting of international arbitration clauses in IP agreements.

‘Part II: Considerations Once a Dispute Has Arisen’ addresses the various issues that may arise once an IP arbitration gets under way. This begins with a chapter on the strategic considerations that parties should bear in mind during the pendency of an IP arbitration. Issues such as preparing for the arbitration, constituting the arbitral tribunal, managing ongoing business concerns, gathering evidence and navigating the initial procedural conference are all addressed in detail.

Part II then moves on to two related topics: first, a chapter on confidentiality in international IP arbitration, which is often of particular importance to parties in IP disputes given the usually sensitive nature of the assets at issue; and second, a chapter on disclosure in international IP arbitration, with a particular focus on privilege issues, recourse to national courts and compliance with the EU General Data Protection Regulation. Part II concludes with a chapter on the mediation of international IP disputes, emphasising the importance of making mediation available to parties in such disputes, in tandem with arbitration, to maximise the chances of reaching a successful outcome.

From these procedural beginnings, ‘Part III: Key Issues in Arbitrating Particular IP Disputes’ moves on to substance. The next three chapters address certain key substantive issues that arise when arbitrating particular kinds of IP disputes: the first addresses the arbitration of patent, copyright and trademark disputes; the second provides an overview of, and practical advice for, IP arbitration against sovereign states; the third considers the kinds of damages analyses that are most often undertaken in IP cases. Finally, Part III concludes with a new chapter addressing recent trends in WIPO arbitration, including with respect to domain name disputes.

‘Part IV: Future Directions’ is dedicated to exploring the future of international IP arbitration. It includes an in-depth analysis of current trends in IP arbitration and some revised predictions about future directions in this interesting and evolving field.

In addition to the hard-copy version of this book, the content is also available to subscribers on the GAR website at www.globalarbitrationreview.com/insight/guides. We expect that additional content, including additional chapters of this book, will appear first on the website, and we recommend that resource to our readers.

Future editions and acknowledgements

In future editions of this Guide, current chapters will again be updated, and additional chapters will be added, including on key issues that arise in certain types of IP disputes not covered in this edition, as well as on the recognition and enforcement of IP-related arbitral awards. We will also seek contributions from additional authors in some important jurisdictions and regions that could not be covered in this edition. We will always seek ways to improve future editions of this Guide and would welcome, with gratitude, any comments or suggestions from readers as to how that might be achieved.

Finally, some words of thanks and acknowledgement are in order. This book would not have been possible without the creativity and vision of David Samuels (GAR's publisher) and the diligent efforts of the excellent team at GAR. In addition, a book such as this is only as good as its authors. We took great care, for this second edition as for the first, in assembling the highest calibre of experts in the field of international IP arbitration, and we are enormously grateful for the hard work and excellent contributions of each of them.

Part I

Considerations Before a Dispute Has Arisen

CHAPTER 2

Arbitrability of IP Disputes

Matthew R Reed, Ava R Shelby, 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 at the seat of the arbitration 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.

1 Matthew R Reed is a partner and Ava R Shelby is an associate at Wilson Sonsini Goodrich & Rosati, PC, and Hiroyuki Tezuka is a partner and Anne-Marie Doernenburg is an associate at Nishimura & Asahi. Mr Tezuka and Ms Doernenburg wish to express their sincere gratitude to Messrs 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 Matthew A Smith et al., 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law & Technology*, Vol. 19, No. 2, Spring 2006 at 305 (Smith).

Given that intellectual property 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. The first part of this 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 common law jurisdictions; however, because decisions regarding the validity of IP rights typically require enforcement by the relevant country's IP office, validity challenges are often considered either not arbitrable at all or arbitrable with the

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*, Rome, MA diss., Luiss Guido Carli University, 2017 at 9–11.

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

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

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

What is arbitrable?

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, 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 2022, 170 states are signatories to the New York Convention, including the vast majority of the UN member states.⁸

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'.⁹ 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.'¹⁰ This raises the threshold question of arbitrability: what is – and what is not – capable of settlement by arbitration?

6 Therese Jansson, 'Arbitrability Regarding Patent Law – An International Study', *Juridisk Publikation*, No. 2011 at 58–59.

7 *id.*

8 United Nations Commission on International Trade Law, 'Status: Convention on the Recognition and Enforcement of Foreign Arbitral Awards', https://uncitral.un.org/en/texts/arbitration/conventions/foreign_arbitral_awards/status2 (accessed 27 October 2022).

9 New York Convention, Article II(1).

10 *id.*, Article V(2)(a).

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.¹¹ Examples of non-arbitrable disputes include criminal, bankruptcy and consumer matters,¹² 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.¹³

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 intellectual property – 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 in respect of 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.

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., can normally 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 intellectual property is deemed invalid by the national court, such a determination will typically have effect *erga omnes*, and the owner cannot

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

12 *id.*, at § 6.02 [D].

13 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.

later assert the invalid intellectual property 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 intellectual property.¹⁴ 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 with regard to the parties in the arbitration because patent rights are considered to be an issue of public policy and can usually be deemed invalid only through state action.¹⁵ Typically, therefore, only a national court decision regarding patent validity can have effect *erga omnes*.¹⁶

For this reason, some IP owners will consider arbitration less risky than court action because even if the arbitrator invalidates their intellectual property, they will lose only the right to enforce that intellectual property against the adverse party in the arbitration rather than against all third parties. There are trade-offs, however, because a determination of validity by a court may have some value with regard to 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 intellectual property.

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 1996.¹⁷ Moreover, the UK Patents Act 1977 explicitly allows for arbitration in only very limited circumstances.¹⁸ For instance, when an application for a compulsory patent licence is opposed, the Comptroller

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

15 Legler.

16 *id.*

17 ‘Final Report on Intellectual Property Disputes and Arbitration’, 9 ICC International Court of Arbitration Bulletin, 1998 at 42–43. 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. See Arbitration Act 1996 § 1(b).

18 *id.*

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 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.¹⁹

Instead, the arbitrability of IP disputes has largely been recognised judicially.²⁰ Trademark and copyright disputes are both fully arbitrable,²¹ and while patent validity is as well, a validity determination only has *inter partes* effect under English law.²² In general, English courts have interpreted arbitration agreements broadly.²³

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 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.*²⁴

19 UK Patents Act 1977 § 52-(5).

20 'Final Report on Intellectual Property Disputes and Arbitration'; Maurizio Crupi, 'Patent arbitration: a European comparative analysis', MSc diss., Milan, Bocconi University, 2014 at 58–62.

21 Adamo at 18–19.

22 *id.*

23 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, 'Report on the concept of "Arbitrability" under the New York Convention', IBA subcommittee on recognition and enforcement of arbitral awards at 13.

24 35 U.S.C. § 294(a).

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 person.*²⁵

During 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.

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.²⁶ This includes the validity of a copyright.²⁷ 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.²⁸ Still, an arbitral award in Canada that concerns a patent generally

²⁵ 35 U.S.C. § 294(c).

²⁶ 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'); *First Command Bank v. Exner*, No. 4:21-cv-00621-P, 2021 U.S. Dist. LEXIS 256042, at *13 (N.D. Tex. June 16, 2021) (finding plaintiff's copyright claim arbitrable).

²⁷ *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 *Glickenhauß & Co. v. Household Intern., Inc.*, 787 F.3d 408 (7th Cir. 2015).

²⁸ Canadian Patent Act (R.S.C., 1985, c. P-4) § 60(1); Adam Haller, Caroline Henrie and Kristin Wall, 'IP rights enforcement in Canada', Lexology at 1 (Haller). Likewise, the Federal Court

can be enforced as between the parties to the arbitration;²⁹ 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 that a patent is invalid.³⁰

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.'³¹

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.'³² 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.'³³ The Supreme Court found that the lower court 'was in error when it said that . . . problems relating to the 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.'³⁴ It 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.'*³⁵

has exclusive jurisdiction to invalidate a trademark, or to issue a declaration of non-infringement (see Haller at 1).

29 Smith et al. 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').

30 Steven Garland, Jeremy Want and Matthew Burt, 'Patent litigation in Canada: overview', Thomson Reuters at 12.

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

32 id., at 207 (quoting Civil Code of Quebec, S.Q. 1991, C. 64, Article 2639).

33 id., at 210.

34 id., at 214.

35 id. at 215.

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.³⁶ 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',³⁷ 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.*³⁸

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.³⁹ 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*.⁴⁰

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 – a power, it claimed, vested exclusively with the Commissioner of Patents or the Federal Court.⁴¹

36 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).

37 *id.*, § 30.

38 *id.*, § 37.

39 *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').

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

41 *id.*, at 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.'⁴² The Supreme Court also determined that arbitrators cannot determine validity in a situation in which the grant of a patent is opposed.⁴³

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.'⁴⁴ 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.'⁴⁵

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. Under the amendment, arbitral awards concerning IP rights have effect *inter partes*.⁴⁶

The amendment includes the following IP rights: patents, trademarks, geographical indications, registered designs, copyrights, rights in a protected layout-design of an integrated circuit, grant of protection in respect of a plant variety, rights in confidential information, rights in trade secrets or know-how, rights to protect goodwill by way of passing off or similar action against unfair competition, or any other IP right of whatever nature.⁴⁷ The amendment also encompasses the following IP disputes: '(a) a dispute over the enforceability, infringement, subsistence, validity, ownership, scope, duration or any other aspect

42 *id.*, at 64.

43 *id.*, at 66.

44 *id.*, at 67.

45 *id.*, at 75.

46 Singapore Intellectual Property (Dispute Resolution) Act 2019, Section 52B.

47 *id.*, Section 52A.

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.⁴⁸ The amendment therefore, explicitly authorises arbitration over patent validity with effect *inter partes*.

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 intellectual property rights may be arbitrated and that it is not contrary to the public policy of Hong Kong to enforce arbitral awards involving intellectual property rights.'⁴⁹ 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.'⁵⁰

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.⁵¹ 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.'⁵² 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.'⁵³

Along with standard patents, which extend rights to the owner for a maximum of 20 years, Hong Kong also offers IP protection under short-term patents, which are renewable after four years from filing for a maximum term of eight years.⁵⁴

48 *id.*, Section 52B.

49 Hong Kong Arbitration (Amendment) Ordinance 2017.

50 *id.*, Section 103D(1) and (3).

51 *id.*, Section 103B(1).

52 *id.*, Section 103C.

53 *id.*, Section 103I.

54 Hong Kong Intellectual Property Department, 'How to apply for grant of patents in the Hong Kong Special Administrative [sic] Region?', www.ipd.gov.hk/eng/intellectual_property/patents/how_to_apply.htm (accessed 27 October 2022).

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.⁵⁵*

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 interlocutory proceedings.⁵⁶ As is the case in court proceedings in Hong Kong, in arbitration, 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.⁵⁷

Conclusion

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. It is, therefore, important for parties to consider the law and policies of the particular jurisdiction in which arbitration would take place when drafting and seeking to enforce an arbitration agreement.

⁵⁵ Hong Kong Patents Ordinance (Cap. 514), Section 129(1).

⁵⁶ Hong Kong Arbitration (Amendment) Ordinance 2017.

⁵⁷ *id.*; Hong Kong Patents Ordinance (Cap. 514), Section 129(2).

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 arbitration 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.⁵⁸ 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),⁵⁹ which is the exception;
- the acceptance of *inter partes* awards or incidental decisions on patent validity without *res judicata* effect (e.g., France, Italy and Portugal);⁶⁰ and
- absent express laws, which are so far a matter of debate (e.g., Spain and China).⁶¹

58 See, for example 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 edn., Kluwer Law International, 2015 (Schäfer), p. 910.

59 Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, p. 153 and p. 157 (Moura Vicente); David Rosenthal, 'Chapter 5: IP & IT Arbitration in Switzerland', in Manuel Arroyo (ed.), *Arbitration in Switzerland: The Practitioner's Guide*, 2nd edn., Kluwer Law International, 2018 (Rosenthal), pp. 957–960; Legler; Alejandro Garcia and Sophie Lamb, 'Arbitration of Intellectual Property Disputes,' *The European & Middle Eastern Arbitration Review 2008*, Global Arbitration Review (Garcia and Lamb).

60 Moura Vicente, pp. 154–156.

61 Rosenthal, pp. 61–62; 'Chapter 8: Arbitrability and Arbitral Scope', in Lin Yifei, *Judicial Review of Arbitration: Law and Practice in China*, Kluwer Law International, 2018, p. 218ff; William Grantham, 'The Arbitrability of International Intellectual Property Disputes', *Berkeley Journal of International Law* 14, 1996, p. 204.

The approach of different legal systems to arbitrability of IP disputes

Against this background, we assess 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.

We then 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 arbitration; 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 both Germany and Japan, as discussed below in more detail.

Switzerland

Switzerland has undoubtedly adopted one of the most liberal and pro-arbitration stances among civil law jurisdictions when it comes to IP disputes.⁶² Under Swiss law, IP disputes have long been considered arbitrable and not subject to any statutory restrictions.⁶³ 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'. Swiss courts have regularly interpreted this to cover any claims with a pecuniary value for the parties.⁶⁴

Arbitral awards on patent validity are recognised and enforced by the Swiss Federal Institute on Intellectual Property (for the purposes of 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.⁶⁵

⁶² See, for example, Rosenthal, pp. 957–958.

⁶³ 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 World Intellectual Property Organization, *Worldwide Forum on the Arbitration of Intellectual Property Disputes*, 3–4 March 1994, Paragraph 2.2.

⁶⁴ 'Chapter 6: Nonarbitrability and International Arbitration Agreements', in Gary B Born, *International Commercial Arbitration*, 2nd edn., Kluwer Law International 2014, pp. 960–961.

⁶⁵ 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

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 arbitration.⁶⁶

France

An alternative, more restrictive approach to patent validity arbitration has emerged in France. Contrary to Switzerland, France traditionally denied IP arbitration.⁶⁷ 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*.⁶⁸ Subsequently, the arbitrability of IP disputes was expressly stipulated in Law No. 2011-525 dated 17 May 2011 (amending the Intellectual Property Act).⁶⁹

does not involve a merits review of the award. See also Moura Vicente, p. 157; Legler, p. 294; Garcia and Lamb.

⁶⁶ Rosenthal, p. 959.

⁶⁷ 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. 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, p. 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, p. 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'.

⁶⁸ Moura Vicente, p. 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, pp. 25–26.

⁶⁹ 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 law [i.e., courts of first 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 Moura Vicente, pp. 154–155.

Germany

Introduction

In Germany, arbitration concerning genuine IP law issues, such as patent validity, remain rare.⁷⁰ 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, South Korea, China and – with certain restrictions (see below) – Japan.⁷¹

Unlike in many jurisdictions,⁷² 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.⁷³ In Germany, jurisdiction over infringement claims is concentrated in 12 regional courts with specialised divisions.⁷⁴

Conversely, patent validity disputes (also known as ‘revocation actions’) are subject to the exclusive jurisdiction of the Federal Patent Court (FPC) in Munich.⁷⁵ The FPC’s decision to partially or fully revoke a patent it considers

70 Schäfer, p. 908. While the exact number is unknown, according to Schäfer, the IP share of published institutional cases (e.g., ICC and DIS) ranged from 3 per cent to 10 per cent. See Wolfgang Kellenter and Benedikt Migdal, ‘Patent litigation in Germany: overview’, Practical Law, 2020 (Kellenter and Migdal).

71 See World Intellectual Property Indicators 2018, p. 13. Matthew Bultman, ‘What You Need to Know about Patent Litigation in Germany’, Law 360, 27 July 2018.

72 Jurisdictions with non-bifurcated patent litigation systems include Switzerland, France, Netherlands, the United States and the United Kingdom. See World Intellectual Property Indicators 2018, p. 13.

73 Section 139(1) and (2) of the German Patent Act (GPA).

74 Section 143(2) of the GPA. 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 Kellenter and Migdal. Proceedings are heard by three-judge panels with substantial experience in technical matters.

75 Sections 22(1), 65(1) and 81(1) and (4) of the GPA. See website of the Federal Patent Court (FPC), www.bundespatentgericht.de/EN/TheCourt/theCourt_node.html (accessed 27 October 2022). 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 to 300 revocation actions, of which around 75 per cent are at least partially successful. See FPC, Annual Report 2019, Business Report 2019, pp. 163–164; Bardehle Pagenberg, ‘Patentnichtigkeitsverfahren’, *IP Fachbroschüre*, 2019.

invalid has *erga omnes* effect.⁷⁶ Revocation actions are typically a response by the alleged infringer to an infringement claim.⁷⁷ Despite their interrelation, both proceedings are tried separately and at a considerably different pace.⁷⁸

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.⁷⁹ Since infringement claims are regularly concluded before revocation actions,⁸⁰ 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').⁸¹

76 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.

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

78 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 (BGH) both on points of fact and law. See FPC, Annual Report 2019, Business Report 2019, pp. 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 BGH. Michael Munsch, Niels Schuh and Dr Tobias Wuttke, 'Germany', in Dominick A Conde (ed.), *The Intellectual Property Review*, 11th edn., London, Law Business Research Ltd, 2022 (Munsch, Schuh and Wuttke), p. 99 and p. 103; Julia Schönbohm and Boiko Ehlgen, 'Germany', in Trevor Cook (ed.), *The Patent litigation Law Review*, 5th edn., London, Law Business Research Ltd, 2021 (Schönbohm and Ehlgen), p. 71; 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.

79 EPO, *Patent Litigation in Europe: An Overview of National Law and Practice in the EPC Contracting States*, 5th edn., 2019, p. 37; Kellenter and Migdal.

80 See footnote 78.

81 Katrin Cremers et al., 'Invalid but Infringed? An Analysis of the Bifurcated Patent Litigation System', *Journal of Economic Behavior and Organization*, Vol. 131, 2016, p. 221.

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

- making an application for suspension of the infringement proceedings;⁸²
- seeking a provisional stay of enforcement of the infringement judgment;⁸³ or
- seeking an action for retrial of the case.⁸⁴

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.⁸⁵ To succeed, an applicant must show that a patent will 'in all probability' be revoked.⁸⁶ A suspension will also be granted where the FPC notifies the infringement court that it considers the patent invalid (or revokes it).⁸⁷

82 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'.

83 Section 707(1) of the GCCP (by analogy): '(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(1) of the GCCP: '(1) Insofar as a judgment declared provisionally enforceable is protested against or appealed, the stipulations of section 707 shall apply mutatis mutandis.'

84 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'.

85 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.

86 OLG Düsseldorf (2nd Civil Senate), Order dated 24 August 2017 – 2 U 75/16. See also BGH (Cartel Senate), Order dated 17 July 2018 – KZR 35/17, Paragraph 10. In a rare decision in 2018, the BGH granted a suspension since it considered it 'appropriate in order to guarantee a uniform interpretation' between the infringement court and the FPC; however, it did not expressly override the principles established in its prior case law requiring a high probability for a suspension to be granted. See BGH (Xth Civil Senate), Order dated 5 June 2018 – X ZR 58/16.

87 See, for example, BGH (Cartel Senate), Order dated 17 July 2018 – KZR 35/17. This notification requirement (also known as 'qualified notice') is codified under Section 83(1) of the GPA as amended. Prior to 2022, the provision neither expressly required that the FPC notify the (infringement) court *ex officio* (but only referred to a notice to the parties), nor did it set a concrete deadline for such notice. Section 83(1) of the old GPA: '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 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.⁸⁸

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.⁸⁹ 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.⁹⁰

In January 2020, to remedy the effects of an injunction gap and to avoid the issuance of an injunction before a decision on patent validity has been rendered, the German government introduced a bill by which the FPC 'should' provide its preliminary view on patent validity within six months from the filing of a revocation action not only to the parties but, importantly, *ex officio* to the infringement court.⁹¹

the decisions or which are helpful for concentrating the oral proceedings upon the issues which are essential for the decision'. See more on Section 83 of the GPA under footnote 91.

88 BGH (Xth Civil Senate), Order dated 16 September 2014 – X ZR 61/13; BGH (Cartel Senate), Order dated 17 July 2018 – KZR 35/17.

89 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'.

90 LG München I (21st Civil Chamber), Final Judgment dated 13 December 2013 – 21 O 19618/12. See also OLG Düsseldorf, Judgment dated 19 December 2019 – 2 U 41/19.

91 Section 83(1) of the GPA now reads as follows: '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. 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*'. As indicated under footnote 87, the former Section 83(1) of the GPA did not expressly require the FPC to communicate its qualified notice to the infringement court or set a specific deadline for its notice. These requirements have now been codified under Section 83(1), sentences 2 and 3 of the GPA. Strictly speaking, however, Section 83(1), sentences 2 and 3 of the GPA do not contain an express obligation for the FPC, since the *ex officio* notice and deadline are merely worded as 'should' provisions (i.e., they do not include mandatory terms such as 'shall' or 'must'). It is,

This led to the revision of the ‘qualified notice’ stipulated in Section 83 of the German Patent Act (GPA), which became effective in its current form as of 1 May 2022.⁹² The amendment is aimed at streamlining the infringement and revocation proceedings; it seeks to increase the chances that an infringement court may take into account the FPC’s view on patent validity and suspend its proceedings where the FPC considers a patent to be potentially invalid. Whether this change will bear the desired fruits remains to be seen.⁹³

It will be interesting to see whether the German model, which represents a compromise between the traditional bifurcated system and a full streamlining of the infringement and revocation proceedings, will be outperformed by the EU Unitary Patent Court (UPC) system, which is designed to be a true alignment of both proceedings and is expected to be implemented in late 2022 or early 2023.⁹⁴

therefore, unclear to what extent the FPC will follow this amendment. See Heuking Kühn Lüer Wojtek, ‘Zweites Gesetz zur Modernisierung und Vereinfachung des Patentrechts’, *IP, Media & Technology*, No. 50, 24 August 2021.

92 The bill was passed in June 2021 and entered into force immediately following its promulgation in the German Federal Law Gazette, except for certain provisions, including Section 83 of the GPA. See the German Federal Law Gazette, Part I, No. 53, 2021 (BGBl. I S. 3490), promulgated in Bonn on 17 August 2021.

93 Another key amendment introduced with the latest GPA reform involves Section 139(1) of the GPA. This provision regulates the possibility for a plaintiff in infringement proceedings to seek injunctive relief. Prior to the reform, an infringement court could grant injunctive relief without having to consider its proportionality. Consequently, alleged infringers could be affected rather seriously, particularly because of the existing injunction gap. This is because an infringer could be prevented from using a patent as soon as injunctive relief had been granted to the purported patent owner, despite a pending revocation action. According to the amended Section 139(1), such injunctive relief may be denied where the court considers that it would be disproportionate to the infringer’s or a third party’s interests, upon payment of compensation by the infringer. According to Section 139(1), sentences 1 to 4 of the GPA (as amended): ‘Any person who uses a patented invention contrary to sections 9 to 13 may, in the event of the risk of recurrent infringement, be sued by the aggrieved party for cessation and desistance. This right may also be asserted in the event of the risk of a first-time infringement. This right shall be precluded to the extent that, considering the special circumstances of the particular case and the principles of good faith, it would cause the infringer or third parties disproportionate hardship not justifiable by the right of exclusivity. In such a case, the infringed party shall be awarded a reasonable compensation in money.’ At the same time, it is considered that this amendment will only have a limited impact and that infringement courts will only find injunctive relief to be disproportionate in exceptional cases. This is what the BGH had already established in its *Wärmetauscher* judgment in 2016 (BGH (Xth Civil Senate), Judgment dated 10 May 2016 – X ZR 114/13). Munsch, Schuh and Wuttke, p. 99; Schönbohm and Ehlgen, p. 79.

94 For more on the EU Unitary Patent Court (UPC) system, please see the section entitled ‘EU developments’ below. See also Michael Munsch, Schuh and Wuttke, p. 104; Christian Paul

Arbitrability of patent validity disputes

The bifurcated patent litigation system in Germany has traditionally been used to explain its reluctance to accept patent validity arbitration.⁹⁵ At present, 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, a new debate has sparked with patent validity arbitration being increasingly recognised.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.*

As under Swiss law, German law adopts the general principle that all proprietary and pecuniary claims⁹⁷ may be subject to an arbitration agreement and, therefore, be arbitrated. Patents, as exclusive exploitation rights granted to a patent

and Gerd Jaekel, 'Closing The "Injunction Gap": Overhaul Of German Patent Act Speeds Up Litigation', Mondaq, 16 May 2022. See also UPC, 'The Provisional Application Phase and the UPC's expected timeline', www.unified-patent-court.org/news/provisional-application-phase-and-upcs-expected-timeline (accessed 27 October 2022).

95 See, for example, different positions under Richard Zöller (ed.), *Zivilprozessordnung*, §1030, 31st edn., 2016, (Zöller), Paragraphs 7 and 14.

96 See Smith et al., pp. 333–334. Zöller, Paragraph 14; Friedrich Stein and Martin Jonas (eds.), *Kommentar zur Zivilprozessordnung*, §1030, 22nd edn., 2002 (Stein and Jonas), Paragraph 3; Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, No. 4/14, 2014 (Haubner), p. 241.

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, Paragraph 1; 'Final Report on Intellectual Property Disputes and Arbitration', p. 37, Paragraph 2.17; Haubner, p. 240.

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 find a patent validity dispute to be admissible, the annulment or enforcement courts may reach a different conclusion.¹⁰¹

98 See footnote 82. 'Final Report on Intellectual Property Disputes and Arbitration', p. 37, Paragraph 2.17. Zöller, Paragraph 1; Haubner, p. 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, p. 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. Federal Ministry of Justice, Commission for the Reform of the Arbitration Law, 'Bericht mit einem Diskussionsentwurf zur Neufassung des Zehnten Buchs der ZPO', 1994, pp. 91–92; draft law of the federal government, Entwurf eines Gesetzes zur Neuordnung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, p. 34.

100 Zöller, Paragraph 1a; Joachim Musielak and Wolfgang Voit, *Zivilprozessordnung*, §1030, 17th edn., 2020 (Musiak and Voit), Paragraphs 2–3; Steffen Pabst Münch, *Münchener Kommentar zur Zivilprozessordnung*, §1030, 5th edn., 2017 (Münch), Paragraph 33; Volkert Vorwerk and Christian Wolf, *Beck'scher Online-Kommentar ZPO*, §1030, 37th edn., 2020, Paragraphs 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 Articles V(1)(e), V(2)(a) and V(2)(b) of the New York Convention. So far, 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 FPC 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 GPA, which they consider to be an explicit exclusion provision within the meaning of Section 1030(3) of the GCCP.¹⁰² While admitting that an 'exclusive jurisdiction' provision alone is not sufficient to reject arbitrability, a different consideration would apply when a special court (e.g., 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 exclusive jurisdiction would remain arbitrable.¹⁰³

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.¹⁰⁴

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).¹⁰⁵

102 See, for example, Musielak and Voit, Paragraph 3; Münch, Paragraph 33. See generally Smith et al., p. 306.

103 Draft law of the federal government, Entwurf eines Gesetzes zur Neuregelung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, p. 35. See also Zöller, Paragraphs 4, 7 and 14; Smith et al., pp. 335–336.

104 Federal Ministry of Justice, Commission for the Reform of the Arbitration Law, 'Bericht mit einem Diskussionsentwurf zur Neufassung des Zehnten Buchs der ZPO', 1994, p. 92; Haubner, pp. 241–242; Zöller, Paragraphs 7 and 14; Smith et al., pp. 306–307.

105 Draft law of the federal government, Entwurf eines Gesetzes zur Neuregelung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, p. 35. See generally Smith et al., pp. 306–307. See also BGH (Xth Civil Senate), Judgment dated 25 January 1983 – X ZR 47/82.

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, therefore, 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 before the competent authority.¹⁰⁶ 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 stress that 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. The same would, therefore, 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) is competent to revoke a patent.¹⁰⁷

While recognising the above, the opposing view counters that arbitral awards generally only have *inter partes* effect and leave the FPC’s competence to an *erga omnes* patent revocation intact.¹⁰⁸ Arbitral awards on patent validity could, therefore, be handled in two ways:

- First, tribunals 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.¹⁰⁹
- Alternatively, a tribunal may examine the patent validity issue incidentally. The resulting award would therefore be for damages, specific performance or otherwise. No finding on patent validity would be made. Any incidental conclusion

106 See Sections 20, 58 and 64 of the GPA. Haubner, p. 24; Jochen Pagenberg, ‘The Arbitrability of IP disputes in Germany’, *Worldwide Forum on the Arbitration of Intellectual Property Disputes*, Geneva, Switzerland, 3–4 March 1994; Smith et al., pp. 306–307.

107 See, for example, Musielak and Voit, Paragraph 3.

108 See, for example, Stein and Jonas, Paragraph 3; Haubner, pp. 242–243; Smith et al., p. 307 and pp. 336–337; ‘Final Report on Intellectual Property Disputes and Arbitration’, Paragraph 2.17.

109 Smith et al., pp. 335–336; Peter G Picht, ‘Einheitspatentsystem: Die Kompetenzreichweite des Mediations- und Schiedszentrums’, *GRUR International*, Vol. 67, No. 1, 2018, p. 4; ‘Final Report on Intellectual Property Disputes and Arbitration’, Paragraph 2.17.

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.¹¹⁰

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

Against this background, and while case law has yet to provide more guidance, the higher regional court in Munich (Landgericht Munich I (the Munich court)) recently issued a noteworthy judgment in which it adopted a pro-arbitration approach.¹¹¹ While, strictly speaking, the case concerned a claim for the assignment of a patent application, the Munich court confirmed in *obiter dictum*, that revocation actions (i.e., disputes about the validity and existence of patents) were also arbitrable.

The plaintiff, based in France, specialised in the production of blow moulds for polyethylene terephthalate bottles. The defendant, based in Germany, supplied production lines for the food and beverage industry, including machinery to produce blow moulds. The parties had conducted tests on the plaintiff's base moulds with the defendant's production lines. The plaintiff alleged that, following the tests, the defendant had unlawfully applied for patents using certain technical details of the plaintiff's blow moulds and requested the assignment of such patents plus damages. The defendant objected to the Munich court's jurisdiction, noting that the parties had concluded a non-disclosure agreement (NDA), according to which any related disputes would be settled by way of arbitration.

In its judgment, the Munich court upheld the defendant's jurisdictional objection. It ruled that the NDA's arbitration clause was sufficiently broad to cover the dispute at hand and dismissed the claim.¹¹² In the court's view, the dispute was arbitrable both under Swiss law (i.e., the law governing the NDA) and German law (i.e., the *lex fori*).

110 Schäfer, p. 913 and p. 916 and footnote 101. Contrary to the German law concept of *Rechtskraft*, the common law understanding of resclusion or *res judicata* is wider.

111 LG München I, Final judgment dated 5 May 2021 – 21 O 8717/20 (LG München I). See also Dr Gerrit Niehoff, 'District Court of Munich confirms arbitrability of patent validity disputes', *Global Arbitration News*, 27 June 2022.

112 The arbitration clause provided as follows: 'All disputes arising out of or in connection with this Agreement and any amending agreements and subsequent agreements shall be exclusively and finally settled under the Rules of Arbitration of the International Chamber of Commerce (ICC) by three arbitrators appointed in accordance with the said ICC Rules. The place of arbitration shall be Zurich, Switzerland. This Agreement shall be governed by and construed in accordance with the Laws of Switzerland and the Arbitration Tribunal shall

First, with regard to German law, the court held that the present dispute concerning the patent application assignment was arbitrable under Section 1030(1) of the GCCP since patents involve not only personal but also proprietary and pecuniary rights of inventors.¹¹³ Further, the fact that a patent was granted by sovereign act would not prevent the inventor from freely assigning a patent application.

In its *obiter dictum*, the Munich court expanded on disputes concerning patent validity and existence, seemingly siding with the view whereby parties would not per se be precluded from arbitrating such disputes. The court based this view on two considerations: (1) the fact that inventors are free to waive their rights to a patent; and (2) while arbitral tribunals might not be empowered to render *erga omnes* decisions on patent validity, an award could order a party to relinquish a patent by applying to the competent patent authority.¹¹⁴

Second, the Munich court was equally convinced that the dispute was arbitrable pursuant to Swiss law. In particular, it saw no indication of a breach of Swiss public policy and noted that Section 177(1) of the Swiss International Private Law did not set any stricter limitations on arbitrability than German law did.

The Munich court's judgment has been generally welcomed and is particularly timely in light of the increasing number of IP-related arbitrations in Germany. It remains to be seen how other courts will handle similar disputes in the future.

EU developments

Recent developments in the European Union also support the view that patent validity disputes are arbitrable. Specifically, the European Union is in the process of revamping its patent system with the unitary patent (UP) and the UPC.¹¹⁵ The

apply the Laws of Switzerland including the International Law of Switzerland. The language of the proceedings shall be English.'

113 LG München I, Paragraph 69.

114 LG München I, Paragraphs 70–71.

115 The unitary patent and the UPC are expected to be operative by the end of 2022 or early 2023 but has suffered setbacks following Brexit and several constitutional battles involving Germany's ratification bill. In February 2020, the German Federal Constitutional Court (BVerfG) had declared void Germany's ratification of the UPC project for formal reasons. Upon remedying the identified lack of form, the German legislature adopted the ratification bill in November 2020, but the ratification was held up a second time by two applications to the BVerfG for an interim injunction. It was not until June 2021 that the court dismissed the applications as inadmissible, which allowed Germany to eventually ratify the Agreement on a Unified Patent Court (the UPC Agreement) in August 2021. While the UPC Agreement's institutional, organisational and financial provisions have been provisionally applicable since January 2022, the agreement will enter into force fully

new system reaches beyond the existing European patent (EP) and is intended to harmonise the protection of EPs and UPs within the European Union. In other words, under the new system, EPs may be granted and therefore protected and enforceable with unitary effect. In the future, national patents will coexist with EPs and UPs, but under separate systems.

Admittedly, the European Union's focus appears to lie in the promotion of patent litigation rather than arbitration. The UPC will have exclusive competence to settle disputes concerning EPs and UPs, including infringement and revocation claims.¹¹⁶

Based on the Agreement on a Unified Patent Court (the UPC Agreement), the UPC is designed to be a court for participating EU Member States, comprising a Court of First Instance and a Court of Appeal. The Court of First Instance has numerous divisions, including a central division located in Paris and Munich, and several local divisions set up in individual Member States (or, alternatively, regional divisions if the participating Member States prefer to establish divisions jointly. The Court of Appeal is based in Luxembourg.

In principle, the local or regional divisions will hear infringement claims, while the central division is competent to hear revocation actions.¹¹⁷ Where an infringement claim is pending, a revocation action must be filed with the same

once Germany deposits its ratification instrument, which will take place once the UPC Member States are confident that the UPC is operational. For more detailed background information, see: European Patent Office (EPO), 'Unitary Patent & Unified Patent Court', www.epo.org/applying/european/unitary.html (accessed 27 October 2022); the UPC website, www.unified-patent-court.org (accessed 27 October 2022). See also: BVerfG, 'Act of Approval to the Agreement on a Unified Patent Court is void', Press Release No. 20/2020, 20 March 2020, www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/EN/2020/bvg20-020.html (accessed 27 October 2022); EPO, 'German Bundestag approves ratification bill on the Unified Patent Court Agreement', 26 November 2020, www.epo.org/news-events/news/2020/20201126b.html (accessed 27 October 2022); EPO, 'German Court decision paves the way for implementation of Unitary Patent and UPC', 13 July 2021, www.epo.org/news-events/news/2021/20210713.html (accessed 27 October 2022); BVerfG, 'Erfolgreiche Eilanträge gegen das Abkommen über ein Einheitliches Patentgericht', Press Release No. 57/2021, 9. July 2021, www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/DE/2021/bvg21-057.html (accessed 27 October 2022); Munsch, Schuh and Wuttke, p. 104.

116 However, the UPC will not have jurisdiction over national patents, nor does the UPC Agreement apply to Spain, Croatia and Poland, who chose not to participate. Further, national courts will continue to be competent to settle cases, for example, involving European patents during a seven-year transitional period (extendable to 14 years). See Article 83 of the UPC Agreement.

117 Article 33(1) and (4), sentence 1 of the UPC Agreement.

local or regional division.¹¹⁸ Conversely, if a revocation action is pending, an infringement claim may also (but does not need to be) filed before the central division.¹¹⁹ Where an infringement claim is pending and a revocation counterclaim¹²⁰ is initiated, the local or regional divisions have discretion to:

- hear both infringement and revocation proceedings;
- refer the entire case to the central division, subject to the parties' agreement; or
- refer the revocation counterclaim to the central division, and suspend or continue with the infringement proceedings.¹²¹

It remains to be seen how the UPC will exercise its discretion; however, it is expected that the local or regional divisions will hear most infringement and revocation cases jointly, following the current practice in most Member States. The UPC system appears to go beyond the German model in that it allows alleged infringers to bring revocation counterclaims and ensures that infringement and revocation proceedings are more closely streamlined.¹²²

Despite the European Union's focus on patent litigation, the UPC Agreement provides that an affiliated patent mediation and arbitration centre (the Centre) will be established.¹²³ As in the case of Germany, the applicable EU framework does not expressly prohibit patent validity arbitration. While the UPC Agreement stipulates that an arbitral tribunal or mediation panel may not revoke or limit a patent,¹²⁴ the UPC's draft Rules of Procedure indicate that an arbitral tribunal may order a party to surrender its patent and that the parties may request the UPC to confirm such arbitral award.¹²⁵ This provision seems to support the view that *inter partes* awards on EP and UP validity will be possible under the EU system.¹²⁶

The Centre provides yet another opportunity to promote the use of arbitration and alternative dispute resolution in connection with IP-related disputes.

118 Article 33(4), sentence 2 of the UPC Agreement.

119 Article 33(5) of the UPC Agreement.

120 Unlike the German bifurcated system, the UPC Agreement allows a revocation counterclaim to be filed in a pending infringement claim.

121 Article 33(3) of the UPC Agreement.

122 See also the section in this chapter entitled 'Germany – Introduction'.

123 Article 35 of the UPC Agreement.

124 Article 35(2), sentence 3 of the UPC Agreement.

125 Rule 11(2), Preliminary set of provisions for the Rules of Procedure ('Rules') of the Unified Patent Court, 18th draft, 1 July 2015 (as updated on 15 March 2017).

126 Schäfer, p. 915; Legler, pp. 294–295.

Summary

In Germany, opinion seems to be shifting towards 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 the state's monopoly over the issuance of patents and protecting public interests.¹²⁷

This is also the path the European Union 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 counterclaim or counterclaim. Future case law will tell which approach tribunals and courts will adopt.

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 system. As a result, Japan substantially eased the separation between infringement and validity proceedings, therefore distinguishing itself from the German model.¹²⁸ This, in turn, has had the interesting effect of potentially increasing the acceptance of patent validity arbitration that is 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.¹²⁹ Meanwhile, only the Japan Patent Office (JPO) in Tokyo has exclusive authority

¹²⁷ Some commentators argue that patent validity arbitration is contrary to public policy but have failed to explain why.

¹²⁸ 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), Munich, 23 September 2009, *GRUR International* 2020, p. 309.

¹²⁹ 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 the 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

to revoke an invalid patent.¹³⁰ This traditionally meant that an alleged infringer could not bring a revocation action or defence against an infringement claim, unless the JPO had first decided on patent validity. To correct the defects of the bifurcated system, Japanese infringement courts have 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.¹³¹ The *Kilby* precedent was subsequently cast into law in 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:

*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.*¹³²

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

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.

130 Articles 178(6) and 123 of the Japanese Patent Act. See website of the Japan Patent Office (JPO), www.jpo.go.jp (accessed 27 October 2022). 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.

131 Judgment of the Supreme Court of Japan, 11 April 2000, *Minshu*, Vol. 54, No. 4 at p. 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.' An English translation of the judgment is available on the website of the Courts in Japan, www.courts.go.jp/app/hanrei_en/detail?id=487 (accessed 27 October 2022).

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

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.¹³³

Article 168 of the Patent Act reduces the risk of conflicting decisions but does not eliminate it. The JPO could still decide to revoke a patent after an infringement judgment (in favour of a patent holder) has become final and binding, and such conflict could not be 'corrected' with an action for retrial of the infringement judgment.

In the past, it was debated whether a JPO decision could potentially qualify as grounds for initiating a retrial of an infringement judgment;¹³⁴ however ever since the introduction of Article 104-4 of the Patent Act in 2011 this is now prohibited.¹³⁵ This may however lead to the somewhat unsatisfactory result that the JPO's revocation of a patent may not 'trump' an infringement court's judgment.¹³⁶ 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.¹³⁷

133 Article 168 of the Patent Act. The power of the JPO and the 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) to (6), however, was newly introduced in 2004.

134 Before 2011, a JPO decision determining patent invalidity was considered an 'administrative decision' modifying the original patent grant and could, therefore, qualify as valid grounds for an action for retrial pursuant to Article 338(1)(viii) of the Code of Civil Procedure; however, according to one 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, 24 April 2008, *Minshu*, Vol. 62, No. 5, p. 1262; judgment of IP High Court, 14 July 2008, *Hanrei-jiho*, No. 2050, p. 137.

135 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'.

136 See also Christopher Heath, 'Two Decisions on Patent Law: "Seaweed Purifying Apparatus" and "Fuminosuke Original Ball Point Pen"', *ZJapanR*, Vol. 17 No. 33, 2012, pp. 244-245.

137 According to some practitioners, so far, this potential deficiency in Japan's patent litigation system has not caused any serious negative impact. In most cases, it would be more likely than not that the infringement court and the JPO reach the same conclusion on a patent's validity. Furthermore, if both the infringement judgment and the JPO's decision were appealed, they could be handled by the same judges at the IP High Court, thereby preventing conflicting rulings.

Arbitrability of patent validity disputes

Japan is generally recognised as an arbitration-friendly jurisdiction, although it still lags 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,¹³⁸ which has led to the establishment of various arbitration and mediation facilities, including the Japan International Dispute Resolution Centre in Osaka and Tokyo, the Japan International Mediation Centre in Kyoto and the International Arbitration Centre in Tokyo for IP disputes.¹³⁹ Meanwhile, Japan is in the process of amending its Arbitration Act of 2003.¹⁴⁰

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').

138 For an introduction to the 2003 Arbitration Act, see Hiroyuki Tezuka, 'New Arbitration Act and International Commercial Arbitration' in Koichi Miki et al. (eds.), *International Arbitration and Corporate Strategy*, Yuhikaku, 2014.

139 Separately, the Japan Intellectual Property Arbitration Centre (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 International Arbitration Centre in Tokyo (IACT) is more globally oriented than the JIPAC and focuses on international IP disputes (e.g., standard-essential patents), with an international panel of arbitrators. See JIPAC's website, www.ip-adr.gr.jp (accessed 27 October 2022); the IACT's website, www.iactokyo.com (accessed 27 October 2022). See also Lars Markert and Anne-Marie Doernenburg, 'Japan's dawn of a new era - also in international arbitration?', International Bar Association, 2019.

140 See Law 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, www.jurists.co.jp/sites/default/files/tractate_pdf/ja/13711.pdf (accessed 27 October 2022); Hiroyuki Tezuka and Yutaro Kawabata, 'New Trends of International Commercial Arbitration and Further Modernisation of Arbitration Law', *Jiyu to Seigi*, Vol. 67, No. 7, 2016, pp. 14–20.

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.

Article 13(1) allows a civil dispute to be arbitrated if the parties can freely dispose of it.¹⁴¹ 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.¹⁴² While no express restrictions exist in relation to infringement or patent validity arbitrations,¹⁴³ only infringement claims have regularly been considered to be arbitrable.¹⁴⁴ Patent validity arbitration remains 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 therefore 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.¹⁴⁵

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.¹⁴⁶ 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*.

141 Takashi Inomata, 'Arbitration Agreement: Its Purpose and Arbitrability', *JCA Journal*, Vol. 53, No. 7, 2006, pp. 3–4. Article 13(1) is in line with the French Civil Code (see footnote 67) but differs from German law in that under the latter, the disposability criterion now only applies to non-pecuniary claims. See footnote 132.

142 Masaaki Kondo et al (eds.), 'Arbitration Act: a Commentary', 2003, p. 48. See also Article 4 of the Supplementary Provisions of the Arbitration Act.

143 Smith et al., p. 352.

144 Takeshi Kojima and Takashi Inomata, *Arbitration Law*, 2014, pp. 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, pp. 623–624. See, for example, Smith et al., p. 352.

145 Shigetoshi Matsumoto, 'Intellectual Property and Arbitration', *Jurist* 1988, 924, p. 56, cited in Smith et al. 19.

146 Yoichi Okada, 'Arbitrability of Patent Validity', *Horitsu Ronso*, Vol. 89, No. 1, 2016, pp. 133–137.

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.¹⁴⁷ 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 patent validity, arbitral tribunals should be equally competent to do so.¹⁴⁸ 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 in the absence of any express statutory provisions to the contrary.

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 owing to Article 104-4 of the Patent Act,¹⁴⁹ no such prohibition exists under the Arbitration Act; therefore, an award granting a patent holder's claim could, in theory, be set aside on public policy grounds following the JPO's patent revocation.¹⁵⁰

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

147 See, for example, Naoki Idei and Takayuki Miyaoka, *Q&A New Arbitration Act*, p. 50; Takashi Kojima and Akira Takakuwa, *Arbitration Act: Commentaries and Issues*, 2007, p. 62; Takeshi Kojima and Takashi Inomata, *Arbitration Law*, 2014, p. 82.

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

149 See footnote 136.

150 Tatsuya Nakamura, *Issues on Arbitration Law*, Seibundo, 2017, p. 105.

efforts to reform their patent litigation systems, in the near future, patent holders and alleged infringers may have a broader spectrum of dispute resolution methods to choose from.

Some national courts seem to already recognise the arbitrability of infringement and revocation claims, particularly where the parties had agreed to arbitrate their dispute.¹⁵¹ In this regard, it might also be worth citing an International Chamber of Commerce arbitral tribunal that, as early as 1989, equally confirmed that it saw no conflict between the jurisdiction of national courts and arbitral tribunals.¹⁵² The case is particularly fitting in that it examines both the Japanese and German legal systems for patent dispute resolution.

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 make a finding 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 of 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.

151 See for example, the recent judgment by the Munich court described above (LG München I).

152 Interim Award in Case No. 6097, *ICC International Court of Arbitration Bulletin*, Vol. 4, No. 2, 1993. See also 'Chapter 4: Arbitrability of IP Disputes', pp. 74–75. In fact, it appears that a German federal judge acted as presiding arbitrator in this case. See Schäfer, p. 914.

Traditionally, large IP owners have been hesitant about international arbitration – too scary (no prospect of appeal), inferior decision makers (compared with top judges), etc. Now, many are changing their minds. This timely book sets out how arbitration can be tailored to meet the needs of IP owners and dispels some of the myths surrounding its use. It is in four parts that mirror the life cycle of disputes and will be of interest to newcomers and aficionados alike.

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