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Arbitrability regarding patent law –
an international study

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Summary

Which subject matters are inappropriate for submission to arbitration and should instead be decided by a court of law? Subject matter arbitrability answers this question. What is included in the scope of inarbitrability is decided by the each single country.

Subject matter arbitrability has influence on the parties' freedom of contact by defining which issues the disputing parties may freely empower an arbitral tribunal to rule over. The parties lack authority to submit subject matters, which fall outside the scope of arbitrability; these issues have to be settled by national courts.

Patent law is an interesting subject matter since patent issues may be treated in four different ways. The most restricted approach does not permit any patent issues, neither infringement nor validity questions, to be arbitrated. The second approach divides private related issues from public ones, thus allowing the issue of infringement to be submitted to arbitration while the issue of validity is regarded as inarbitrable. Regarding the third approach, all patent issues fall within the scope of the subject matter arbitrability. However, the arbitral award may only be valid between the disputing parties. Thus, the patent will remain in the public patent register and valid in relation to all third parties, even after an award has invalidated the patent. The fourth and most liberal approach is similar to the third one, but it allows the rendered award to be valid against everyone.

This variety and the major differences between the approaches makes the issue of governing law of the question of arbitrability of importance for the parties. If the applied law favors the first, most restricted approach, then the parties' arbitration agreement will be considered invalid and the patent has to be scrutinized in national court proceedings. However, if the second most restricted approach is applicable because of the governing law, the parties might have to endure parallel proceedings. An *inter partes* approach as well as an *erga omnes* approach, will differ on the amount of effect of the rendered award, but they will both lead to a situation where all the parties' issues will be subject to an arbitral proceeding.

The inference to be reached is that the third, the *inter partes* approaches is the most appropriate approach. Sweden has been standing still in its discussion and development in this area, and seems to be applying the approach that is permitting arbitration for private matters but not for issues of public nature. This will hopefully come to change, and such a way that United States is a model country for the execution. This *inter partes* approach meets the needs of the modern society and provides business parties with an ability to choose a way of settlement that suits them best. It provides the parties with a single arbitral proceeding without expanding the framework of arbitration. A change in this direction is inevitable because the

parties as well as arbitral tribunals are working out ways to evade the other old-fashioned approaches. However, in the ICC award – 6097 (1989), the arbitration tribunal went too far and decided the dispute against the German governing law. Ultimately, the adopted approach should be followed and not the wish of the parties.

Sammanfattning

Vilka ämnesområden som inte lämpar sig för skiljeförfarande och således faller under nationell domstols jurisdiktion är omstritt. Skiljedomsrätt, som riktar sig till själva tvistefrågan, besvarar den ovan ställda frågan i varje enskilt fall. Vad som faller inom ramen för skiljedomsrätt avgörs av varje enskild stat.

Denna form av skiljedomsrätt definerar de tvistande parternas *freedom of contract* och påverkar tillämpningsområdet för vilka tvistefrågor som får hänskjutas till prövning hos skiljedomstol. De tvistefrågor som faller utanför tillämpningsområdet är följaktligen undandragna skiljemäns kompetens och prövas istället av en nationell domstol.

Skiljedomsrätt avseende patentfrågor kan förekomma i fyra olika former. Det mest restriktiva synsättet tillåter inte att några patentfrågor prövas av skiljemän, varken inträngs- eller giltighetsfrågor. Somliga länder gör istället en uppdelning och tillåter att privaträttsliga frågor hänskjuts till skiljedomstol, medan frågor av offentligrättslig karaktär anses vara icke skiljedomsrättsliga. Det tredje betraktelsesättet tillåter att alla patentfrågor blir föremål för skiljedom men att skiljedomens endast erhåller relativ giltighet, på så vis att den endast har verkan mellan parterna. Patentet fortsätter följaktligen att vara inskrivet i det offentliga patentregistret och är giltigt i förhållande till tredje man, även om en skiljedomstol har ogiltigförklarat patentet. Det minst restriktiva synsättet liknar den tredje varianten, dock med den skillnaden att skiljedomens får verkan gentemot alla och envar.

På grund av den stora skillnad i synsätt avseende patentfrågor blir frågan om tillämplig lag på skiljedomsrätten oerhört viktig. Om tillämplig lag faller inom den första kategorin av möjliga synsätt, riskerar parterna att deras skiljeavtal förklaras vara ogiltigt. Det får till följd att patentet måste exponeras i det allmänna domstolssystemet. Om istället tillämplig lag faller inom den andra kategorin, kan parterna tvingas att utstå parallella processer. *Inter partes* samt *erga omnes* synsättet skiljer sig åt vad gäller effekten av den avkunnade skiljedomens, men de båda innebär att alla grunder och invändningar som framförs av parterna kan prövas av skiljedomstolen.

Den konklusion som nås är att det tredje, *inter partes* synsättet är det mest lämpade synsättet. Sveriges utveckling och diskussion på detta område verkar länge ha stått still. Det förefaller dock vara så att det är det andra synsättet, vilket gör en uppdelning mellan privaträtt och offentlig rätt, som är härskande i Sverige. Med USA som förebildsland kommer detta förhoppningsvis att förändras. *Inter partes* synsättet tillgodoser det moderna samhällets behov och ger affärsparter en möjlighet att välja en tvistelösningsform och process som är skraddarsydd för deras behov. Resultatet blir dessutom en process som inte utökar ramen för det

traditionella skiljeförfarandet. En förändring i denna riktning torde vara oundviklig eftersom parterna själva, liksom skiljedomstolarna finner sätt att kringgå de mer omoderna synsätten. ICC:s skiljedom – 6097 (1989), gick dock för långt när den ansåg sig ha jurisdiktion trots det faktum att tysk lag explicit visade på motsatsen. Det synsätt som har antagits av respektive stat är dock det synsätt som skall följas och således inte parternas vilja.

Preface

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Abbreviations

Concordat	Swiss Intercantonal Arbitration Convention of 1968
ERISA	The Employee Retirement Income Security Act of 1974 (a U.S. federal statute)
FAA	United States Federal Arbitration Act of 1925
Govt. Bill	Government Bill
ICC	International Chamber of Commerce
ICCA	International Council for Commercial Arbitration
IP	Intellectual Property
New York Convention	UN: s 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards
PIL	Swiss International Private Law Statute of 1989
U.S.	United States
U.S.C	United States Code
USPTO	United States Patent and Trademark Office
ZPO	Zivilprozessordnung, German Code of Civil Procedure

1 General information

1.1 Introduction

Arbitration is today a very well-reputed and widely-used settlement mechanism to solve disputes between commercial actors. This non-judicial trial procedure offers the contracting parties an opportunity to tailor the framework for their dispute settlement in a way that fits their needs and wishes. By agreeing to arbitrate, the parties waive their right to a court procedure for the benefit of arbitration and its advantages.

The drafting and negotiation of the arbitration clause becomes a very important matter because it might potentially have a major impact upon the outcome of a dispute. Several important issues should be addressed and discussed at the drafting level since the lack of consideration could seriously harm the agreed procedure. An important issue concerns subject matter inarbitrability. The parties' freedom of contract is limited by inarbitrability, meaning that subject matters that are seen as inarbitrable cannot be submitted to arbitration regardless of the parties' consensual agreement. Therefore, it ought to be of utmost importance for the parties to be aware of which disputing subjects may be arbitrable at all. The time put down to draft an arbitration clause would be wasted if, at the time of disagreement, the clause would not be upheld but instead considered invalid because the applied law excludes the relevant issues from this private settlement procedure. In less extreme cases, the choice of law or the location of the arbitral proceedings may result in lengthy parallel proceedings, instead of providing the parties with one of the advantages that made them choose arbitration in the first place, namely the chance for a quicker process. In this paper, I use patent law as an example to pinpoint the issues that are involved in the sphere of arbitrability. The importance of patent law has increased in our high technology society. Countries also vary greatly in their approach to arbitrability regarding patent law and whether they consider patent disputes to be arbitrable. Patent law is therefore an excellent example of the relevance of these issues.

The ICC Award involving patent rights – 6097 (1989) in section 6 (p. 37) is a good practical example, showing that subject matter arbitrability is not only a theoretical problem but in fact an issue that arbitrators, as well as courts, must deal with. The German and the Japanese parties in this case had a disagreement regarding their patent license agreements. Each of the agreements had an arbitration clause that referred all future disputes regarding their agreements to be resolved by ICC arbitration. As a preliminary step, the arbitrators examined whether the dispute should wholly or partially be adjudicated by them. This preliminary step had to be taken due to the parties' choice of German law as the law governing any upcoming issues regarding the patents.

1.2 Purpose

The purpose of this thesis is to examine arbitrability in the light of patent law. In doing so, my purpose is threefold. My intentions are, in addition to providing the reader with a background picture, to examine the possible approaches that countries can adopt regarding arbitrability and patent law. The most restricted approach does not permit any patent issues to be arbitrated. The second approach divides private related issues from public ones, thus allowing the issue of infringement to be submitted to arbitration while the issue of validity is regarded as inarbitrable. Regarding the third approach, all patent issues fall within the scope of the subject matter arbitrability. However, the arbitral award may only be valid between the disputing parties. The fourth approach is similar to the third one, but it allows the rendered award to be valid against everyone.

I am furthermore going to present and scrutinize the purposes as well as the legal and public policy arguments behind the different outlooks. As my first and main purpose I will thus, with this information conclude which one of these four different outlooks that is the most appropriate one. In doing so, I will secondly discuss *de lege ferenda*, if Sweden should change its point of view by adopting another approach. At least, my hope is to stimulate the inactive Swedish debate and to do this, I shall provide it with some thoughtful aspects.

As a third purpose, my aim is to present and analyze an ICC arbitration award. The questions at issue concern arbitrability in relation to patent infringement and patent validity of a German patent. I will present my opinion on the rendered award and conclude with a presentation on how the tribunal should have decided the case according to my view.

Thus, the purposes for this master thesis are to examine the following;

- pros and cons of the four presented approaches,
- should Sweden change its viewpoint, and
- did the ICC arbitration tribunal in the interim case 6097 (1989) render an appropriate decision.

1.3 Delimitation

The scope of my thesis includes both arbitration law, law of legal procedure and international law; thus, it touches upon a number of interesting areas.

My intention is to provide the reader with a good understanding of the area of subject matter arbitrability. However, subject matter arbitrability can be divided into two parts; but for the purpose of my thesis, I shall only refer to

arbitrability as objective arbitrability or arbitrability *rationae materiae*.¹ It is argued in the literature about what should be included in the meaning of objective arbitrability. The claimed U.S. definition has a much broader scope than the international concept of the word, since it also includes questions like who should be the initial decision-maker, the court or the arbitrators.² The content here will, in accordance with the international definition, only touch upon which subject matters may be arbitrable. Generally, this thesis will be focusing on international aspects. Issues arising in an international arbitration will be analysed, and matters concerning merely domestic arbitrations will not be taken into consideration. What is considered to be an international dispute is, however, not always as clear as might have been expected initially. When determining if a dispute is to be classified as international, some national laws focus on the dispute and some laws on the disputing parties.³ Even if “international” is defined differently, the scenarios analysed here are seen as international regardless of which law is being applied. However, since the states decide the question of arbitrability and since the effect of patents are limited in territory, the national laws have to be included even in this international paper. European Patents will however be disregarded.

The issue of arbitrability may arise at various points in the procedure, e.g., in a courtroom where one party is trying to stay or compel arbitration or at the stage of enforcement.⁴ It will often be invoked in the first place before the arbitral tribunal, which will itself decide on the question. This thesis will focus exclusively on this latter stage.

By using patent law to illustrate arbitrability, one more area of law is included, which requires even more delimitation. However, since this master’s thesis has arbitrability as its focus, there will be a given prerequisite that a contractual relationship exists between the parties, like a licensor – licensee relationship. An agreement to arbitrate must exist between the parties, and this requirement is thus presupposed. The attention will be on infringement and validity issues, because they are completely different and usually treated thereafter. The issues related to patents are twofold. One group of issues has more connection with private law while the other one is more related to public law. Infringement and validity issues are also selected because they do not derive from the same group and all other patent claims can fall within the category of one of the analysed ones. Since the focus is where it is, any contractual arrangements used to indirect

¹ Subjective arbitrability concerns the question whether an individual or an entity, according to national law, is able to submit a dispute to arbitration. For more information see e.g. Raeschke-Kessler Hilmar, “Some Developments on Arbitrability and Related Issues”, *ICCA Congress Series No. 10*, 2001, p. 44 f. The meaning of objective arbitrability will be outlined below in section 3.

² Shore, Laurence. “The United States’ Perspective on Arbitrability”, *Arbitrability: International and Comparative perspectives*, 2009, p. 82.

³ Chiasson, Edward, C. “The Sources of Law in International Arbitration”, *The Commercial Way to Justice*, 1997, p. 31.

⁴ Jones, Douglas. “Arbitration and Party Autonomy – How Free is the Choice to Arbitrate?”, *The Commercial Way to Justice*, 1997, p. 124.

invalidate a patent without having to confront the issues of arbitrability will be disregarded in this paper.⁵

1.4 Method and Material

In this thesis, I aim to provide a legal analysis by applying a legal, dogmatic method, as well as a comparative method. National acts, case law, literature and to some extent, preparatory works are taken into consideration. A consequence of the confidentiality surrounding arbitrations is that the amount of case law provided is limited. Thus, sections 2 to 4 are mainly based on literary sources. National acts and preparatory work attaches greater importance in chapter 5, even though preparatory work is not devoted as much attention internationally, if it even exists, as it is in Sweden. However, because of language barriers in relation to certain countries, the primary source could not be used to the extent desired by the author.

Overall, the subject matter of this master thesis has required the use of international sources more frequently than domestic ones, in regards to both literature and case law. U.S. case law is referred to for two reasons, for the understandable language and for the fact that United States has a developed area of law in respect to arbitrability in general, which often has persuasive authority upon other countries around the world. Authorities on the subject of arbitration and especially arbitrability are found outside the borders of Sweden. To mentions some of them, great attention has been devoted to the works of Blessing, Grantham and Smith.

1.5 Disposition

Chapter 2 starts of by giving the reader a brief overview of the concepts and features of arbitration. The aim is to describe its characteristics, its growing importance in the international society and to emphasize the private nature of this form of dispute resolution. The private aspect is important to grasp since it is frequently recurring as one of the most, if not the most, appreciated feature of arbitration. As will be discussed in chapter 4, it also arises in the form of a public policy argument against arbitration regarding specific subject matters.

The following chapter provides the reader with a descriptive presentation of the meaning of arbitrability. The international aspect gets further attention in this section to give light to the fact that the question of arbitrability might be treated differently depending on whether it is an international or domestic dispute. Although it is not central for my thesis, section 3.2 will discuss the issue of which law that should govern the arbitrability question. This is a

⁵ For more information see e.g. Raeschke-Kessler, *supra* note 1, p. 53.

versatile and problematic issue, most likely capable of being the subject for an entire thesis. My thesis will not discuss it in depth, but a brief section seems necessary to get a comprehensive and understandable description of the issue of arbitrability. My aim is to provide the reader with a complete picture of the topic.

Chapter 4 contains a presentation of arbitrability in relation to patent law. It discusses the features of patents, with the focus on the public granting process on the one hand and the contractual rights to *inter alia* sell and license the rights to someone else on the other hand. Great emphasis is put on section 4.2 where the arguments for and against patent law as a subject matter capable of being arbitrated, are presented. This subsection will in large parts, provide the basis for my subsequent analysis. The last subsection in this chapter, section 4.3, attempts to be an elucidatory part and present the four different approaches that a country can adopt in relation to patent law. Thus, section 4 aims to provide the reader with a comprehensive picture of patent law as a subject matter in the sphere of arbitrability.

Chapter 5 picks up the descriptive parts of section 4.3 and provides examples on the approaches mentioned in the previous subchapter. In presented order, Germany, Sweden, United States and Switzerland are served to illustrate countries, which have adopted these types of possible outlooks, and to provide some extra practical material to this paper.

The following chapter, chapter 6, thereafter discusses and analyses an ICC arbitral award where the arbitrators deal with the different issues presented throughout this paper. Thus, here these issues are put in its practical context. This chapter ends with a section where I provide the reader with my thoughts on the award.

The final chapter, chapter 7, contains an analysis on the presented issues and to conclude, my own conclusion and thoughts will be conveyed.

2 Arbitration as a form of dispute settlement

Together with mediation and negotiation, arbitration is a form of alternative dispute resolution.⁶ However, arbitration provides a binding award for adjudicating disputes, much like litigation. Significant to the arbitral proceedings is the requirement of consensus between the disputing parties. The recourse to arbitration is only open to the parties after they have agreed that an arbitral tribunal shall resolve their dispute, either by using an *ad hoc* or an institutional arbitration. The parties can give an arbitral tribunal authority before a dispute has arisen in an arbitration agreement or by submitting an existing conflict to a tribunal. In much the same way, the parties have control over the process through the established freedom of contract doctrine.⁷ This doctrine provides party autonomy and reflects the entire process since both the substantive and procedural context can be designed by the parties. They may decide which rules shall govern the proceeding, which law shall be applied to the dispute, where the proceeding shall take place, thus they may form the proceeding much to their own liking. The parties have an ability to choose a flexible, predictable, efficient and informal proceeding when deciding the time-frame, structure and procedural course of action by, e.g., limiting or excluding the right to discovery and/or cross-examination.⁸

Arbitration offers great advantages compared to a litigation process, because it responds to the needs of the business world. Confidentiality is an important factor to its popularity. The process is held in private and the award does not get published, unless the parties' preference is for it to be something else. Thus, the business decreases the risk of harming its reputation and its relationship with clients, partners or competitors. One or three arbitrators are selected to sit in the panel, and if a tripartite panel is used the parties usually get to select one arbitrator each. Since the arbitrators do not need to be legal scholars, any kind of expertise can be brought into the proceeding, which is an advantage especially in technical areas like patent law. An arbitration proceeding is in general quicker and less expensive since the award is final and binding and because the idea behind it is that the award should not be subject to appeal.⁹ An argument for the use of arbitration, especially in IP disputes, is the fact that the award does not serve as a precedent. Areas where principles have not been fully developed and the pace of the technological process is rapid may benefit from an award because it provides less far-reaching legal consequences.¹⁰

⁶ Riskin, L., *et al. Dispute Resolution and Lawyers*, 3rd Ed., 2005, p. 1.

⁷ Carbonneau, Thomas E. *Cases and Materials on Arbitration Law and Practice*, 4th Ed., 2007, p. 1, 11, 24.

⁸ Chiasson, *supra* note 3, p. 29 f.

⁹ Carbonneau, *supra* note 7, p. 11, 12, 18.

¹⁰ Freedberg-Swartzburg, Judith. "Facilities for the Arbitration of Intellectual Property Disputes", *Hague Yearbook of International law*, 1995, p. 70; Gurry, Francis. "Objective

2.1 International arbitration

The features mentioned in section 2 are general, i.e., they are applicable to both domestic and international arbitrations. An international arbitration enables parties to transcend geographical and cultural boundaries, which is why it also has some characteristics of its own.¹¹ Neutrality is one of the key elements why parties choose to settle their disputes through arbitration. Potential hostility by foreign courts can be avoided but more importantly, arbitration will help to put the parties on an equal footing by getting the process out of the country of one of the parties and into a neutral forum. Arbitration provides a neutral venue with arbitrators likely from a third country, an ability to choose language and applicable law. Choosing arbitration as the dispute resolution before a dispute arises also brings predictability because the number of situations where proceedings will be brought in different countries at the same time will decrease. The possibility of parallel actions will not disappear but with an arbitration clause, at least no party has to try to avoid the other party's domestic court system for reasons such as non-reliance, corruption, or mistrust.¹²

2.2 A brief journey from past to present

The ability to tailor the arbitrators and the arbitration proceeding, to fit the needs of the disputing parties was one of the main reasons why arbitration was treated with hostility in the nineteenth century. Judges of the state Courts' were unwilling to hand over their privileged work in the hands of arbitrators. The general view was that arbitrators lacked the skills needed to do justice. However, it was not only judges that were opposed against arbitration; it was not uncommon to find hostile provisions in state law. In an attempt to prevent the antagonism, arbitration acts were adopted. The purpose of these acts was to e.g. legitimize arbitration agreements, recognize arbitral awards and to restrict the role of courts by providing limited grounds for judicial review. The *New York Convention* is one of the most successful documents, which has been ratified by a majority of the world's nations, in the process of creating an international legal system favoring arbitration.¹³ Later, by the time of the economic globalization when transnational commercial activity began, arbitration really won its recognition as a just way to settle disputes.¹⁴

Arbitrability – Antitrust Disputes, Intellectual Property Disputes”, *ASA Special Series No. 6*, 1994, p. 112.

¹¹ Jones, *supra* note 4, p. 122.

¹² Carbonneau, *supra* note 7, p. 669 f.

¹³ *Ibid.* p. 51-53, 734-35.

¹⁴ Martinez-Fraga, Pedro J. *The American Influence on International Commercial Arbitration*, 1st Ed., 2009, p. 3.

3 Arbitrability

A U.S. federal judge once wrote:

[Issues as patent validity and enforceability are] inappropriate for arbitration proceedings and should be decided by a court of law, given the great public interest in challenging invalid patents.¹⁵

The above excerpt is a good example of the content of this section. Objective arbitrability refers to the question of which subject matters may be submitted to an arbitral tribunal. The right to determine this question lies in the discretion of the states, and the issue is usually decided in accordance with the state's own social and economic policy. Thus, a state may prohibit settlement of certain categories of disputes outside its own courts.¹⁶ In international cases, arbitrability involves the balancing of competing policy considerations. A country's legislative body and/or courts will have to weigh the importance of reserving matters of public interests to the exclusive jurisdiction of the courts against the interest in the encouragement of arbitration of commercial matters.¹⁷

The issue of arbitrability goes hand in hand with the freedom of contract doctrine. Which issues a particular arbitral tribunal may decide is usually resolved by interpreting the parties' arbitration agreement, i.e. an issue of contractual arbitrability. However, the scope of the parties' freedom of contract is delimited by the doctrine of subject matter arbitrability, i.e. the parties lack authority to submit certain inarbitrable subject matters to arbitration. Subject matters, which have elements of public interest or involve public law, have historically been seen as inarbitrable, such as, criminal law, antitrust, bankruptcy laws, securities and consumer disputes, and intellectual property.¹⁸ The question of arbitrability may be taken into account *ex officio* by the arbitral tribunal.¹⁹ If the dispute concerns a matter not admissible of settlement by arbitration, the arbitrators shall declare themselves as incompetent, either partially or entirely, and as a result, the arbitration agreement will be considered invalid in relationship to the actual dispute or that part of the dispute that the arbitrators were incompetent to decide.²⁰

¹⁵ *Beckman Instruments, Inc. v. Technical Develop. Corp.*, 433 F.2d 55, 63 (7 Cir. 1970).

¹⁶ Redfern, A. and Hunter, M. *Law and Practise of International Commercial Arbitration*, 3rd Ed., 1999, p. 137 f.

¹⁷ Briner, Robert. "The Arbitrability of Intellectual Property Disputes with particular emphasis on the situation in Switzerland", *American Review of International Arbitration*, Vol. 5, 1994, p. 34.

¹⁸ Youssef, Karim. "The Death of Inarbitrability", *Arbitrability: International and Comparative perspectives*, 2009, p. 49-50, 52.

¹⁹ Sekolec, J. and Eliasson, N. "The UNCITRAL Model law on arbitration and the Swedish Arbitration Act: A Comparison", *The Swedish Arbitration Act of 1999*, 2006, p. 177.

²⁰ Hanotiau, Bernard. "Objective Arbitrability- Antitrust disputes, Intellectual Property disputes", *ASA Special Series No. 6*, 1994, p. 27, 29.

There have been attempts on an international level, to try to unify the notion of arbitrability. The United Nations Commission on International Trade Law for example, identified the issue in 1999 but decided to regard it as a topic for future work. In addition, it was also decided that this unifying effort was going to receive low priority. The reasons behind the decision being that arbitrability is subject to constant development within national jurisdictions and because certain jurisdictions also found that, interference in this area would be undesirable. Lately, despite the previous low priority, the particular UN Commission's interest in the subject has somewhat been revived in regards to certain subject matter, like IP. However, a unified concept of arbitrability does not exist yet.²¹

3.1 Interpretation in favor of international arbitration

There was no debate about arbitrability for a long time but along with the success of international arbitration, it came alive again. The importance of international arbitration made a lasting impression. It has narrowed the scope of inarbitrability limits, i.e. influenced countries towards making more matters being regarded as arbitrable, like, for example, antitrust and securities disputes.²² Its significance was proved at times when countries started to treat the arbitrability issue differently depending on whether a domestic or international dispute was at issue.

*Scherk*²³ and *Mitsubishi*²⁴ are two high profile U.S. cases where national statutes were involved in the disputes submitted to international arbitrations. The underlying question in both these cases was whether the subject matter of the dispute could be subject to arbitration. In *Scherk* the plaintiff, *inter alia*, asserted that the defendant had violated a provision in the U.S. federal statute, the Securities Exchange Act of 1934. Both the District Court and the Court of Appeals relied on the controlling *Wilko* decision, a U.S. Supreme Court case, where the court denied the motion to compel arbitration. The court, in the *Wilko* case, held that an agreement to arbitrate a dispute concerning the Securities Act was unenforceable, because the subject matter of the dispute was subject to exclusive federal court jurisdiction. When the U.S. Supreme Court in *Scherk* ruled against the *Wilko* precedent, the main reason for doing so was that the dispute arose from a "truly international agreement." *Wilko* was distinguished by its all-American elements, thus the court declared that an international contract involves considerations and

²¹ Sundin, P. and Wernberg, E. "The scope of arbitrability under Swedish law", *The European Arbitration Review* 2007, p. 63.

²² Kirry, Antoine. "Arbitrability: Current trends in Europe", *Arbitration International*, Vol. 12, Nr. 4, 1996, p. 373 ff.

²³ *Scherk v. Alberto-Culver Co.*, 417 U.S. 506, 94 S.Ct. 2449, 41 L.Ed.2d 270 (1974).

²⁴ *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 105 S.Ct. 3346, 87 L.Ed.2d 444 (1985).

policies significantly different from those found controlling in the *Wilko* case.²⁵

As mentioned above, antitrust is one area, which historically has been complicated with respect to arbitrability. Antitrust claims were not of a character appropriate for enforcement by arbitration. *Mitsubishi* is the first case that changed this way of thinking. Although one must bear in mind that it was an international case and thus applies to cases with international elements, the U.S. Supreme Court held that international arbitration will provide an adequate mechanism for dispute resolution, and that the parties' agreed way of settlement therefore should be upheld.²⁶

These two cases implicitly recognize the well-established rule, first stated in the *Moses*²⁷ case, that any doubts concerning the scope of arbitrable issues should be resolved in favour of arbitration.²⁸ This principle influenced a federal circuit court when deciding the matter of arbitrability. The court in *Rhone-Poulenc*²⁹ construed the arbitration clause in a patent license agreement to include issues as to the scope of the claims of the licensed patent as well as infringement issues, and concluded "intentions [of the parties] are generously construed as to issues of arbitrability."³⁰ The presumption to favour arbitration is reported to exist in European Arbitration Acts as well, regarding matters reflecting an economic or financial interest.³¹ European national courts in general do take this approach and they show a tendency to reduce the impact of the notion of public policy with regard to arbitrability.³²

3.2 Choice of law

The choice of law issue is of significant relevance, especially in uncertain areas like intellectual property. Whether a subject matter is arbitrable may vary from country to country, and thus the result of the arbitrability question will depend on the outcome of the choice of law issue. An example will help to clarify this issue. Country A does not accept patent validity claims to be arbitrable, but country B does. Whether the arbitral tribunal applies the law of country A or B will lead to very different solutions. By applying the law of country A, the arbitration agreement will be regarded as invalid and the tribunal should declare itself not having authority to decide the dispute.

²⁵ *Scherk*, *supra* note 23, at 515. For more information about the *Wilko* case, see; *Wilko v. Swan*, 346 U.S. 427, 74 S.Ct. 182, 98 L.Ed. 168 (1953).

²⁶ *Mitsubishi*, *supra* note 24, at 636.

²⁷ *Moses H. Cone Memorial Hosp. v. Mercury Construction Co.*, 460 U.S. 1, 103 S.Ct. 927, 74 L.Ed.2d 765 (1983).

²⁸ *Moses*, *supra* note 27, at 24.

²⁹ *Rhone-Poulenc Specialties Chimiques v. SCM Corp.*, 769 F.2d 1569 (Fed.Cir. 1985).

³⁰ *Ibid.* at 1572.

³¹ Bantekas, Ilias. "Arbitrability in Finance and Banking", *Arbitrability: International and Comparative perspectives*, 2009, p. 295.

³² Kirry, *supra* note 22, p. 378.

However, if country B's law governs the issue, the tribunal will be able to proceed and render a final award.

Answering the question, which law should govern the arbitrability issue, is not simple. In the literature, there are many different answers to this question. Despite this, some laws can be perceived to be more relevant than others are. The law governing the arbitration agreement is one option, although it is unusual that the parties have stipulated a law explicitly for the arbitration agreement. The law governing the main agreement, i.e. *lex causae*, or the law of the place of the arbitration, i.e. *lex arbitri*, are other laws that may be applied. However, even after determining that *lex causae* or *lex arbitri* will govern, it is not certain whether that means the choice of law rules of that country or its substantial law. Furthermore, mandatory law of the seat of the arbitration may also provide coercive applicability of domestic laws. As an example, article 177 of the Swiss law on private international law declares that arbitrability is to be decided in accordance with the law of the seat of the arbitration. There is no rule, however, that does not have exceptions. Arbitrators may also take the law of the place of performance and/or the law of the country where a potential enforcement is sought into consideration, even if they are not morally required to do so. Other rules that may be applied are the national law of the disputing parties and common and fundamental principles of law, or a combination of laws mentioned above.³³

In the vast majority of cases, the applicable law will be hard to foresee. It is one thing to consider a law as beneficial and another thing to have it applied in your case.

³³ See e.g. Hanotiau, Bernard. "What law governs the issue of arbitrability?", *Arbitration International*, Vol. 12, Nr. 4, 1996, p. 393-398; Blessing, Marc. "Arbitrability of Intellectual Property Disputes", *Arbitration International*, Vol. 12, Nr. 2, 1996, p. 192-194.

4 Arbitrability regarding patent law

In modern economies, the importance of intellectual property has increased, both economical and politically. Often, a business' intangible assets are more valuable than any of its physical assets, when it comes to commercial and monetary value. The importance of intellectual property goes hand in hand with the fact that IP disputes also have increased in number and continue to increase. The arbitration institute of the ICC, for example, estimated in 2007 that 10-15 percent of its annual caseload involves an IP element.³⁴ An intellectual property right can be found in agreements such as license agreements, joint venture agreements, business acquisition agreements and employment contracts, and thus give rise to a dispute between the contracting parties.³⁵ Many of these agreements, especially patent license agreements, contain an arbitration clause, as a reason to provide the parties with the benefits of arbitration, especially confidentiality.³⁶

A patent gives an inventor protection for its invention during a limited time. The protection takes the form of providing the patent holder with some exclusive rights, e.g., to sell, use and make the invention. In most jurisdictions, registration is the constitutive requirement to be able to access these rights. The patent is granted to private parties under the regime of national law, by state officials, which is why it has limited territorial effect, meaning that the inventor only gets protection in those countries where he has applied and been given a patent.³⁷

4.1 Patent disputes

Patent disputes arise in a variety of contexts; however, for this section it will be presumed that any type of claim falls within the arbitration clause, thus contractual arbitrability will not be an issue that the arbitral tribunal would have to address.

The claims that may be raised in a proceeding can be divided into two groups. The first group may be called the restriction-free area, and includes claims that in most cases are considered arbitrable. These claims concern the private contractual arrangement between the parties, e.g., breach of contract

³⁴ Gibson, Christopher. "Latent Grounds in Investor-State Arbitration: Do International Investment Agreements provide new means to enforce Intellectual Property rights?", *Yearbook on International Investment Law and Policy*, 2009-2010, p. 2, 20.

³⁵ Blessing, *supra* note 33, p. 197 f.

³⁶ Raeschke-Kessler, *supra* note 1, p. 52.

³⁷ Blessing, *supra* note 33, p. 195, 220.

or infringement.³⁸ The second area is more problematic. It contains e.g., validity and ownership claims, where one of the parties alleges that the patent owner for some reason does not have a valid patent. These claims can be raised either as the main issue or more often, as a defense in an infringement action. Arbitrability issues are more frequently raised in relation to these claims because the government grants the patent, and a challenge of the patent's validity in a private setting, i.e., in arbitration, directly implicates the public registration.³⁹

4.2 Arguments restricting arbitration of patent issues

The question is whether an arbitration clause in, e.g., a patent license agreement vests the arbitral tribunal with the authority to declare a patent invalid. The arguments raised in favor of such an inference can be categorized into legal and public policy arguments.⁴⁰ In section 4.2.3, some additional concerns are considered.

4.2.1 Legal arguments

A legal argument presents an obstacle to the objective arbitrability of patent disputes, without attempting to decide whether the presence of the obstacle is desirable. Such an argument exists where the laws of a state give exclusive jurisdiction over certain types of patent disputes to a specific court or administrative agency. Depending on what the law stipulates, both infringement and validity issues can fall under that exclusive jurisdiction.⁴¹ If a public body is equipped with the exclusive authority to invalidate a patent, an arbitral tribunal would have no jurisdiction over the issue and the private parties would have no public authority that they could pass on in their arbitration agreement to the tribunal.⁴²

Another argument, which is similar to the first one, focuses on the sovereign nature of the patent grant. If a governmental body grants the patent rights, only the same body shall be able to extinguish those rights.⁴³ However, according to most patent systems, the owner may voluntarily relinquish some of its rights, so long as unfair competition rules are not affected. Patent owners do this frequently, for example, when they license some of the rights to another party. The difference between being able to surrender

³⁸ Mantakou, Anna P. "Arbitrability and Intellectual Property disputes", *Arbitrability: International and Comparative perspectives*, 2009, p. 270.

³⁹ Grantham, William. "The arbitrability of International Intellectual Property Disputes", *Berkeley Journal of International law*, Vol. 14:173, 1996, p. 182.

⁴⁰ Smith, M.A. *et al*, "Arbitration of Patent Infringement and Validity Issues Worldwide", *Harvard Journal of Law & Technology*, Vol. 19, Nr. 2, 2006, p. 305.

⁴¹ *Ibid.* p. 306.

⁴² Raeschke-Kessler, *supra* note 1, p. 52.

⁴³ Smith, M.A. *et al*, *supra* note 40, p. 306.

granted rights and being able to equip an arbitrator with power to decide the disputed issues, and if required, relinquish the owner's patent rights, does not appear to be particularly strong.⁴⁴ Furthermore, embedded in the policy favoring arbitration is the fact that the parties are able to form their own proceeding. This justifies a scenario where sophisticated parties want to waive or alter any legal rights that they might otherwise have through recourse to the judicial system. Thus, if the parties have agreed that patent validity could be made an issue in arbitration, even if the arbitral award could not invalidate the patent itself, their wish can arguably work as a counter-argument to the sovereign grant argument.⁴⁵ However, it is true that it only is a state that initially has the power to extinguish patent rights. Thus, a state has to surrender some of its decision-making power if the arbitral tribunal shall be able to decide these issues. Still, this is something that applies to arbitration in general. Arbitral tribunals do not have authority until given so by the state, and until the state cooperated in enforcing the awards. Thus, it seems like the sovereign grant argument in reality is a public policy argument. The existence of public policy reasons would therefore be required to be able to distinguish patent arbitration from other types of commercial arbitrations.⁴⁶

A third argument concerns the arbitrators' power. It is well established that their jurisdictional competence is limited to the parties who submitted and consented to arbitration and to the substantial matters designated by the parties. Thus, an award can only be binding between the parties, i.e. *inter partes*. However, if the arbitrators would try to invalidate a patent, the award would actually seek to operate *erga omnes*, i.e., in relation to everyone.⁴⁷ A response to this argument is the action taken by some countries, namely, to explicitly define the award's legal effect as *inter partes*. Another solution has been to give the award a broader effect, either by giving it preclusive effects in later proceedings or through third-party enforcement of the award.⁴⁸

4.2.2 Public policy arguments

Public policy arguments often attack the advisability of the arbitration of patents disputes and call for the creation or maintenance of a legal obstacle to it. A reason behind a public policy argument, which is used by some states, is that they desire to seclude public law from the private mechanism of arbitration. This would create a situation where countries would allow infringement but not validity issues within the scope of arbitration.⁴⁹ Some countries have instead based their choice on the theory that intellectual property disputes, or aspects of them, are inarbitrable *per se*, with the

⁴⁴ Gurry, *supra* note 10, p. 115.

⁴⁵ Grantham, *supra* note 39, p. 187.

⁴⁶ Smith, M.A. *et al*, *supra* note 40, p. 307.

⁴⁷ Grantham, *supra* note 39, p. 184.

⁴⁸ Smith, M.A. *et al*, *supra* note 40, p. 307.

⁴⁹ *Ibid.* p. 306-308.

motivation that these types of disputes involve certain intrinsic features that require state involvement. However, what these intrinsic features are seems to be very unclear.⁵⁰

Court judgments have effect *erga omnes*. It would be a waste of the government's resources, both time and money, if a judgment would only have *inter partes* effect. This would give third parties the opportunity to file for a trial based on the same grounds as have already been decided by a court. This does not, however, automatically mean that a tribunal cannot be given authority to decide an IP dispute, especially since the arbitral body is not run by governmental money.⁵¹

A patent owner is granted a monopoly, even if it is a very restricted one. It is not a monopoly over anything that already exists in the public domain; rather, it consists of exclusive rights granted in return for the disclosure of something new. One argument is that any limitation to a granted monopoly must be made by courts or an equivalent state body, rather than by private tribunals. However, this argument is not watertight because countries are often very ambivalent in their attitude towards limitation of monopolies. It is commonly accepted that a patent owner may restrict its monopoly by entering into licensing agreements and pre-trial settlements.⁵² Sweden also provides *inter alia*, the owner with a possibility to consent⁵³ to an invalidity claim made by the other party. The court is then bound by the consent without a duty to undertake further inquiry.⁵⁴

This counter-argument is even stronger in relation to countries where the state, before granting a patent, does not carry out a substantive examination in order to examine if the subject matter complies with the stipulated requirements. If the state does not perform such an act before granting a monopoly to the applicant, it could be contradictory to say that only the state can relinquish the created rights as if they were the interests of the society.⁵⁵ France and Greece are examples of countries where the granting act is based solely on a formal examination.⁵⁶ However, in countries where a substantive examination prior to granting the exclusive rights is executed, e.g., in Sweden and in the United States, the statutory application procedure is used as a public policy argument in favor of exclusive jurisdiction by the national courts. The state assumes responsibility for ensuring that exclusive rights are not granted unless the statutory criteria are fulfilled. This task should be executed by the courts even at the stage of confirming or denying the rights in accordance with those criteria. A reasonable outcome of this argument would be that countries such as France, that does not perform such an examination, would treat validity issues as arbitrable. The national courts

⁵⁰ Grantham, *supra* note 39, p. 183.

⁵¹ Karnell, Gunnar. "Patent och skiljedom, giltighets- och intrångsfrågor", *Festskrift till Sveriges Advokatsamfund 1887-1987*, 1987, p. 300.

⁵² Gurry, *supra* note 10, p. 117.

⁵³ The Swedish translation of consent, in this context, is "medgivande".

⁵⁴ Karnell, *supra* note 51, p. 296.

⁵⁵ Gurry, *supra* note 10, p. 117.

⁵⁶ Mantakou, *supra* note 38, p. 268.

of France do not have the same responsibility at the granting stage and can therefore not with support from that argument require having it at any later stage. Since this is not the case, France does not allow patent validity issues to be arbitrable; it is questioned if this really can be a public policy argument.⁵⁷

It should be noted that state-imposed responsibilities arise in many areas. The argument that the state grants the right and thus also should limit or eliminate them can be considered in the view of real property rights. Private property remains, since the feudal system and especially in common law countries, a form of state grant recorded in state registers; just like patent rights. However, the real property disputes do not in general raise public policy concerns and are thus arbitrable, even the issue concerning validity. Israel is one of few countries that still do consider the subject matter of real estate to be inarbitrable.⁵⁸ Another argument relating to the public record of title is that it serves to inform the public of the existence of exclusive rights in respect of the subject matter of that title. A decision on the conformity to the statutory criteria for grant of title should therefore not be made privately. However, this argument faces the same responses mentioned above, namely the fact that states usually recognize license agreements and pre-trial settlements without registering them in the public record.⁵⁹ A comment concerning these responses must however be made. A slight difference exists between agreeing to enter into a pre-settlement and to provide arbitrators with authority to settle the dispute. A possibility to attack the former alternative usually exists by general contract rules, which may invalidate or adjust the agreement. An arbitral award can, on the other hand, not be subject to a review based on material grounds.⁶⁰

The public policies that support granting patents, and restricting third parties from making use of them, are the incentives to invent, invest and disclose. The patent system seems necessary in order to provide inventors with a motivation to create and commercially exploit their creations, as well as to encourage innovators to make innovations public that would otherwise be kept secret. Another public policy argument thus focuses on two of these incentives, namely invent and disclose. It is desired that there exists a balance between the costs of monopolies and the social benefits of inventions. There is a fear that this balance could be affected negatively if the actual upholding by the courts was not in a good correlation with the written law, i.e. if incorrect decisions frequently were rendered. This argument brings us back to the question of whether arbitrators are as capable as judges in resolving patent disputes. As mentioned above, this question has recently repeatedly received a positive answer, *inter alia*, in the U.S. *Beckman Instruments*⁶¹ case. The expertise of arbitrators has even suggested

⁵⁷ Gurry, *supra* note 10, p. 116.

⁵⁸ Grantham, *supra* note 39, p. 182 f.

⁵⁹ Gurry, *supra* note 10, p. 116.

⁶⁰ Karnell, *supra* note 51, p. 297.

⁶¹ *Beckman Instruments, Inc. v. Technical Develop. Corp.*, 433 F.2d 55, 63 (7 Cir. 1970).

arbitration to be a better forum.⁶² Questions that arise in a patent dispute are also often of a subjective nature. Whether or not a filed invention contains an inventive step, which is a required element in most jurisdictions, is a notoriously difficult question and the result will very much be based on a personal opinion. It is consequently fairly common that courts or agencies within a jurisdiction come to different conclusions on these types of issues. The presumption that arbitrators would have a negative affect on the balance seems therefore somewhat hollow.⁶³

The antitrust debate regarding arbitrability has often been surrounded with the fact that the state has a need to police certain types of economic activity, and thus uses different kinds of measures in order to show its disapproval of certain practices. In disputes where the state is not a party, the litigants are viewed as proxies for the interest of the state. The fear and consequently the reason for not wanting these disputes to be arbitrable was that if they were placed in a private setting with a tribunal, the state's interest would be eliminated. However, no similar institution, or notion in the case law or literature exists in the field of IP, a reason why IP cannot on the same grounds be considered inarbitrable.⁶⁴

Confidentiality may conflict with the public interest. The expenses involved for an accused infringer to prove invalidity may be high. If evidence from other proceedings is not public, the accused infringer's defense may be taken away from him if he cannot afford to prove it. These two concerns are other examples of arguments that are sometimes raised in an attempt to get patent disputes out of the private arena, or in an attempt to make it stay in the public sphere. However, indications are that the majority of patent disputes are merchant to merchant. Also, nothing indicates that the patentee usually is the party with the most resources in an unequal situation.⁶⁵

4.2.3 Special considerations regarding the outcome of an award

An award between a licensor and a licensee, which concludes that the licensor's patent is invalid, will have consequences that go beyond the parties although the award only has *inter partes* effect. If the licensor has another licensee that has been granted an exclusive license in a territory, then neither the licensor nor the exclusive licensee may prevent the former licensee who got the award, from acting within the exclusive territory. Oftentimes the licensee has *inter alia* made extensive investments because of the contractual rights and the assumption that it would not have to deal with any competition. The exclusive licensee might be able to sue the

⁶² Smith, M.A. *et al*, *supra* note 40, p. 309 f.

⁶³ Gurry, *supra* note 10, p. 117.

⁶⁴ Grantham, *supra* note 39, p. 183 f.

⁶⁵ Smith, M.A. *et al*, *supra* note 40, p. 311.

licensor for breach of contract but apart from that it will not get the advantages agreed to.⁶⁶

An award with *inter partes* effect will furthermore give the licensee an advantage in comparison with the licensor. If the licensee in the arbitration proceeding fails to prove that the patent is invalid, it will have a second opportunity to try and invalidate the patent. The licensee may still have a chance to invalidate the patent *erga omnes* in a national court proceeding, since the arbitration clause or agreement covers the contractual aspects of the patent and not its status as such. However, the licensor is not given a similar second chance. The option of going to court to establish an infringement would not be available to the licensor, since the accused infringer would be protected, according to the prior award, from claims based on the patent.⁶⁷

4.3 Possible approaches

The arbitrability of patent issues varies greatly from country to country.⁶⁸ This is a fact which also makes the arbitral process more time-consuming and expensive, since the arbitrators have to familiarize themselves with every involved country's approach to the arbitrability question.⁶⁹ This remark is also important for the parties to bear in mind, as an example when drafting the arbitration clause and agreeing to *inter alia* governing law and seat of the arbitral tribunal. The consequences will vary enormously depending on whether the laws of a restrictive or a liberal country will be applied to the dispute.⁷⁰ If a legal research is not done, the parties will bear the risk of getting into a situation where their arbitration clause would be considered wholly or partially invalid because the laws applied do not admit the parties' issues to be arbitrated. It is in the parties' interest to eliminate this element of surprise.

4.3.1 All patent issues are inarbitrable

Patent rights and all related issues are not suitable for adjudication by arbitration. This is the content of the most restricted outlook. Thus, a country adopting it would restrict all aspects of a patent dispute from being settled by arbitrators, both infringement and validity issues.⁷¹ A rendered award will not be enforceable against the losing party in that country and the national courts may refuse to refer the parties to arbitration even if an

⁶⁶ Runesson, Eric M. "Licensavtalet, skiljeavtalet och immaterialrätten", *Juridisk Tidskrift*, Vol. 14, 2002-03, p. 689.

⁶⁷ *Ibid.* p. 690.

⁶⁸ Gibson, *supra* note 34, p. 27.

⁶⁹ Sundin, P. and Wernberg, E. *supra* note 21, p. 63.

⁷⁰ Blessing, Marc. "Drafting Arbitration Clauses", *American Review of International Arbitration*, Vol. 5, 1994, p. 62 f.

⁷¹ Gibson, *supra* note 34, p. 26.

arbitration agreement exists between them.⁷² This approach is uncommon among countries today.⁷³ However, South Africa is one country that still bars arbitration in this manner.⁷⁴

4.3.2 Allowing the restriction-free area to be arbitrable

A country that adopts this approach would separate a private law claim from one concerning public law. It would consider the issue of infringement as arbitrable, mainly because infringement addresses contractual rights and obligations, and also because no element of public record is involved. The question of interpretation is instead paramount here.⁷⁵ Validity issues would on the other hand be considered inarbitrable, because the possible arguments against arbitration are seen to weigh heavier than the parties' wish for a private resolution.⁷⁶ In most jurisdictions, the arbitrability of validity is very likely to be denied.⁷⁷

The applicability of this approach is fairly uncomplicated unless both infringement and validity issues are raised in the same proceeding. This would be the case if an accused infringer asserts that the patent is invalid as a defense against the accusation. The validity issue, depending on the country, would then have to be litigated in the proper court or agency. Thus, the arbitral tribunal would have to stay its proceeding until that issue had been decided. This may provide the parties with a less efficient way of settlement and increase the risk of bifurcation.⁷⁸ Despite this, it is occasionally possible for the tribunal to examine the question of validity itself but without the consequence that the issue will receive *res judicata* effect, i.e., as a preliminary matter. After a judgment by the Court of Cassation, this is now the position taken in Italy. The question of validity may be arbitrated where the issue is merely ancillary to a central contractual issue of a different nature.⁷⁹

4.3.3 An award with *inter partes* or *erga omnes* effect

When a country allows both infringement and validity issues to be arbitrated, it may give the final award an *inter partes* or an *erga omnes* effect. An award with *inter partes* effect is binding only between the parties but can apart from that be compared to a judgment. Thus, the parties can

⁷² Smith, M.A. *et al*, *supra* note 40, 305.

⁷³ Blessing, *supra* note 33, p. 200.

⁷⁴ Gibson, *supra* note 34, p. 27.

⁷⁵ Gurry, *supra* note 10, p. 118.

⁷⁶ Mantakou, *supra* note 38, p. 270.

⁷⁷ Youssef, *supra* note 18, p. 53.

⁷⁸ Smith, M.A. *et al*, *supra* note 40, p. 306.

⁷⁹ Karnell, *supra* note 51, p. 286-289; see also Gurry, *supra* note 10, p. 114.

agree that the validity of a patent could be made an issue subject to arbitration even if the arbitral award could not invalidate the patent itself.⁸⁰ The patent will remain valid because the state apparatus has not revoked it.⁸¹ This approach will, no matter the outcome in the arbitral proceeding, preserve the monopoly granted by the state.⁸²

An award that has effect *erga omnes* will not only be binding between the parties but also against third parties.⁸³ The work of national courts and governmental agencies has effect *erga omnes*, an effect that is generally denied to an arbitral award.⁸⁴ A country that has adopted this approach is thus giving the award full judicial effect. The country is letting the arbitral tribunal do the work of the national courts or agencies, with the result that the initially clear line between the public and private domain, appears to be less distinct.⁸⁵

⁸⁰ Youssef, *supra* note 18, p. 53.

⁸¹ Grantham, *supra* note 39, p. 187.

⁸² Smith, M.A. *et al*, *supra* note 40, p. 313.

⁸³ Karnell, *supra* note 51, p. 286 f.

⁸⁴ Freedberg-Swartzburg, *supra* note 10, p. 78.

⁸⁵ Grantham, *supra* note 39, p. 185 f.

5 International examples

5.1 Germany

The issue of arbitrability is, internationally, mainly determined by either the property nature of the claims brought to arbitration or the right of the parties to an arbitration agreement to freely dispose of the subject matter of the dispute. Germany follows the former model.⁸⁶ After some changes in 1998, section 1030 of the ZPO, which governs the objective arbitrability, stipulates that any property of economic nature⁸⁷ may be the subject of an arbitration agreement. An arbitration agreement which does not concern such matters is valid to the degree that the parties are entitled to reach a settlement over the issue at dispute. It is undisputed that an arbitration clause with respect to patent litigation most likely will be enforced under German law because a patent is a property of economic nature. Although, the existing modification is that they do make a distinction with regards to infringement and validity issues. Infringement is seen as a private law claim and validity as a public law question.⁸⁸

The concept of private versus public with respect to patents is found even in the court system, which is a bifurcated system. Infringement issues shall be submitted to special chambers within the regular civil courts in *inter alia* Munich, Düsseldorf, Frankfurt and Mannheim.⁸⁹ In these proceedings the civil courts are bound to the registration of the patent since the courts do not have competence to rule on the validity matter. If an objection concerning the validity is made, that party would have to file a petition to stay the infringement action pending the outcome in the objected matter. A validity action on the other hand is being heard by a special patent court, where judges with a technical background will decide. The jurisdiction exclusively belongs to the *Bundespapentgericht*, the Federal Patent Court in Munich or, in opposition proceedings, to the *Bundespapentamt*, the Federal Patent Office.⁹⁰ Even if the patent court reviews public law judgments it is still considered to be a court of private law, because its decisions can be appealed to the highest court for civil matters, the *Bundesgerichtshof*, which will be the final instance.⁹¹

The prevailing opinion is that, because of their private nature, infringement issues may be arbitrated without restrictions. The situation with the validity

⁸⁶ Mantakou, *supra* note 38, p. 266. Switzerland follows the same model as Germany, while countries such as France, Greece, Italy and Spain follow the later model.

⁸⁷ The German term is *vermögensrechtliche Ansprüche*.

⁸⁸ Smith, M.A. *et al*, *supra* note 40, p. 334 f.

⁸⁹ Pagenberg, Jochen. "The Arbitrability of Intellectual Property Disputes in Germany", *American Review of International Arbitration*, Vol. 5, 1994, p. 44; see also Smith, M.A. *et al*, *supra* note 40, p. 334.

⁹⁰ Klett, A., *et al*, *Intellectual Property Law in Germany*, 2008, p. 25.

⁹¹ Smith, M.A. *et al*, *supra* note 40, p. 334; see also Grantham, *supra* note 39, p. 207.

issue is however the opposite. It has traditionally been barred from arbitration and regarded as inarbitrable *per se* because the patent courts have, in a strict sense, exclusive jurisdiction over the question. By referring to §§ 65 and 81 of the German Patent Act, this is argued to be the case.⁹² The arbitrability article, § 1030 of the ZPO, does not expressly address the validity issue, but this is done in the Act's explanatory section, which may have a certain relevance when construing the article. With an express reference to patents, it notes that, if there are special courts for specific disputes relating to the revocation or nullity of rights that were granted through an act of government, such rights are excluded from the parties' power of contractual disposition, wherefore a decision must be taken by the competent state court with effect *erga omnes*. This section of the explanatory note has however been disputed in authoritative commentary literature.⁹³ Regarding the exclusivity, the *Bundesgerichtshof* has rejected the exclusive jurisdiction of the *Bundespatentgericht* as a reason for restricting arbitrability in patent cases, albeit in matters other than patent validity.⁹⁴ Invalidation of a patent raises public order concerns mainly because the public authority is performing the granting act and a substantive examination is conducted before.⁹⁵ The parties are not entitled to reach a settlement over the disputing validity issue and can accordingly not be submitted to arbitration.⁹⁶ Germany can thus be categorized as a jurisdiction which allows the restriction-free area to be arbitrable (see section 4.3.2. *supra*).

In recent times there has been a serious debate among legal scholars, which has challenged this restricting approach. The discussion is in favor of a change towards letting the arbitral tribunal rule on the validity, as between the parties to the arbitration.⁹⁷ It seems like this point of view may accept that arbitrators avoid the problem by not focusing on the validity issue but instead by declaring the patent as unenforceable or by limiting the wording of the patent claim in view of identical prior art. The alleged patent infringer would in such cases prevail since no infringement would have been taken place. Some authors have also argued that it is not the courts' discretion to declare a certain rule as being part of the public order. The courts may instead rule at the enforcement stage that the arbitral award may not be subject to enforcement. The courts should, according to this theory, only be able to refuse an award if they in an equivalent situation would be able to refuse enforcement of a foreign court judgment.⁹⁸

⁹² Pagenberg, *supra* note 89, p. 48.

⁹³ Böckstiegel, K-H., *et al. Arbitration in Germany – The model law in practice*, 2007, p. 959.

⁹⁴ Smith, M.A. *et al*, *supra* note 40, p. 335.

⁹⁵ Pagenberg, *supra* note 89, p. 50.

⁹⁶ Smith, M.A. *et al*, *supra* note 40, p. 335.

⁹⁷ Interim Award in Case Nr. 6097 (1989), The ICC International Court of Arbitration Bulletin, Vol. 4, Nr. 2, 1993, p. 79; see also Smith, M.A. *et al*, *supra* note 40, p. 333 f; Böckstiegel, K-H., *et al*, *supra* note 93, p. 959 ff.

⁹⁸ Pagenberg, *supra* note 89, p. 48.

There is thus a broad controversy concerning arbitrability of validity issues in patent law. Since the publication of the cited works, no big changes have taken place. There has neither been any statutory change nor has there been any reported case law relating to this issue. Germany's approach thus remains unchanged, however, because of the critical discussions, the possibility that a change is close at hand cannot be excluded.⁹⁹

5.2 Sweden

Article 1 of the Swedish Arbitration Act governs the issue of objective arbitrability. Article 1(1) and 1(3) of the Swedish Arbitration Act read as follows;

Disputes concerning matters in respect of which the parties may reach a settlement may, by agreement, be referred to one or several arbitrators for resolution. [...]

Arbitrators may rule on the civil law effects of competition law as between the parties.¹⁰⁰

Objective arbitrability is defined broadly in the Swedish Act; the only requirement being that the parties should be able to decide the matter themselves should the dispute be handled in an ordinary court.¹⁰¹ However, just because certain disputes are amenable to out of court settlement does not of necessity mean that they are arbitrable. A dispute that conflicts with a significant public policy or third party interest may still be non-arbitrable.¹⁰² Nevertheless, a commercial dispute is generally considered arbitrable when the parties are in control of the subject matter.¹⁰³ A dispute where mandatory statutory provisions are to be applied or where a dispute includes certain features on which the parties cannot freely decide, are circumstances that do not automatically lead to inarbitrability. The Act expressly mentions competition law as a subject matter capable of being arbitrated. An award rendered from such proceeding has, as an ordinary award, effect only between the parties. Whether or not the parties may reach a settlement on the issue is thus insignificant in relation to a competition law dispute. Article 1(3) shall not be read conversely, i.e. to mean that any other public law issues cannot be referred to arbitration.¹⁰⁴

The question of arbitrability regarding infringement and validity issues has, based on my research, not received much attention in Sweden, neither in the

⁹⁹ Email from Dr. Ralph Pennekamp, Lawyer at the Law firm Bird & Bird in Düsseldorf, Germany (Feb. 23, 2010) (on file with author).

¹⁰⁰ The Swedish Arbitration Act of 1999 (SFS 1999:116); see Madsen, Finn. *Commercial Arbitration in Sweden*, 2nd Ed., 2006, p. 45.

¹⁰¹ Sw. Dispositivt tvistemål.

¹⁰² Madsen, *supra* note 100, p. 54.

¹⁰³ Grantham, *supra* note 39, p. 219.

¹⁰⁴ Govt. Bill 1998/99:35, p. 49, 213.

literature nor in the preparatory works to the latest Arbitration Act¹⁰⁵ or Patent Act¹⁰⁶. The prevailing approach however, seems to be that arbitration is permissible in relation to infringement issues but not in relation to questions concerning validity.¹⁰⁷ The clear distinction that exists in Germany seems to be present also within the Swedish jurisdiction.

Support for this prevailing interpretation of the law is, however, hard to find. In the preparatory work to the Patent Act, it was declared that infringement disputes were disputes in which the parties may reach a settlement. It is thus unclear whether that written statement was intended to mean more than that the parties may freely agree to certain issues in the court proceeding.¹⁰⁸ Even a question concerning patent validity may according to Swedish law be considered to be an issue that the parties have at their disposal. Other aspects, such as the fact that a court judgment is binding against third parties and the fact that the disputing parties not are allowed to reword the patent claims, still distinguishes the validity issue.¹⁰⁹

According to § 65 of the Patent Act, the Swedish civil court of first instance in Stockholm is the forum for both infringement and validity issues. The statute prescribes exclusive jurisdiction for the civil courts. This does however not have to mean that arbitration as an alternative dispute resolution is excluded from the parties' choice of settlement. If the parties still want to take advantage of the national court system, the Act prescribes where to go without necessarily declaring that they cannot refer their dispute to an arbitral tribunal.¹¹⁰ The same reasoning can be found in a few U.S. cases, *inter alia*, in the *Pritzker*¹¹¹ case. The court in this case concluded that the fact that the statute ERISA confers jurisdiction on the federal courts, does not mean that ERISA claims are inarbitrable. The circuit court further declared that "such jurisdictional provisions speak only to the issue of which judicial forum is available, and not to whether an arbitral forum is unavailable."¹¹² Other provisions in the Patent Act that may affect the question of arbitrability are the ones that concern publicity. In § 64, it is stipulated that a party who wants to make a claim regarding a patent validity is required to notify the Patent Office. In § 70, it is stated that the judgment shall be sent to the Patent Office for registration. These publicity requirements in favor of third parties, do not exist in an arbitration proceeding and might therefore be a reason for not letting validity issues to be arbitrated.¹¹³

¹⁰⁵ The Swedish Arbitration Act of 1999 (SFS 1999:116).

¹⁰⁶ The Swedish Patent Act (SFS 1967:837).

¹⁰⁷ Karnell, *supra* note 51, p. 290; see also Grantham, *supra* note 39, p. 219; Sundin, P. and Wernberg, E. *supra* note 21, p. 64.

¹⁰⁸ Karnell, *supra* note 51, p. 292.

¹⁰⁹ Runesson, *supra* note 66, p. 687.

¹¹⁰ Karnell, *supra* note 51, p. 294.

¹¹¹ *Pritzker v. Merrill Lynch, Pierce, Fenner & Smith, Inc.* 7 F.3d 1110 (3d Cir. 1993).

¹¹² *Ibid.* at 1118, 1119.

¹¹³ Runesson, *supra* note 66, p. 687.

5.3 United States

The current arbitration rules regarding patent law became effective in 1983. At the time of the bill's enactment in 1982, President Ronald Reagan enunciated to the press that;

A major deterrent to using the patent system, especially by small businesses and independent inventors, is the inordinately high cost of patent litigation. This bill authorizes voluntary arbitration of patent validity and infringement disputes. This will not only improve the patent system and encourage innovation, but will help relieve the burden on the federal courts.¹¹⁴

Before 1983, the United States' courts continued to rule that patent validity and enforceability issues cannot be arbitrated. Today it is one of the most liberal countries with respect to which issues relating to patent law that may be arbitrated.¹¹⁵ The U.S. statute provides that any type of patent issue may be submitted to arbitration by explicitly stating "[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."¹¹⁶ Basically all possible defenses to a claim under a U.S. patent may also be raised in the arbitral proceedings and decided by the arbitrators. However, the patent shall be presumed valid.¹¹⁷ The patent arbitration proceedings will be governed by the federal arbitration statute, the FAA.¹¹⁸

The effect of the arbitral award is manifested in the statute by the language "an award....shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person."¹¹⁹ United States can therefore be categorized as illustrative of my third category (*supra* in section 4.3.3.) namely, a country that recognizes the award with an *inter partes* effect. As mentioned in section 5.2, at least *Runesson* in Sweden seems to have some concerns regarding the publicity issue. United States has solved this issue through a provision which states that the award is unenforceable until a notice of the award has been submitted to the USPTO.¹²⁰ The notice will then be included in the USPTO's patent file and available to the public.¹²¹ The arbitration process exists primarily for the parties, but this system has also made sure that it serves a secondary state interest, viz. protecting the integrity of the patent grant process.¹²² The registration at the Patent Office will also minimize the number of proceedings that can be

¹¹⁴ Karnell, *supra* note 51, p. 286.

¹¹⁵ Plant, David W. "Arbitrability of Intellectual Property Issues in the United States", *American Review of International Arbitration*, Vol. 5, 1994, p. 12.

¹¹⁶ 35 U.S.C. § 294(a) (2000).

¹¹⁷ 35 U.S.C. § 294(b) and 35 U.S.C. § 282.

¹¹⁸ 35 U.S.C. § 294(b).

¹¹⁹ 35 U.S.C. § 294(c).

¹²⁰ 37 C.F.R. §§ 1.335(a)-(b) (2005) and 35 U.S.C. § 294(e).

¹²¹ Smith, M.A. *et al*, *supra* note 40, p. 320.

¹²² Grantham, *supra* note 39, p. 185.

brought against the patent, e.g., the licensee cannot challenge the invalidity again in a court.¹²³ However, the statute also promotes uniformity, by giving the parties an option to agree that the arbitral award will be modified where a competent court later makes a final judgment which determines the patent either invalid or unenforceable.¹²⁴

5.4 Switzerland

Switzerland was one of the first countries to accept arbitration in relation to patent law and is today one of the most arbitration friendly states. The issue started to get recognition as early as 1945. At that time the Federal Supreme Court decided that the jurisdiction over patents which was reserved to the State courts was not exclusive. It was not until 1975 however, that the real breakthrough occurred. The Federal Office of Intellectual Property declared that arbitral tribunals are empowered to decide on the validity of intellectual property rights.¹²⁵ The statement further concluded that an award would subsequently be recognized as a basis for revoking registrations.¹²⁶

The question of arbitrability is found in article 177 PIL;

“Any dispute involving property may be the subject matter of an arbitration.”¹²⁷

The provision in PIL is a broad notion of arbitrability, providing any type of property, as long as it has a financial value, to be arbitrated. The Swiss Federal Tribunal has further stated, in a case from 1992, that article 177 PIL is of substantive nature, meaning that the question of arbitrability shall be regulated by *lex arbitri*, i.e. PIL. The opinion of the court clarified that it would be the governing law “irrespective of possibly stricter provisions contained in the *lex causae* or the national law of the parties.” The reason behind this conclusion was to eliminate uncertainties related to the conflict of law method. A party may make an objection regarding this approach with the ground that the rendered award would not be enforceable when submitted to a foreign court, because that country would hold the subject matter inarbitrable. The Swiss court has approached this issue and declared that such an objection shall not be considered, either by Swiss courts or by an arbitral tribunal having its seat in Switzerland.¹²⁸

¹²³ Karnell, *supra* note 51, p. 300 f.

¹²⁴ 35 U.S.C. § 294(c).

¹²⁵ Briner, *supra* note 17, p. 38.

¹²⁶ Blessing, *supra* note 33, p. 201.

¹²⁷ Briner, *supra* note 17, p. 37 f. Chapter 12 PIL govern international arbitrations if the arbitral tribunal has its seat in Switzerland, while the Swiss Concordat govern domestic arbitrations. However, a provision in the PIL allows the parties to choose the Concordat instead of Chapter 12 PIL, even in an international arbitration. In regards to the matter discussed here, the choice does not really matter since both set of rules provide for the arbitrability of intellectual property disputes. Still, the focus will be on PIL since it rarely seems to occur that the parties choose the Concordat.

¹²⁸ Kirry, *supra* note 22, p. 382-384.

Switzerland has thus empowered arbitral tribunals with the same authority as the national public authorities by permitting them to decide over all types of patent law claims, both infringement and validity. However, Switzerland has taken a rather unique standpoint by providing the arbitral awards with *erga omnes* effect. If the award is accompanied by a certificate of enforceability issued by a Swiss court with jurisdiction over the seat of arbitration, the decision will be entered in the federal intellectual property register according to article 193 PIL.¹²⁹ The certificate provided by the competent court, does not involve a review of the merits of the award.¹³⁰

¹²⁹ Grantham, *supra* note 39, p. 186; Briner, *supra* note 17, p. 38.

¹³⁰ Briner, *supra* note 17, p. 38.

6 ICC award involving patent rights – 6097 (1989)

This ICC award¹³¹ concerns an international dispute between a Japanese company and a (west) German company involving license agreements and patent rights. The Japanese company had entered into two license agreements with the German company regarding industrial patents. The contract in question contained a broad arbitration clause, which stipulated that the ICC rules should be applied on the procedure together with the Swiss Concordat¹³² and that the seat of the arbitration proceedings should be Zurich, Switzerland. Regarding the question of which law should be applied to the dispute, the parties agreed on a dual settlement. Their contracts should be interpreted (i.e. contractual issues) according to Japanese law and the laws in force in the Federal Republic of Germany should be applied to the question of infringement of industrial property rights and any resulting legal and contractual consequences.¹³³

The claimant, i.e., the licensor, alleged *inter alia* breach of contract and patent infringement by the licensee. The licensee, as a response, claimed patent invalidity as a defense against the infringement allegations. As noted above, this is a common defense that can be interposed. The ICC arbitration tribunal had in this interim award the particular question of deciding whether this dispute could be arbitrated. There was an issue concerning both contractual and subject matter arbitrability. The former arbitrability issue was answered, after analyzing the issue, by the tribunal which *inter alia* stated that by having agreed on an arbitration clause with a very broad scope, the parties' intention was that the dispute in its entirety was to be decided by the arbitral tribunal.¹³⁴ The two following subsections will focus on the concerns surrounding the subject of this master thesis, namely subject matter arbitrability.

6.1 Opinion of the arbitral tribunal

When deciding the arbitrability of the contractual claims, i.e., breach of contract and patent infringement, the tribunal considered Japanese and German law, as well as Swiss law. The arbitration panel noted that according to article 5 of the Swiss Concordat, these claims were capable of submission to arbitration. Neither Japanese nor German law either restricted the parties' ability to provide a tribunal with authority to decide these issues.

¹³¹ Interim Award in Case Nr. 6097 (1989), *supra* note 97, p. 76-79.

¹³² The Swiss Concordat governed both domestic and international arbitrations before PIL was enacted. PIL entered into force on January 1, 1988. See e.g. Grantham, *supra* note 39, p. 188.

¹³³ Interim Award in Case Nr. 6097 (1989), *supra* note 97, p. 76 f.

¹³⁴ *Ibid.* at 76 f.

The arbitration tribunal further declared that none of the last two applicable national laws above granted sole jurisdiction over such disputes to national courts of law. In the analysis it was declared that “the validity of arbitral jurisdiction over patent infringement cases is generally accepted under German law.”¹³⁵ The conclusion that the tribunal drew was thus that it had authority to rule on the contractual issues.¹³⁶

The defendant’s defense was largely based on the invalidity claim. It argued that at the time of registration the requirement of novelty was not met, which made the patent invalid. When analyzing whether the tribunal itself could rule on the validity issue it considered the two applicable laws, Swiss and German law. It concluded that article 5 of the Swiss Concordat did not provide any obstacles against a positive answer to the presented question. However, it noted that the obstacles were to be found in laws in force in Germany, which was supposed to govern the patent issues. It discussed the provisions and principles in German law and declared that the law did not allow an arbitral tribunal to invalidate a patent. A patent must be recognized as valid unless it has been declared null and void by the specialized court or the highest civil court. The tribunal however also called attention to the discussion among the legal scholars who criticized this restrictive view. The tribunal declared that it supported this less restrictive approach that tried to challenge the view adopted by German law in force.¹³⁷

The arbitral tribunal finally came to the conclusion that it could decide the question of validity. It noted that the situation in this case was different somehow and that the broad arbitration clause, the Japanese principles in favor of arbitration and the parties’ intention to confer broad jurisdiction upon the arbitral tribunal would all be neglected by a contrary inference. Parallel proceedings, with a possible five year delay or even more, were not the intentions of the parties.¹³⁸ The tribunal continued,

By allocating it this jurisdiction, the parties wanted to give the Arbitral Tribunal, in accordance with the meaning and purpose of arbitral proceedings, the possibility to settle this dispute *inter partes* in a simple, quick and definitive way.¹³⁹

The Arbitral Tribunal in this case shares [the view which is presented by the legal German scholars], but as already made clear, it in no way claims such jurisdiction; it merely believes itself to be entitled to confirm whether the Claimant can substantiate the allegations based on its patents despite Defendant’s objections, or whether Defendant can prove that the material covered by the patents in question was not in fact patentable.¹⁴⁰

¹³⁵ Interim Award in Case Nr. 6097 (1989), *supra* note 97, p. 78.

¹³⁶ *Ibid.* p. 78.

¹³⁷ *Ibid.* p. 78 f.

¹³⁸ *Ibid.* p. 78 f.

¹³⁹ *Ibid.* p. 79.

¹⁴⁰ *Ibid.* p. 79.

The arbitral tribunal supported its findings by stipulating what a patent owner may do with its patent; that he may transfer the rights to the same degree as those to any other property. Thus, there is no “legal obstacle that bars an Arbitral Tribunal... to rule, as a preliminary matter, on the material validity of a patent.” Despite the fact that the tribunal from the two above excerpts, seems to be somewhat unclear on the status of the validity decision, whether it is binding *inter partes* or if it is only confirming, and thus rules on the issue as a preliminary matter, it decided that the arbitral tribunal may rule on the dispute in its entirety. The award’s last sentence, “it can arbitrate the issue raised by Defendant’s challenge... and issue a ruling on this question that is binding *inter partes*” seems however to be an advantage for the former view.¹⁴¹

6.2 Author’s reflections on the award

When it comes to the first matter, i.e., infringement, I agree with the tribunal, and believe that it came to the most reasonable conclusion, even if this issue was fairly uncomplicated in this case. German law was selected by the parties to govern the patent issues. As declared by the arbitral tribunal itself and as stated in section 5.1, German law does not have any objections to letting infringement issues be the subject of arbitration. For arbitrators sitting in a panel, it is usually desirable that their rendered award gets recognized and enforced by a national court in the country where enforcement is sought, which is why the tribunal in this case also considered all, of their knowledge, potential applicable laws. In my opinion that is a well-reasoned and recommended study since it prevents, as far as possible, enforcement issues. The tribunal thus, as a precautionary step, declared that neither Swiss nor Japanese law take a more restricted approach than Germany, before it gave its approval to allow the question of infringement to continue through to a material law analysis and stay the course of arbitration.

On the question of validity, I think the arbitral tribunal went too far in reaching its conclusion. Section 5.1, as well as the arbitral tribunal itself expressly concluded that patent validity issues are not capable of being arbitrated according to German law, because a specified court has been given exclusive jurisdiction in these matters. Even if this view has been criticized by some scholars, I think the tribunal ought to have followed the law. Apparently the tribunal did not agree with the approach adopted by Germany, as well as the fact that it obviously really wanted to decide this dispute. In my view the arbitral tribunal thus created its own jurisdiction from something that did not exist. The arbitral tribunal should have ordered the parties to bring the validity issue to the decision-making power of the German Patent court, and addressed the remaining issues itself, after the court judgment had been rendered.

¹⁴¹ Interim Award in Case Nr. 6097 (1989), *supra* note 97, p. 79.

It is true that my proposition encourages parallel proceedings. However, parallel proceedings are not in best interest of the disputing parties. The tribunal, in its reasoning, stated just that, that such a bifurcation of jurisdiction would be contrary to the meaning and purpose of the arbitral proceeding in this case and the parties' expressed intent.¹⁴² If you exclude the hopefully rare number of parties who only want to delay a process, parallel proceedings ought to always be contrary to the parties' intention. However, I do not believe that the parties' wish in this situation should transcend the stipulated law. The parties' will is not decisive, but instead the state's approach in this matter is. An arbitral tribunal has gotten its jurisdiction through the parties who have provided it with authority to rule in the actual matter, but this would mean nothing unless the states had recognized arbitration as a form of dispute resolution, including the arbitration agreement and the arbitral award.¹⁴³ Thus, the power of the arbitral tribunal originates from the states who have surrendered their exclusive jurisdiction on dispute resolution in favor of the arbitral tribunal. By letting the parties' intention prevail, i.e., by deciding something that the states have not waived their exclusive rights to, the arbitral tribunal will not only damage its reputation, but also threaten its existence.

Overall, I think that the ICC arbitration tribunal focused too much on the disputing parties. Their intention plays an important role when there is a concern regarding the contractual arbitrability, i.e. which issues did the parties submit to arbitration. However, as discussed in section 3, the scope of the parties' ability to empower an arbitral tribunal is being decided by solving the question of subject matter arbitrability. The tribunal did that, it declared that patent validity issues are inarbitrable according to German law, but it did not follow its own presented answer. A better approach, however, which will be discussed in chapter 7, is to change the existing law in Germany and thus prevent an attempt to circumvent it in arbitration.

¹⁴² Interim Award in Case Nr. 6097 (1989), *supra* note 97, p. 77.

¹⁴³ Carbonneau, *supra* note 7, p. 739.

7 Analysis

In section 6.2, I shared my thoughts on how I think an arbitral tribunal should act in their position as a decision-maker. Here, the considerations will focus on the advantages and disadvantages on each adoptable approach by discussing the policies behind arbitration and the presented arguments. The arguments often overlap in regards to their applicability upon the different approaches; however, from a pedagogical point of view, I believe that clear distinctions ought to be maintained which will explain the disposition in a particular case.

7.1 All patent issues are inarbitrable

A country's legislative body and/or courts, depending on whether the common law or civil law system is in force, will have to weigh the importance of reserving matters of public interest to the exclusive jurisdiction of the national courts against the interest in encouraging arbitration of patent issues.

In order to legitimize this approach of complete invalidity *per se*, the arguments in favour of it must be stronger than against it. However, there are essentially no specified arguments why patent issues should be inarbitrable. When considering the two positions, it is thus clear in my view that the arguments for the encouragement of patent arbitration are stronger than the other side, which represents the public interest.

Arbitration, as an alternative forum to national courts, was created especially to meet the needs of the business world. The disputing parties' consensual agreement is required before the door to arbitration opens and the door to litigation closes. Referral to arbitration is thus the result of a consciously choice of wanting a neutral, efficient, flexible, faster and inexpensive way of settlement. There are many reasons why parties, disputing over patent issues, would choose arbitration. It gives them, *inter alia*, an option to bring whatever expertise and knowledge they want into the proceeding. A dispute regarding a pioneering invention might be better off being settled in a form of resolution, which is not bound by precedents. This reason makes even more sense in an international dispute, since it is often indefinite what law that will be applied to the dispute and thus which level the requirements will be decided in accordance with. The patent licensor might also feel more confident going into a proceeding if he knows that the outcome will be less dramatic, i.e. if the award will only have effect between the parties. More advantages than disadvantages exist in relation to patent arbitrations, a reason not to hold patent issues inarbitrable *per se*.

7.2 Allowing the restriction-free area to be arbitrable

One argument, favoring the two most restricted approaches, presented in sections 7.1-7.2, and currently in force in South Africa (7.1) and in Germany and Sweden (7.2), is the argument that focuses on the monopoly granted by state officials. This argument is however fairly similar to the legal argument that focuses on the sovereign nature of the patent grant, which explains why the following reasoning can be applied to both these arguments.

States provide patents with exclusive rights in order to give the inventors economic incentives to invent. The underlying meaning of these two arguments is that since the state grants the exclusive rights, it should also be the state that relinquishes them. It is an understandable argument against allowing patent validity issues to be arbitrated. As presented, there are existing counter-arguments, which focus mainly on the fact that the licensor may freely dispose of the patent rights in several different ways and therefore should the licensor also be free to empower an arbitral tribunal to rule on the issue of validity. However, to some extent, I do not agree with this counter-argument because I think that there is a difference between *inter alia* selling and licensing the rights to a third party, as compared to the relinquishing process.

What the state does in the granting procedure is to empower the specific invention with exclusive rights. Thus, the rights are attached to the invented object or method, rather than attached to the inventor, who is merely the owner of the invention and the attached rights. Thus, it is all about where to put the focus, which in my meaning should be on granting the *property* with rights, as separated to granting the *inventor* with the rights. However, the scenario where the patent owner stops paying the annual fees and thus loses the rights through negligent or voluntarily behavior is harder to distinguish, which is why the counter-argument is stronger in relation to this aspect. I cannot see which public policy reason would differentiate the situation where the patent rights are relinquished by the state, from the situation where the rights are voluntarily given up.

That the focus must be directed on the invention is strengthened by the underlying purposes of patent law. In the light of the incentives, namely invent, publicity and invest, I think that it is apparent that the creation of the *patent* is the key element and not the *inventor*, since all the incentives focus on the invented product and method. The purpose has been to emphasize the creation by establishing economic reasons for doing it. The incentives to invent are still fulfilled by allowing e.g. licensing, since the patent owner will earn money by collecting licensing fees. Consumer statutes for examples are statutes in which this certain group of persons are protected. If the granting process would focus on providing the *applicant* with the exclusive rights, then I would agree with the counter-argument. If the

granted person in that situation would be allowed to sell and license the patent, then it would be contradictory not to allow the person to select arbitration as the forum of dispute settlement. Selling the rights to someone else could then be compared to a relinquishing procedure, since the *owner* is able to lose the rights not merely by an action of the state. However, I am not positive that this main argument has as much strength against the *inter partes* approach, as it has against *erga omnes*. If the arbitral tribunal could work *erga omnes*, as it may do according to Swiss law, the tribunal would, with its award, relinquish the granted patent rights against everyone. An award with merely *inter partes* effect would only eliminate the patent rights between the involved parties and the rights would stand valid against the rest of the world. It is not certain, by looking at this argument, how the word, *relinquish*, should be understood and whether the *inter partes* scenario could fall under the definition of the word and cause the rights to relinquish. However, it is my understanding that the *inter partes* approach preserves the granted monopoly, since the word *relinquish* in my meaning only applies to the situation where the patent owner completely loses its rights, i.e. against everyone.

A negative aspect, which is found only in relation to this approach, is the fact that it does not encourage the speedier and more flexible process that arbitration is advocating. If the question concerning validity is brought up as a defense by the defendant, it will result in parallel proceedings in two different forums. The procedure will consequently be less efficient since the arbitral tribunal will have to stay its proceeding while waiting for the court's decision. One important observation is that this situation, most likely, is not unusual in countries where this approach is implemented. It seems likely to assume that the given invalidity defense is raised in almost every infringement action, which is why it seems even more important to have an efficient and predictable system.

It is hard to draw a line between the public and the private sphere. The drawing of such line could possibly, *per se*, be a public policy concern, which a pragmatic arbitral tribunal would not attempt to cross. Instead, the tribunal will try to find a way of fulfilling the wishes of the parties to resolve their dispute by arbitration, while at the same time avoiding the pitfall of appearing to usurp the powers of the state. It does not appear unusual that the arbitral tribunal steps around the pitfall by framing the involved issues and its resolution in a manner that prevents that. It has been discussed how arbitral tribunals have evaded validity issues by focusing on other aspects, such as the framing of the wording of the patent claim. If it is framed to contain a more narrow scope, the tribunal may find the accused infringer not guilty without having to touch upon the validity status of the patent. An apparent example on a pragmatic approach taken by arbitrators is the ICC case discussed in chapter 6, where the tribunal without claiming real power still decided that it was capable of considering the issue of invalidity. I think that these examples show that this approach is untenable. When both the disputing parties and the arbitrators want to avoid the scenario stipulated by law, they thus seek a legitimate way to circumvent it.

This shows that the approach is not in accordance with the development of the society.

7.3 Inter partes

The *inter partes* approach does not extend as far as the *erga omnes* approach and it stays within the boundaries of the jurisdiction of the arbitral tribunal, in that it does not affect a third party; see further discussion on this argument below in section 7.4. One comment about the *inter partes* approach, in relation to allowing validity issues to be arbitrated as a preliminary matter like in Italy, is that the result from the two situations must be the same, apart from a *res judicata* effect in the earlier case. For this reason, both situations will be referred to as *inter partes*. I see no reason for not allowing *inter partes* and instead accepting a preliminary ruling on the issue. A preliminary decision will only encourage unnecessary proceedings between the same parties and thus eliminate the presented benefits of arbitration. The only thinkable reason why a country would adopt this approach would be that a judgment rendered via litigation instead of via arbitration, is in its view more reliable. However, this argument will be discussed further in section 7.5.

In my view, only two relevant arguments exist against the *inter partes* approach. Firstly, the fact that the approach may still affect third parties. One existing potential situation is where a validity question is decided in favor of the licensee, whom thus may be able to act in the territory designated for an other exclusive licensee without breaching any contractual obligations. Secondly, this approach precludes uniformity. It gives rise to a strange and complicated situation where the patent of a licensor will be valid against some of the licensees but invalid against other licensees.

Lastly, I will respond to the consideration against the *inter partes* approach, raised by Runesson *supra* in section 4.2.3, concerning the fact that the licensor and the licensee is not being treated alike. Runesson states that the licensee is getting two chances to try and invalidate the patent, firstly in an arbitral proceeding and then secondly in a national court proceeding.¹⁴⁴ In my view, this reasoning would only hold if the country where the case is brought, does not allow a question of validity to be decided by arbitrators. In this situation, the national court might disregard the earlier rendered award and legitimize its doing upon the reason that the arbitral tribunal acted without jurisdiction. In all other situations, I think and assume that a reasonable court would rule that it is incompetent to try the question either because it is an issue for an arbitral tribunal and therefore compel arbitration or because the issue already has been tried by a panel of arbitrators. Thus, if it is not a country like Germany or Sweden, a licensee is most likely not getting a second chance. However, if it is a country that allows an issue of infringement to be arbitrated but not a question of validity, a licensor might

¹⁴⁴ Runesson, *supra* note 66, p. 690.

receive a similar benefit. If the patent would be held invalid by the arbitral tribunal, the licensor would probably be able to get a declaratory judgment on the status of the patent, because the national court would most likely disregard the award for the same reason as mentioned above.

7.4 Erga omnes

The most solid argument in my view is the argument that focuses on the power of the arbitral tribunal. However, this argument aims only against the *erga omnes* approach, since this approach goes a step further than arbitration in general do. One of the basic features of arbitration is that the competence of the arbitral tribunal only affects the parties to the arbitration. The reasoning of the argument is thus that an arbitral award cannot go beyond that limit. I agree with the argument in that the elements of arbitration should not be extended, not even by legislation. In the long run, I am afraid that it might impair the importance of arbitration since this approach cannot be seen as advocating arbitration, rather something else that goes beyond the arbitral framework.

Like the argument above, almost all of the conveyed arguments are good in relation to the *erga omnes* approach. In my view, this is thus the most controversial approach. The argument that invalidity should not be decided privately because the public record of title serves to inform the public of the existence of exclusive rights, is only one of many examples of arguments against *erga omnes*. This concern can however be solved, as it has been done, for example, in Switzerland. Swiss law allows an arbitral award together with a court's certificate to establish a right to remove the patent from the patent register, an action that thus removes the invalidity decision from the private sphere. This argument does not work against an *inter partes* approach because of the different outcomes. An award with *inter partes* effect which, declared the patent invalid, would not affect the public register because the exclusive rights would remain.

7.5 Miscellaneous arguments

One consideration, which I think is important to make before deciding or amending the approach taken on arbitrability, is the question of whether the country values being an attractive location for arbitration or not. Popularity or unpopularity will be an inevitable consequence, resulting from the choice taken. A country with a narrow inarbitrability scope will most likely be considered as a more attractive location for arbitrations, since the parties will be more certain of the fact that their arbitration agreement will be enforceable. Predictability is simply an important factor in the parties' consideration of a suitable forum.

One obstacle to objective arbitrability is the first presented argument in this thesis. This argument focuses on the scenario where the laws of a state give exclusive jurisdiction over certain types of patent disputes, to a specific court or administrative agency. It is an argument to be considered by the arbitral tribunal, when this situation comes across. It would have to evaluate whether the statute excludes the jurisdiction of the arbitral tribunal or if it functions merely as directions for the parties who are taking advantage of the national court system. However, it is not an argument for the states. It is up to each state to decide which subject matters should be inarbitrable, and since the state enacts the law, it decides the wording of the statute and is thus capable of amending it. The wording of the statute is only evidence of the choice taken by the state, and not an argument for that choice.

Another presented argument, which I no longer think is a tenable argument, is the one that presents a concern that arbitrators are not as appropriate as judges to decide patent or other IP issues. In this highly technical area I think that arbitration provides a very modern solution, by giving the parties an opportunity to choose an adjudicator with more specific experience and knowledge than a judge may possess. The questions raised are also of such a subjective nature that it is impossible to say who may decide them better or more appropriately, a person trained in law or a person trained in technology. Instead of being an argument against arbitration, it is in my mind, an element that the parties should get the benefit of deciding. They know their case best and thus are the best actors in deciding which knowledge that is more suitable or maybe even required in order to be able to provide the parties with a fair outcome.

Confidentiality is a feature of arbitration, which if it is a public policy argument would disagree with arbitration in general, which is why the argument cannot only be upheld against IP or patent disputes. Also, the fact that an accused infringer might lose its defense because it could not afford producing evidence in favor of invalidity, is not merely a concern in patent disputes. Also as has been declared, there exists no evidence that this is actually the case, i.e. that the accused infringer usually is the party whom is least well-off. However, if this would be the case, a better way for the party would probable be to attack the arbitration agreement as either a contract of adhesion or a claim concerning invalidity of a consumer arbitration clause if a consumer is involved, instead of arguing that patent law disputes should be inarbitrable because of this presented reason.

7.6 Conclusion

There exist arguments disfavoring all four presented approaches. No approach is thus perfect. However, some arguments are stronger than others are. Pros and cons must therefore be balanced against each other when reaching a conclusion on the most suitable approach. It is my conclusion that the most appropriate approach is the *inter partes* approach. It has disadvantages with the lack of uniformity but overall, it manages to serve

the parties wishes as to why they selected arbitration without expanding the meaning of the forum, which I think the *erga omnes* approach wrongly does.

Although I recommend the *inter partes* approach, I do not think that the arbitral tribunals should use it merely for the reason that it is the most appropriate. Neither the wish of the parties nor the arbitral tribunal ought to be followed exclusively; instead, the viewpoint of the country should be decisive and the arbitrators must adhere to the laws of that country. In this divided area, I would highly recommend an international concept of arbitrability to be accepted, however, in the meantime I hope that as many countries as possible would adopt the *inter partes* approach. It would help to minimize the problem concerning governing law of arbitrability and in its entirety provide a less time-consuming, inexpensive and more predictable process. Until then, it is incumbent on the parties to ensure that the arbitrators have jurisdiction according to applicable laws to adjudicate an award that will cure their dispute.

As for Sweden, my recommendation is to adopt the *inter partes* approach. It would accordingly be good to start a discussion on the issue as soon as possible. I think that it is not good for Sweden to have a standpoint that is unclear and difficult to obtain knowledge about. Most likely, this affects Sweden's attractiveness as a forum for arbitrations. An amendment in law, preferably in the Arbitration or Patent Act, would, therefore be recommended in order to provide a clearer system.

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