

## IP DISPUTE RESOLUTION THROUGH INTERNATIONAL COMMERCIAL ARBITRATION: US EXPERIENCE

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### Abstract

At present, intellectual property disputes are often associated with the rule of law of several states and several respondents, covering issues that are an integral part of new and fast-growing technologies. Numerous researches conducted in the field of the effective resolution of IP disputes have shown that patent litigation means significant costs, especially for small and medium businesses. Because of costly litigation, the number of high-tech research and development, as well as the possibility of investing in high-yield start-ups, is significantly reducing.

IP disputes arise in a wide range of business sectors, including telecommunications, biotechnology, pharmaceuticals, and other areas of science and technology, ranging from basic contracts to multi-billion dollar claims for violations related to the issuance of a patent license. The arbitration procedure in international intellectual property disputes is a unique problem due to the fact that it is a valuable asset.

The cost, duration and complexity in resolving intellectual property disputes are increasingly encouraging the parties to seek for alternatives. Often, issues related to IP are solved by reaching a compromise directly in the settlement process or by mediation. However, in case of impossibility to apply alternative procedures, arbitration is increasingly viewed as an effective way to resolve a dispute.

This article analyses and compares the judicial and arbitration methods of dispute resolution in intellectual property. The conclusions, made in the course of the study reveal the strengths and weaknesses of the arbitration procedure for intellectual disputes.

The goal is achieved by solving a number of tasks:

- To explore the features of the dispute settlement in intellectual property through international commercial arbitration;
- To identify the most frequent errors that occurs in the analysis and evaluation of evidence by the arbitral tribunal;
- To highlight the problem of the arbitrability of disputes in intellectual property protection in the Russian Federation, taking into account the international experience.

The study of arbitration regulations, as well as a number of national sources and other regulations, was carried out using the methods of specific research, logical, statistical and content analysis. In their work on the topic, the authors relied on the results of research by Russian and foreign legal theorists.

The **results of the study** can be used in determining key objectives and tasks of a procedural nature, improving the functioning of judicial and extra-judicial organizations, law enforcement, research activities, as well as in teaching, in particular, lectures and seminars on courses on private international law, arbitration process, copyright and patent law.

**Keywords:** American Arbitration Association, intellectual property (IP), appeal, arbitration, arbitration rules, appeals board.

## 1. INTRODUCTION

The vast majority of disputes in the field of intellectual property, and in particular, cases involving copyright infringement and patent disputes are dealt with in federal courts [1]. In most cases, when considering a dispute in a federal court on Intellectual Property infringement, judges do not have specialized knowledge in this area. Lack of knowledge on issues arising from licensing agreements on patents or high-tech disputes is not an exception in the US practice. There is an obvious problem in solving complex technical issues, which is aggravated by the fact that disputes are often transboundary, that is, they affect the jurisdiction of two or more states. The application of foreign law in a dispute that has arisen or its consideration by a foreign court may distort its essence, due to the peculiarities of national legislation, local biases, or be the result of direct hostility to foreign parties.

## 2. GENERAL CHARACTERISTICS OF IP DISPUTES

Given the territorial nature of the protection of intellectual property, the US courts do not have authority on foreign trade and IP rights arising in a foreign country, just as foreign courts do not have authority on patent disputes of the United States and IP rights. As a result, the trial becomes extremely limited by essence, especially in the field of high technology.

According to statistics, out of 100 lawsuits submitted to federal courts, only 3-5% go through all stages of the proceedings and end with a court decision [2]. In the overwhelming majority of cases, intellectual property disputes end in an amicable settlement between the parties [3].

No matter at what stage of the dispute that was being considered in the federal court, it was settled, its cost is extremely high. A survey by the American Intellectual Property Law Association showed that a company spends on average \$ 2.6 million on legal fees and other expenses when filing a patent infringement lawsuit [4]. Meanwhile, claims for damages range from 1 to 25 million dollars. More than half of the funds spent on litigation are paid by the company at the very beginning of the dispute. Cases related to the protection of copyright and the protection of trade secrets, as a rule, is less costly, because they are not so specific. However, the costs in such disputes often make six-digits, especially when complex legal issues arise, as well as depending on the duration of the trial [5]. The problem of resolving disputes in the field of intellectual property in the modern economic community is very acute since litigations are continually depleting the company's cash flow and attract public attention to the company's affairs.

### 2.1. IP Dispute Resolution in International Commercial Arbitration

Many of the problems arising from national IP protection legislation can be avoided in international commercial arbitration. The powers of the arbitral tribunal to consider the dispute are provided for by an agreement between the parties themselves. In a properly prepared arbitration agreement, the parties indicate the place of arbitration, the arbitration rules and the substantive law itself, applicable to the substance of the dispute. The recognition of arbitration agreements and the global enforcement of arbitral awards are ensured both by local law and at the level of international agreements.

Although arbitration offers greater scope for resolving IP disputes than litigation, it is subject to jurisdictional limitations. In arbitral proceedings in the United States or another country, parties often try to challenge the very possibility of applying the arbitration clause, extending the arbitration procedure to a subject of a dispute, the powers of a local or foreign court. For this reason, it is of utmost importance that the arbitration clauses are very clear concerning the parties, the scope and powers of the court.

Eventually, the hearing in arbitration is not very different from the trial, although, regarding formality and details of the process, there are some nuances. State courts have strict rules, ranging from the very procedure for filing a complaint, setting a hearing, presenting evidence, and ending with applying the

substantive and procedural rules contained in national legislation and making a decision. An arbitration hearing is conducted less formally and ideally in a more expedient manner, but with a similar goal of making a fair decision on the merits.

Arbitration provides the parties with the opportunity to jointly develop a hearing plan that best suits the substance of the dispute. This principle of "autonomy of the will of the parties" is often lost in state courts. The selected arbitration body controls and manages the entire process from the beginning to the end of the proceedings, assisting the parties in choosing the arbitration commission, planning and ensuring the timely provision of remuneration to the parties.

Often, much of the legal work carried out in international commercial arbitration is not held in the country that has been chosen by the parties as the venue for the main hearing. On the contrary, arbitrators often have to follow the intricacies of the law applicable to the contract, which, as a rule, is the law of one of the countries to which one of the parties belongs.

### **3. US EXPERIENCE**

Among the largest international centres providing services in international commercial arbitration and mediation in the field of protection of intellectual property rights in the United States: the American Arbitration Association (AAA) is the undisputed leader in the number of cases pending, due to the wide range of services provided, including the appeal procedure. On October 1, 2013, the new AAA regulations came into effect [6], replacing the previous 2010 edition, and precisely one month later, on November 1, 2013, the AAA Optional Appellate Arbitration Rules [7] entered into force. Also, when considering disputes in the field of intellectual property, the American Arbitration Association uses the Resolution of Patent Disputes Supplementary, acting as amended in 2006 [8].

One of the main features of the consideration of intellectual disputes in the AAA is the creation of its list of arbitrators - experts in the field of intellectual property. The AAA has separate lists of arbitrators, which include specialists in the following areas: patents, trademarks, copyright, and other specialists in the field of pharmaceuticals and biotechnology, domain name disputes. To be included in the list of IP dispute arbitrators, a candidate must have a record of legal practice in this field from 10 to 30 years [9].

The participation of highly qualified professionals is often crucial in both the proceedings and the arbitration, especially when dealing with IP protection issues. In fact, not a single dispute in the area of infringement of intellectual property rights is complete without the participation of an expert, because the main work in assessing the damage lies on them. Under the standard procedure of the court proceedings, the parties spend a significant amount of time and money on the preparation of the opinions of outsourced specialists. In this context, the main advantage is on the side of international commercial arbitration, because the arbitrators, as a rule, have not only high qualifications in legal areas, but also have specialized knowledge in the field of intellectual property.

Of course, not all IP disputes may apply arbitration procedures, but in most cases, it has several advantages over legal proceedings. The possibility of choosing arbitrators and applying the autonomy of the will of the parties is far from the only advantage in favour of arbitration.

#### **3.1. IP Disputes Appealing Procedure in the American Arbitration Association**

Also, one of the key features and one of the main reasons for the choice of the parties in its favour was the finality and binding nature for the execution of the decisions made. This peculiarity meant that, unlike court decisions, it was not subject to substantive review on appeal. The execution of the decision could be declined or it could be cancelled only on minimal reasons. Thanks to the introduction of the American Arbitration Association of Appeal Rules, the parties are provided with an extensive opportunity to review arbitral awards. It is a tremendous change in the long-standing principle of a "prohibition on the review in essence" of international commercial arbitration decisions.[10]

If the parties reach an agreement on the application of the AAA Optional Appellate Arbitration Rules, the decision may be sent for review by the panel of arbitrators of the appellate tribunal.

The Appeals Board, as a rule, consists of three arbitrators; however, the parties can agree on the participation of only one arbitrator by entering into an appropriate agreement. In the absence of such an agreement, the panel of arbitrators shall be formed from the AAA International Board of Appeals.

The review process on appeal at the American Arbitration Association takes about three months. According to clause A-3 of the Rules of Appeal, the parties agree that the initially agreed amount of costs when

applying for review of the decision is not final. To the initial costs of the parties are added the fees and costs of the Appeals Tribunal, as well as an administrative fee of \$ 6,000, which the party filing the complaint must pay. In the case of a counter-complaint, a similar fee is charged on the other side.

Based on clause A-10 of the AAA Optional Appellate Arbitration Rules, the Appeals Panel may set aside or alter the award made on the following grounds:

- If there is an essential legal violation of the parties;
- When establishing facts that are erroneous.

The mere being of additional time and financial costs during the appeal procedure on the arbitration decision destroys the well-established idea of the parties about the advantages of arbitration, such as efficiency, speed and finality of the decisions made.

When reviewing the decisions, the appeal commission should apply a fairly broad framework similar to those used by federal courts when reviewing decisions on appeal.

#### **4. CONCLUSION**

Undoubtedly, the risks associated with arbitration proceedings, especially in IP disputes, exist and are mainly related to the absence of clearly expressed arbitration clauses. Although the arbitration provides the parties with the opportunity to save time and other resources, these benefits may be lost if the arbitration clause is unclear. However, if the parties take a responsible approach to the drafting of the contract and try to protect themselves from adverse consequences in advance by including the relevant provisions, such risk is minimal.

The application of the arbitration procedure on IP disputes leaves many questions that are not answered to date. How will the courts respond to decisions of the appeal boards? Will the parties also benefit from the arbitration procedure? The answers to these questions will be available only after such decisions have been submitted to the courts.

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