

LICENSING TECHNOLOGY TO THE BRICS: THE CASE FOR ADR

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Globalization, as the term has come to be used, refers to the integration of national economies into an international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology.¹ Improvements in communications and supply chains, along with the growing membership of international trade organizations, have quickened the pace of globalization, causing a rapid transformation in world politics and commerce.² In this globalized economy, companies from the developed world increasingly find themselves involved with countries that are considered “emerging markets.”³ Chief among these are the so-called “BRICs”: Brazil, Russia, India, and China.⁴ These four countries have the biggest economies in the developing world,⁵ and by 2035 they are projected to have a combined

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¹ JAGDISH BHAGWATI, *IN DEFENSE OF GLOBALIZATION 3* (Oxford Univ. Press 2004).

² In his book *The World is Flat*, Thomas Friedman points to various instances of countries altering their political stance in order to avoid the risk of jeopardizing their roles in global supply chains (terming this effect, the “Dell Theory of Conflict Prevention”) to show how the rapid pace of globalization is changing the way countries deal with each other. THOMAS L. FRIEDMAN, *THE WORLD IS FLAT: A BRIEF HISTORY OF THE TWENTY-FIRST CENTURY* 420–21 (2005).

³ John Authers, *The Long View: How adventurous are emerging markets?*, *FIN. TIMES*, Oct. 20, 2006, available at http://www.ft.com/cms/s/0/be77e600-605f-11db-a716-0000779e2340.html?ncklick_check=1 (“The term [emerging markets] was coined, the literature seems to agree, in the early 1980s by Antoine van Agtmael, then working for the World Bank’s International Financial Corporation. The phrase was defined in terms of economics and levels of wealth. Emerging markets were economies with low-to-middle per capita income.”).

⁴ The large size and populations of these four countries, along with their embracing capitalism, has them projected to be among the largest economies in the coming decades. The BRIC Acronym was coined by Jim O’Neill, the head of global economic research at Goldman Sachs. *Another BRIC in the wall*, *ECONOMIST*, April 21, 2008, http://www.economist.com/research/articlesBySubject/displaystory.cfm?subjectid=858578&story_id=11075147. See also JIM O’NEILL, ET AL., GOLDMAN SACHS ECONOMIC RESEARCH GROUP, *GLOBAL ECON. PAPER NO: 134: HOW SOLID ARE THE BRICs?* (2005), available at <http://www2.goldmansachs.com/ideas/brics/how-solid-doc.pdf>.

⁵ CENTRAL INTELLIGENCE AGENCY, *THE WORLD FACTBOOK, FIELD LISTING—GDP (OFFICIAL EXCHANGE RATE)* (2009), available at <https://www.cia.gov/library/publications/the-world-factbook/fields/2195.html>.

economy larger than that of the current richest countries in the world.⁶

This Note seeks to explore the application of mechanisms of Alternative Dispute Resolution (“ADR”) to overcome problems associated with the traditional methods of international patent litigation, with a focus on the BRIC countries. It starts with an outline of patent rights including their international licensing. The Note will then move on to a discussion of the present mechanisms of international patent protection and perceived problems with the current system, the ways in which ADR can help overcome these problems and the limitations of ADR in this field. Finally, the Note will examine the enforcement of ADR awards, the application of ADR to issues arising from the overlapping areas of patent and antitrust law, and the feasibility of ADR in this area of law in each of the BRIC countries.

I. PATENT RIGHTS

Patent systems exist in some form in almost every country. These systems are designed to grant inventors and innovators exclusivity over their inventions for a limited period of time in exchange for a full and enabling public disclosure. Thus, a patent is often viewed as “a way of maximizing social welfare by providing incentives for inventors to increase the stock of applied technical knowledge in society (through protection) and discouraging inefficient redundancy of inventive effort (through disclosure).”⁷ The first real patent “system” arose in Venice in the late fifteenth century.⁸ Interestingly, the Venetian Republic reserved the right to “appropriate registered inventions” without compensating the inventor.⁹ This Latin tradition is still evident in the patent systems of Italy, Latin America, and a few other countries like South Africa and Israel where the validity of IP rights is considered a question

⁶ Goldman Sachs projects that by 2035, the four BRIC economies combined would have surpassed the combined economies of the G-7 countries. Since they made this projection in 2001, the BRIC countries’ economies have grown much faster than previously anticipated, allowing them to account for 15% of the world’s economy in 2007. GOLDMAN SACHS GLOBAL ECONOMIC GROUP, *BRICS AND BEYOND 5* (2007), available at <http://www2.goldmansachs.com/ideas/brics/book/BRIC-Full.pdf>.

⁷ John S. Leibovitz, *Inventing a Nonexclusive Patent*, 111 *YALE L.J.* 2251, 2256 (2002).

⁸ ROBERT P. MERGES & JOHN FITZGERALD DUFFY, *PATENT LAW AND POLICY: CASES AND MATERIALS* 3 (4th ed. LexisNexis 2007).

⁹ CHRISTINE MCLEOD, *INVENTING THE INDUSTRIAL REVOLUTION* 11 (1988).

not subject to the parties' free will and power (and hence not open to private arbitration).¹⁰

Historically, the primary forum for the adjudication of patent disputes, both domestically and internationally, has been government-created institutions such as patent offices and courts.¹¹ Government-issued patent rights are territorially limited to the jurisdiction of the country in which they are issued.¹² The territorial limitations on patent rights are not surprising, given patent law's mercantilist roots as well as more general assumptions of national sovereignty.¹³

There exists considerable debate about whether patent rights are more like statutorily created contracts or property rights. A patent can be thought of as a contract where, "in exchange for disclosure of the invention, the public's agent . . . grants the patentee a limited right to exclude others from making, selling or using the invention."¹⁴ A patent can also be thought of as property, since it possesses many of the legal features of property.¹⁵ Although intellectual property ("IP") is statutorily proclaimed to possess the attributes of personal property,¹⁶ many of the aspects of patent rights are closer to those of real property.¹⁷ Just as real property can be conveyed in whole or as an estate for years, IP can be assigned away.¹⁸ Similarly, trespassing on real property can be likened to IP infringement, while obtaining the permission of the property owner would be a license.¹⁹

¹⁰ See Francois Dessemontet, *Arbitration of Intellectual Property Rights and Licensing Contracts*, in ENFORCEMENT OF ARBITRATION AGREEMENTS AND INTERNATIONAL ARBITRAL AWARDS: THE NEW YORK CONVENTION IN PRACTICE 554 (Emmanuel Gaillard & Domenico Di Pietro eds., 2008).

¹¹ M. A. Smith et al., *Arbitration of Patent Infringement and Validity Issues Worldwide*, 19 HARV. J.L. & TECH. 299, 305 (2006).

¹² MERGES & DUFFY, *supra* note 8, at 55.

¹³ *Id.*

¹⁴ Jay P. Kesan & Marc Banik, *Patents as Incomplete Contracts: Aligning Incentives for R&D Investment with Incentives to Disclose Prior Art*, 2 WASH. U. J.L. & POL'Y 24 (2000), available at <http://law.wustl.edu/journal/2/p23kesan.pdf>.

¹⁵ Hence, the broad term *intellectual property* is used to describe items protected by patent, trademark, and copyright protection.

¹⁶ 35 U.S.C. § 261 (2006).

¹⁷ While *personal property* is defined as 'any movable or intangible thing that is subject to ownership and not classified as real property,' *real property* is "[l]and and anything growing on, attached to, or erected on it . . ." BLACK'S LAW DICTIONARY 574 (3d ed. 1996). Thus, real property would be what is conventionally thought of as "real estate" and everything else is personal property.

¹⁸ 1 HAROLD EINHORN & THOMAS J. PARKER, PATENT LICENSING TRANSACTIONS § 1.01 (Matthew Bender, rev. ed. 2009).

¹⁹ *Id.*

II. LICENSING TECHNOLOGICAL KNOW-HOW INTERNATIONALLY

A patent or copyright license provides an in rem²⁰ right to the licensee to use the licensor's protected IP in an agreed upon manner.²¹ Possessing a license prevents the licensee from infringing on the licensor's IP. As a business strategy, licensing patent technology internationally can be thought of as either a component of foreign direct investment or an export.²² It is this flexibility, coupled with the benefits it affords both licensor and licensee, which has seen international licensing increase in popularity over the years.²³ The licensor gets to maximize returns from research findings, enter foreign markets without initially committing capital abroad, hedge their currency portfolio, and derive benefits from the licensee such as marketing, market positioning, regional branding, etc.²⁴ The licensees, on the other hand, get to enter a new market quickly, save on research, and gain access to protected technology.²⁵ Efficient, profitable use of the rights and know-how dictates some form of partial vertical integration²⁶ with foreign production and marketing ability, which can be successfully accomplished through the use of intellectual property licensing.²⁷

Increasingly, American and European companies are reaching into emerging markets to facilitate an exchange of methods of doing business and technical know-how. An increasing number of contracts today contain clauses providing for an exchange of rights,

²⁰ An in rem right, refers to the rights of a person in a thing (here, the IP), as opposed to an in personam right, which governs interpersonal rights. See 2 ROGER MILGRIM & ERIC BENSON, *MILGRIM ON LICENSING* § 11.01 (Matthew Bender, rev. ed. 2009); see also BLACK'S LAW DICTIONARY 362 (3d ed. 1996).

²¹ 2 MILGRIM & BENSON, *supra* note 20, § 11.01.

²² 1 EINHORN & PARKER, *supra* note 18, § 5.01[1]. The former director-general of the WTO has noted that foreign direct investment is "the most effective mechanism for the diffusion of productive know-how and capital around the world." Press Release, World Trade Organization, Renato Ruggiero, *Foreign Direct Investment Seen as Primary Motor of Globalization, says WTO Director-General*, Feb. 13, 1996, http://www.wto.org/english/news_e/pres96_e/pr042_e.htm.

²³ EINHORN & PARKER, *supra* note 18, § 5.01[1].

²⁴ *Id.*

²⁵ *Id.*

²⁶ See Animesh Ballabh, *Antitrust Law: An Overview*, 88 J. PAT. & TRADEMARK OFF. SOC'Y 877, 894 (2006) ("A licensing agreement has a vertical component when it affects activities that are in a complementary relationship For example, the licensor's primary line of business may be in research and development, and the licensees, as manufacturers, may be buying the rights to use technology developed by the licensor.").

²⁷ See JOHN W. SCHLICHER, *LICENSING INTELLECTUAL PROPERTY: LEGAL, BUSINESS, AND MARKET DYNAMICS* (Supp. 1999).

ideas and technical assistance.²⁸ In fact, several countries, like Brazil, Mexico and India, have national legislation that requires companies to offer international licensing in order to enter into certain segments of the economy.²⁹ Most of these contracts combine both trademark and patent licensing, along with agreements on the exchange of technical assistance. As will be shown later in this Note, it is this trade-based contractual nature of licensing contracts that makes Alternative Dispute Resolution (“ADR”) an efficient means of dispute resolution.³⁰

III. GLOBAL ORGANIZATIONS AND IP PROTECTION

In the six decades since the end of World War II, efforts have been made to increase global trade through the standardization of trade conditions around the world. The formation and increasing membership of global trade organizations like the General Agreement on Tariffs and Trade (“GATT”) and its successor organization, the World Trade Organization (“WTO”), has been the largest contributing factor to globalization. In the 1947 Geneva round of negotiations the GATT was signed into existence by twenty-three member countries.³¹ Several rounds later, the Uruguay Round of negotiations, attended by 123 countries, witnessed the formation of the WTO.³² The WTO now has 153 member states, with twenty-eight other “observer” nations currently in the process of negotiating membership.³³ One of the biggest achievements of the WTO was the negotiation and implementation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”) at the conclusion of the Uruguay Round in 1994.³⁴

²⁸ EINHORN & PARKER, *supra* note 18, § 5.02 [2][a].

²⁹ See INTELLECTUAL PROPERTY RIGHTS IN EMERGING MARKETS (Clarisa Long ed., The American Enterprise Institute for Public Policy Research, INTELLECTUAL PROPERTY RIGHTS IN EMERGING MARKETS (2000)).

³⁰ EINHORN & PARKER, *supra* note 18, § 5.02 [3][b].

³¹ Press Release, World Trade Organization, Fiftieth Anniversary of the Multilateral Trading System: Address to the Royal Institute of International Affairs in London, United Kingdom, January 16, 1998, http://www.wto.org/english/news_e/spr_e/london_e.htm.

³² *Id.*

³³ See World Trade Organization, Understanding the WTO: The Organization, Members and Observers, July 23, 2008, http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm.

³⁴ See World Trade Organization, Agreement on Trade-Related Aspects of Intellectual Property, Apr. 15, 1994, available at http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm [hereinafter TRIPS].

The 1883 Paris Convention for the Protection of Intellectual Property was the first important international reform designed to help in obtaining global patent protection.³⁵ This treaty's most important reform was procedural. It created a one-year rule of priority for patents,³⁶ during which time the inventor could file applications in other member countries with the date of filing in the first member country establishing priority.³⁷ Subsequent treaties such as the Patent Cooperation Treaty³⁸ and European Patent Convention³⁹ were aimed at consolidating patent applications to reduce the burden on the applicant of having to file numerous applications to obtain transnational patent protection.⁴⁰

It was not until the last two decades of the twentieth century that the international business community began to tackle the more ambitious project of patent harmonization. This attempt was made for several reasons: IP was increasing in value and beginning to take on a more central role in business planning and strategy; world trade was becoming increasingly important to industrialized nations; and markets in the developing world (which had traditionally resisted IP protection) were no longer insignificant.⁴¹ This effort culminated in the Uruguay Round, which created the TRIPS agreement and the WTO. TRIPS obligated all member countries to bring virtually all important commercial fields under the ambit of patent law.⁴² TRIPS also sought to harmonize the procedural requirements for granting patents by requiring examiners to look for an "inventive step" and an "industrial application" for the considered "invention."⁴³

An oft-cited goal of intellectual property protection is to incentivize research and innovation and to enable efficient technology transfer. Ironically, both strong and weak IP regimes favor technology transfer, only in different ways. In countries with strong IP protection, the transfer is accomplished through assign-

³⁵ See MERGES & DUFFY, *supra* note 8, at 55.

³⁶ *Id.*

³⁷ Paris Convention for the Protection of Industrial Property art. 4, Sept. 28, 1979, 21 U.S.T. 1583, 828 U.N.T.S. 305, available at http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html.

³⁸ Patent Cooperation Treaty, June 19, 1970, 28 U.S.T. 7645, available at <http://www.wipo.int/pct/en/texts/pdf/pct.pdf>.

³⁹ European Patent Convention, Oct. 5, 1973, available at <http://www.european-patent-office.org/legal/epc/e/ma1.html>.

⁴⁰ See MERGES & DUFFY, *supra* note 8, at 56.

⁴¹ *Id.*

⁴² See *id.* at 58; see also TRIPS, *supra* note 34, art. 27.

⁴³ See TRIPS, *supra* note 34, art. 7.

ments and licensing.⁴⁴ Weak IP regimes, on the other hand, witness the transfer of technology in what some would call a “forced contribution” by developed countries towards the development of non-industrialized nations.⁴⁵ Recent history has shown, however, that companies are unwilling to risk their IP in countries with weak protection schemes, resulting in slowed economic growth for those developing countries.⁴⁶ Thus, one of the stated objectives of the WTO in crafting the TRIPS agreement was to “strengthen international intellectual property rights to lead to more innovation and more international technology transfer through foreign direct investment and licensing.”⁴⁷ Unfortunately, the drawn out timelines for its implementation and the suspicions among the countries of the developing world regarding the motives of the West has reduced the effectiveness of TRIPS.⁴⁸

IV. PROBLEMS WITH THE CURRENT SYSTEM

Despite the significant progress that has been made in the last decade to harmonize patent law around the world, there are still several obstacles to overcome. Chief among these is the national bias of local courts. Courts are especially susceptible to bias when the subject matter of the dispute is closely tied to the national economy or entails significant local political pressure in favor of the “home team.”⁴⁹ This would have the effect of forcing litigants to license their products to infringers rather than run the risk of having their patents invalidated through the course of a biased liti-

⁴⁴ See generally EINHORN & PARKER, *supra* note 18 (describing mechanisms for effectuating IP transfer through assignments and licensing).

⁴⁵ JAMES A. LEWIS, CTR. FOR STRATEGIC & INT’L STUD., INTELLECTUAL PROPERTY PROTECTION: PROMOTING INNOVATION IN A GLOBAL INFORMATION ECONOMY 20 (2008) (The “forced contribution” being a euphemism for what most people in developed countries would consider stealing.).

⁴⁶ *Id.*

⁴⁷ See TRIPS, *supra* note 34; see also General Agreement on Tariffs and Trade: Multilateral Trade Negotiations Final Act Embodying the Results of the Uruguay Round of Trade Negotiations, Sept. 1994, 33 I.L.M. 1125, 1197 (setting forth the minimum legal standards that signing nations must enforce in order to trade internationally).

⁴⁸ See Thomas A. Haag, *TRIPS Since Doha: How Far Will the WTO Go Toward Modifying the Terms For Compulsory Licensing?*, 84 J. PAT. & TRADEMARK OFF. SOC’Y 945 (2002).

⁴⁹ NEW YORK PATENT, TRADEMARK & COPYRIGHT LAW ASS’N., GUIDE TO PATENT ARBITRATION (Thomas L. Creel ed., 1987).

gation. Courts in BRICs are known to be very reluctant to enforce foreign decisions.⁵⁰

Patent litigation, especially in developing countries, is a time-consuming procedure that often results in lost opportunities.⁵¹ Though a vast majority of patent cases reach settlement, the average time for resolution, settlement or otherwise, is 1.12 years.⁵² For those patent cases that do go to trial to receive a final judgment, the judgment is not rendered, on average, until 12.3 years after the patent application was filed.⁵³ The situation is exacerbated by the fact that developing countries have judicial systems that are severely overloaded: The current count of backlogged cases in India number in the tens of millions, and obtaining a judicial resolution to a dispute can take many years.⁵⁴ Given these delays, the cost of lost opportunities⁵⁵ in these emerging markets may often diminish or completely dissipate the value of having the patent agreement in the first place.⁵⁶ The relatively young patent law systems in these countries and the fact that the TRIPS provisions have only been recently adopted (or are being incrementally adopted) has resulted in limited local expertise in the field and scarce precedent.⁵⁷

⁵⁰ Smith et al., *supra* note 11, at 305.

⁵¹ See Stephen J. Ellman, Note & Comment, *Problems in Patent Litigation: Mandatory Mediation May Provide Settlements and Solutions*, 12 OHIO ST. J. ON DISP. RESOL. 759, 761–62 (1997); see also Tom Arnold, *Why Litigate? ADR Offers A Better Way*, 531 PLI/PAT 727, 756 (1998) (enumerating the benefits of ADR: specifically, the time it saves over traditional litigation).

⁵² Samson Vermont, *Litigation Risk Analysis: The Economics of Patent Litigation, Part 1*, in IDEAS TO ASSETS: INVESTING WISELY IN INTELLECTUAL PROPERTY 327, (Bruce Berman ed., Wiley 2002) (citing Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 908 (2001) (reporting a mean of 1.12 years for resolution of patent suits filed in district court from 1995–1999)).

⁵³ Samson Vermont, *Litigation Risk Analysis: The Economics of Patent Litigation, Part IV: More Patent Facts and Stats*, Oct. 2001, PAT. STRATEGY & MGMT., available at http://www.hunton.com/files/tbl_s47Details/FileUpload265/388/Risk_Reward_4.pdf.

⁵⁴ Neeta Lal, *Huge case backlog clogs India's courts*, ASIA TIMES, June 28, 2008, available at http://www.atimes.com/atimes/South_Asia/JF28Df02.html (stating that there is a backlog of 29.2 million cases in the Indian judicial system as of June 2008).

⁵⁵ “Lost opportunities” refers to the fact that patents are wasting assets: they are a monopoly granted for a limited period of time (18–20 years). Thus, any delays caused by litigation are potentially devastating to the patentee who is trying to make as much money off of his patent while he still has a monopoly over it.

⁵⁶ See Ellman, *supra* note 51, at 777.

⁵⁷ While the first rough equivalent of a patent law was drafted in China in 1889 under the Qing dynasty, modern patent law did not catch on until the adoption of the Patent Law of the People’s Republic of China in 1984. See The American Embassy in China, IP: Patent, <http://www.usembassy-china.org.cn/ipr/patent.html>.

As with any big and complex litigation, the main worry with the traditional system of patent dispute resolution is the overwhelmingly large costs involved, especially those associated with discovery and the retention of expert witnesses.⁵⁸ Discovery represents the largest component of litigation costs,⁵⁹ accounting for almost 80% of legal fees.⁶⁰ Many smaller companies are wary of engaging in frustrating litigation where they would have to spend millions of dollars before ever reaching trial (the average cost of modern patent litigation is two million dollars).⁶¹

Additionally, the means and measure of the relief awarded is often not worth the time and cost of litigation. Courts around the world offer two kinds of relief to the side that emerges victorious in an intellectual property dispute: injunctive relief and monetary damages. While the damages awarded in patent cases litigated in the United States results in windfalls of millions of dollars, the recovery in similar cases in the developing world is comparatively small. For example, Chinese law allows an award of up to \$25,000 for misappropriating trade secrets,⁶² and India's Copyright Act mandates that fines be under \$5,000 for copyright infringement.⁶³

Despite many obstacles, the growing economic potential of the emerging markets has caused an increasing number of businesses from the developed world to set up shop in the developing world. The dynamics of this move have included the use of various economic and legal devices for international growth, including investments, expansions, tie-ups, and product and technology licensing. The long standing tradition of multinational companies' IP protection in their home countries and their consequent structuring of business practices around such protections have required them to

⁵⁸ "Expensive expert witnesses are usually required in patent cases. In fact, multiple experts are frequently necessary to cover the technology, as well as the damages calculations." *Patent Litigation: Is it Worth the Expense? If Rights are Uncertain, Pursuing Licensing with the Alleged Infringer Might Be Best Option*, GENETIC ENGINEERING & BIOTECHNOLOGY NEWS, Apr. 1, 2006, available at http://www.genengnews.com/articles/chitem_print.aspx?aid=1454&chid=0.

⁵⁹ Gregg A. Paradise, Note, *Arbitration of Patent Infringement Disputes: Encouraging the Use of Arbitration Through Evidence Rules Reform*, 64 FORDHAM L. REV. 247, 253 (1995).

⁶⁰ *Id.*

⁶¹ See AM. INTELL. PROP. LAW. ASS'N, 2003 REPORT OF ECONOMIC SURVEY (2003) (stating that the average cost of patent litigation is \$2 million, trademark litigation is \$600,000 and other IP litigation is between \$500,000 and \$800,000).

⁶² Fred Greguras & Narinder Banait, *Intellectual Property Strategy and Best Practices in China and India Life Sciences Business Transactions*, Nov. 18, 2004, http://www.fenwick.com/docstore/Publications/Corporate/IP_Strategy_&_Practices.pdf.

⁶³ Poorvi Chothani, *Intellectual Property Considerations in the Outsourcing Industry*, N.Y. ST. B.J. 30 (2008).

craft IP strategies to deal with the vagaries of international law and shaky IP protection offered in some developing countries. The forced harmonization of patent systems will take time and commitment and can only accomplish so much.⁶⁴ Transnational companies have quickly come to realize that, as with international trade contracts, mechanisms of ADR, specifically mediation and arbitration, are well suited to the resolution of international IP disputes.

V. ADR TO THE RESCUE

ADR mechanisms are an attractive alternative to the traditional system of patent litigation and its above-mentioned shortcomings. These methods run the gamut from the consensual to the adjudicative. While some ADR procedures, like arbitration and adjudication, resemble mini-litigations with structured formal rules, more casual methods, such as mediation and traditional negotiation, give the adverse parties more control over the process.⁶⁵

Mediation is a method of non-binding dispute resolution involving a neutral third party who tries to help the disputing parties reach a mutually agreeable solution.⁶⁶ Arbitration, on the other hand, involves a neutral third party rendering a decision after presiding over a hearing in which both sides state their positions.⁶⁷ Except where a party can show manifest fraud or disregard for the law during the arbitration, the outcome is binding upon the parties who agree to it.⁶⁸ Such arbitration results in a quick and final judgment on the issue.⁶⁹ Through the use of ADR procedures, a patent dispute can generally be resolved in under a year.⁷⁰ With the exception of binding arbitration, the goal of ADR is to provide a fo-

⁶⁴ See Andrew A. Baev, *Recent Changes in Russian Intellectual Property Law and Their Effect Upon the Protection of Intellectual Property Rights in Russia*, 19 *SUFFOLK TRANSNAT'L L. REV.* 361, 365 (1996) (noting that though Russia's patent law is structured in accordance with TRIPS guidelines, the low priority for enforcing such technology protection has reduced the law's efficiency).

⁶⁵ New York State Unified Court System, *Alternative Dispute Resolution*, http://www.courts.state.ny.us/ip/adr/What_Is_ADR.shtml (last visited Oct. 21, 2008).

⁶⁶ *BLACK'S LAW DICTIONARY* 453 (3d ed. 2006).

⁶⁷ *BLACK'S LAW DICTIONARY* 100 (7th ed. 1999).

⁶⁸ John Berryhill, *Public Interest Considerations in Private Resolution of Patent Disputes* (1999), <http://www.johnberryhill.com/patdis.html> (last visited Nov. 15, 2008).

⁶⁹ Marion M. Lim, Note, *ADR of Patent Disputes: A Customized Prescription, Not An Over-The-Counter Remedy*, 6 *CARDOZO J. CONFLICT RESOL.* 155, 170 (2004).

⁷⁰ See Ellman, *supra* note 51, at 771 (suggesting that "the time frame for patent arbitration is often as little as six months, and it need never take more than twelve to fifteen months.").

rum for the parties themselves to work towards a voluntary, consensual agreement, as opposed to having a judge or third party render a decision.

A major advantage of both mediation and arbitration is that the neutral third party can be selected for his or her expertise on the subject matter. Often in patent disputes, the fact finder has “difficulty understanding the basic technology behind the dispute, which can result in unfair outcomes.”⁷¹ The problem is much worse in developing countries, especially where the litigation involves complex technology.⁷² In countries with a jury system, there remains the lingering concern that juries will side with the underdog in an infringement action and the patent holder in validity claims.⁷³

Another advantage of ADR is that it helps simplify the process of transnational and multinational dispute resolution. While the general perception of ADR is of a small-scale process that favors the little guy,⁷⁴ it is also an effective means of resolution for large scale patent licensing disputes.⁷⁵ For example, in a dispute that involves licensing in multiple countries, a party wishing to use litigation would have to bring an enforcement action in each of the countries where the patent is being violated.⁷⁶ Through ADR, however, the dispute can be resolved in one quick and efficient step. The “efficiency of arbitration” is further helped by the “simplicity of the rules governing” it, especially those concerning discovery.⁷⁷ The general flexibility of the rules of arbitration allows for a cheaper determination of the admissibility of evidence, especially technological evidence.⁷⁸ It is important, however, to have a well-qualified arbitrator who can control the level and complexity

⁷¹ See Ellman, *supra* note 51, at 765.

⁷² See generally Smith et al., *supra* note 11.

⁷³ Seymour E. Hollander, *Patent Counsel Debate Pros and Cons of ADR*, NAT'L L.J., Jan. 27, 1997, at C20, <http://www.kslaw.com/library/pdf/00000358.pdf> (stating that the general trend is for juries to favor the patent-holder on issues of validity due to the weight afforded the initial ruling of validity by the PTO and the instructed statutory presumption of validity).

⁷⁴ See Norman L. Balmer, *Alternative Dispute Resolution in Patent Controversies*, 6 RISK 145 (1995), available at <http://www.piercelaw.edu/risk/vol6/spring/balmer.htm>.

⁷⁵ Julia A. Martin, *Arbitrating in the Alps Rather than Litigating in L.A.: The Advantages of International Intellectual Property-Specific Alternative Dispute Resolution*, 49 STAN. L. REV. 917, 918 (1997).

⁷⁶ *Id.*

⁷⁷ *Id.* at 927.

⁷⁸ Paradise, *supra* note 59, at 270–71.

of admissible evidence to avoid “an expensive evidentiary free-for-all.”⁷⁹

In today’s world of fast-paced business, the most important advantage of ADR is the time saved over traditional litigation. IP rights such as patents and copyright are granted for limited amounts of time⁸⁰ and are therefore considered wasting assets.⁸¹ Patent rights in high technology markets like information technology, biotechnology, pharmaceuticals, and medical devices are products that can become obsolete in years, if not months.⁸² In addition to the ability to contractually specify the time frame in which arbitration must be completed, certain arbitration schemes, like WIPO Expedited Arbitration, feature compressed time frames that last under three months.⁸³

In addition to the prospect of a “speedier and cheaper resolution,” arbitration can also “provide greater predictability” regarding the time frame of dispute resolution.⁸⁴ “Businesses need to know when a dispute is likely to be decided” to determine whether they can build a new plant, market their new drug, or find other ways to generate profit.⁸⁵ Business people often simply cannot afford to wait for traditional litigation, especially international litigation, and therefore opt for ADR. The key for them is to find the best mechanism and most convenient location in which to resolve their disputes. Letting them know how long it will take for the issue to be decided allows them to draw up contingency plans for the loss of the intellectual property.⁸⁶

The international nature of intellectual property, both in national affiliations and jurisdictions, “creates a strong demand for

⁷⁹ Martin, *supra* note 75, at 927.

⁸⁰ For the term of domestic copyrights, see 17 U.S.C. §§ 301–05 (1994); for domestic patents, see 35 U.S.C. § 154 (1994).

⁸¹ In business parlance, a wasting asset is one which has a limited life, which results in its value decreasing over time. See Investorwords.com, http://www.investorwords.com/5291/wasting_asset.html (last visited Oct. 13, 2009).

⁸² David Bender, *Alternative Dispute Resolution and the Computer-Related Dispute: An Ideal Marriage?*, *COMPUTER L.*, May 1990, at 9, 12.

⁸³ Collection Juris International, WIPO Expedited Arbitration Rules (1994), www.jurisint.org/doc/html/reg/en/2000/2000jiregen19.html (stating, among other things, that a statement of claims must accompany the request for arbitration, only one arbitrator must be used, and that the hearings cannot last more than three days. Additionally, “the proceedings . . . [must be] declared closed within three months . . . of either the delivery of the Statement of Defense or the establishment of the Tribunal, whichever occurs later . . .”).

⁸⁴ See Martin, *supra* note 75, at 928.

⁸⁵ See *id.*

⁸⁶ See Martin, *supra* note 75, at 928.

neutral fora to resolve the disputes that inevitably arise.”⁸⁷ Intellectual property is easily exported and exploited internationally, so long as the conditions for such exploitation are in place.⁸⁸ When the dispute is protected by the laws of more than one jurisdiction, deciding on a forum for litigation can be difficult. When the parties are from different nations, neither side would want to litigate in the other’s homeland, where they would be disadvantaged by their unfamiliarity of the law, language, and institutional and legal culture.⁸⁹ Over the course of the last century, industries that are inherently transnational in nature have found ADR to be an effective mechanism for dispute resolution. For example, the first industry to experience this need was the maritime industry, which resulted in arbitration boards being set up in various countries.⁹⁰ The international IP industry should be no different.

Juries are notoriously unreliable when asked to determine issues involving complex technology.⁹¹ Bench trials are no more reliable.⁹² Most judges lack technical expertise and experience with patent law.⁹³ Judge Friendly of the Second Circuit acknowledged the judiciary’s lack of expertise in *General Tire & Rubber Co. v. Jefferson Chemical Co.*,⁹⁴ noting that the patent appeal in question was “another illustration of the absurdity of requiring the decision of such cases to be made by judges whose knowledge of the relevant technology derives primarily, or even solely, from explanations by counsel and who . . . do not have access to a scientifically knowledgeable staff.”⁹⁵ On the other hand, an arbitrator who is familiar with the technical matters of the case would find it easier

⁸⁷ *Id.* at 930.

⁸⁸ See *supra* Part II. Licensing Technological Know-How Internationally (discussing how legal regimes with strong IP protection favor the transfer of technical knowledge internationally).

⁸⁹ Martin, *supra* note 75, at 930.

⁹⁰ See Heinz Strohbach, *Role of Maritime Arbitral Institutions in the CMEA-Member Countries*, in *NEW TRENDS IN THE DEVELOPMENT OF INTERNATIONAL COMMERCIAL ARBITRATION* 304 (Pieter Sanders ed., 1983).

⁹¹ Paradise, *supra* note 59, at 254.

⁹² See Martin, *supra* note 75, at 932.

⁹³ See Paul D. Carmichael, *The Arbitration of Patent Disputes*, 38 *ARB. J.* 3, 5 (1983) (noting that while patent cases make up a small percentage of the total district court cases, they consume a disproportionate amount of time since judges are dealing with areas of law and technical subjects with which they have little familiarity); see also Paradise, *supra* note 59, at 254 (noting that most judges spend only 0.01% to 2.0% of their time handling patent cases).

⁹⁴ 497 F.2d 1283, 1284 (2d Cir. 1974).

⁹⁵ *Id.* at 1284.

to receive and evaluate evidence and testimony⁹⁶ and to engage in fruitful dialogue with expert witnesses. The use of specialized bodies optimized towards the litigation of patent suits has already had a profound effect on the outcome of cases.⁹⁷

Confidentiality is another important concern for companies holding or licensing intellectual property. Such confidentiality may be desired “both when intellectual property matters are involved and when avoidance of public profile before news media and regulatory agencies may be preferred.”⁹⁸ Court proceedings would require companies to disclose financial and technological information “they would rather not make available to competitors, media, or the general public.”⁹⁹ Businesses have legitimate reasons to protect trade secrets, financial matters, and client lists from competitors.¹⁰⁰ With tight competition in most industries, public knowledge of a dispute could sometimes damage a company more than a courtroom loss.¹⁰¹ The issues at play in a court litigated dispute will be disclosed to the public, unless the judge makes the rare choice to issue a protective order.¹⁰²

Unlike court trials, ADR proceedings are private matters and are generally closed to the public.¹⁰³ Though U.S. federal courts give parties the ability to seek a protective order and limit the scope of discovery, the party must first demonstrate “good cause” and attempt to resolve the dispute without court action before a protective order can be granted.¹⁰⁴ The moving party also has the burden of showing that disclosure would cause a “clearly defined and very serious injury” to her business.¹⁰⁵ This is often a difficult

⁹⁶ Bryan Niblett, *Intellectual Property Disputes: Arbitrating the Creative*, 50 *DISP. RESOL. J.* 64, 65 (1995).

⁹⁷ There has been a dramatic increase in the percentage of patents found invalid after the formation of the expert Court of Appeals for the Federal Circuit. See Lisa C. Childs, *Rite-Hite Corp. v. Kelley Co.: The Federal Circuit Awards Damages for Harm Done to Patent in Suit*, 27 *LOY. U. CHI. L.J.* 665, 669 (1996) (noting that the Federal Circuit has found patents invalid in nearly one-third of the cases it has decided on appeal).

⁹⁸ TOM ARNOLD, *PATENT ALTERNATIVE DISPUTE RESOLUTION HANDBOOK* § 5.05 (1991) (pointing out that such a situation may arise “when a charity hospital with a large excess of income over expenses is a party”).

⁹⁹ See *id.* § 5.05.

¹⁰⁰ Paradise, *supra* note 59, at 263–64.

¹⁰¹ Kevin R. Casey, *Alternative Dispute Resolution and Patent Law*, 3 *FED. CIR. B.J.* 1, 5 (1993).

¹⁰² See Martin, *supra* note 75, at 935.

¹⁰³ See *Hotels Condado Beach v. Union Tronquistas Loc. 901*, 763 F.2d 34, 39 (1st Cir. 1985).

¹⁰⁴ See *FED. R. CIV. P.* 26(c).

¹⁰⁵ *United States v. IBM*, 67 F.R.D. 40, 47 (S.D.N.Y. 1975).

standard to meet.¹⁰⁶ This protection is even harder, if not impossible, to come by outside of the United States.¹⁰⁷ “Trade secret protection is generally unavailable outside of the U.S. and European Economic Community.”¹⁰⁸ Countries that have trade secret law often protect it with criminal rather than civil remedies, thereby precluding this option from any sort of private dispute resolution.¹⁰⁹

All patent arbitration proceedings are confidential, and the evidence, testimony, and resulting ruling from the arbitration generally cannot be used in subsequent proceedings.¹¹⁰ Mediation and negotiation are held confidential to the extent that the parties desire and agree to it.¹¹¹ Information, however, can still be leaked in an ADR proceeding, and the non-regulated nature of arbitration makes identifying the source and remedying the situation quite difficult, especially in an international forum.¹¹² While the confidential nature of ADR makes it an attractive option for a lot of companies, it also raises some public policy concerns, including the civil law nature of the proceedings and the abandonment of *stare decisis*—the doctrine of precedent—due to the *inter partes*¹¹³ effect of arbitral awards.¹¹⁴

The adversarial nature of litigation often “drives a wedge between” opposing parties and tends to strain their pre-existing business relationships.¹¹⁵ In some Asian countries, litigation is disfavored when dealing with disputes arising out of a business relationship because of the “residue of hard feeling” between the

¹⁰⁶ Anita Stork, Note, *The Use of Arbitration in Copyright Disputes: IBM v. Fujitsu*, 3 HIGH TECH. L.J. 241, 252 (1988).

¹⁰⁷ See Martin, *supra* note 75, at 934.

¹⁰⁸ See Karl P. Kilb, *Arbitration of Patent Disputes: An Important Option in the Age of Information Technology*, 4 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 599, 617 n.97 (1993).

¹⁰⁹ See *id.* at 599.

¹¹⁰ American Arbitration Association [hereinafter AAA], The Code of Ethics for Arbitrators in Commercial Disputes, Canon VI.B, <http://www.adr.org/si.asp?id=4582> (Unless otherwise agreed by the parties, or required by applicable rules or law, an “arbitrator should keep confidential all matters relating to the arbitration proceedings and decision.”).

¹¹¹ James Melamed, *What is Mediation?*, <http://mediate.com/articles/what.cfm> (last visited Oct. 18, 2008).

¹¹² See Christopher Style, *The Role of Arbitration*, INT’L GUIDE TO COM. ARB. 4–5 (Christopher Zach ed., 1995).

¹¹³ *Inter partes* refers to the fact that the outcome of the arbitration can only affect the parties who have agreed to such resolution, and cannot affect a third party or a subsequent case.

¹¹⁴ See generally Lim, *supra* note 69, at 174 (describing the sense of security and “predictability” provided by the Federal Rules of Civil Procedure and *stare decisis*).

¹¹⁵ ARNOLD, *supra* note 98, § 5.06, at 5–7.

parties.¹¹⁶ The fact that most ADR methods are consensual makes their operation less acrimonious. The set timeframe for arbitration also reduces the likelihood that one side will strategically delay a proceeding to inconvenience the other side.¹¹⁷ Mediation and negotiation are even more neutral and consensual than arbitration. It is often just as important to preserve both human and business relationships as it is to settle the dispute.¹¹⁸

A. Limitations of ADR in IP

Due to the often sensitive nature of the technology that is controlled by intellectual property rights, the use of a non-government regulated forum for dispute resolution in the field is often bothersome. While clients stand to save both litigation time and legal fees using ADR, there are often “many millions at stake,” so looking for a “bargain dispute resolution mechanism in th[at] environment could well be penny-wise and pound-foolish.”¹¹⁹ The stakes in patent litigation tend to be much higher and the awarded damages much greater than in civil suits.¹²⁰ The highly structured procedural rules used in courts around the world, along with common law principles like *stare decisis*, give parties a sense of security and predictability when the stakes are high.¹²¹

While the business implications of IP disputes may lead parties to seek a quick and final resolution, the finality of ADR mechanisms like binding arbitration may scare away the side that believes it has a weaker argument or has more to lose. In the United States, around 38% of patent validity and infringement decisions are appealed to the Federal Circuit,¹²² which in turn reverses about a quarter of these district court rulings.¹²³ Arguably, the use of arbi-

¹¹⁶ Toshio Sawada, *Conciliation—Japan’s Experience—Prospects of Success in International Transactions*, WORLDWIDE F. ON ARB. INTELL. PROP. DISP. 267, 269 (WIPO ed., 1994).

¹¹⁷ See Martin, *supra* note 75, at 935.

¹¹⁸ See ARNOLD, *supra* note 98, § 5.06, at 5–7.

¹¹⁹ Hollander, *supra* note 73, C20.

¹²⁰ “In no other area of civil litigation are the potential rewards for the victor more abundant or the penalties for the loser more catastrophic.” ALAN L. DURHAM, *PATENT LAW ESSENTIALS* x (Quorum Books 1999); Matthew B. Zisk, *Mediation and Settlement of Patent Disputes in the Shadow of the Public Interest*, 14 OHIO ST. J. ON DISP. RESOL. 481, 491 (1999) (noting that the stakes in patent infringement suits are generally far greater than in most civil suits).

¹²¹ See Paradise, *supra* note 59, at 270–73.

¹²² See Vermont, *supra* note 53.

¹²³ See *id.* (stating that the Federal Circuit reverses about 22% of validity claims and 29% of infringement claims).

trators and mediators with technical expertise will help to eliminate the kinds of prejudicial error that lower courts are prone to commit.

Additionally, court validated patents are given far more respect in the industry,¹²⁴ allowing the winner of a patent dispute to enforce the precedential effect of the judgment in future disputes.¹²⁵ “Clearly, the decision of a facilitator will not have the same deterrent effect against infringement by others as a judicial determination would.”¹²⁶ Congress acknowledged this fact when it instituted a re-examination procedure for patents at the PTO.¹²⁷

ADR is not the only means for overcoming the court’s lack of technical expertise. Judges may appoint independent expert witnesses,¹²⁸ special masters, or specialized law clerks to serve as technical advisors to the court.¹²⁹ In arbitration, on the other hand, expert testimony is generally admitted without restraint to help evaluate the scope and validity of patent claims.¹³⁰ The resulting “battle of experts” can often undermine the time- and money-saving aspects of arbitration.¹³¹ The fact that mediators and arbitrators have been hand-picked based on their expertise and possible knowledge of the industry, may often prejudice them to either construe the claims broader or narrower than they should.¹³²

¹²⁴ See Lim, *supra* note 69, at 177 (“Once the Federal Circuit reviews and validates a patent, it is afforded significantly more respect in the industry than patents that have not yet been confirmed by a court.”).

¹²⁵ See Casey, *supra* note 101, at 6.

¹²⁶ See *id.*

¹²⁷ See 35 U.S.C. § 302 (2006) (“Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited under the provisions of section 301 of this title.”).

¹²⁸ See FED. R. EVID. 706. The court appointed expert witness may be deposed, called to testify, and cross-examined by the parties. Courts routinely appoint expert witnesses to resolve conflicting expert testimony presented at trial.

¹²⁹ See Arti K. Rai, *Specialized Trial Courts: Concentrating Expertise on Fact*, 17 BERKELEY TECH. L.J. 877, 892–93 (2002).

¹³⁰ Lim, *supra* note 69, at 177.

¹³¹ See Paradise, *supra* note 59, at 271–72.

¹³² By agreement the parties are free to designate an arbitrator or a method of appointing an arbitrator. See, e.g., A.A.A., PAT. ARB. RULES, R. 11–14, <http://www.adr.org/sp.asp?id=22013>. The parties must file a notice of appointment with the AAA. Alternatively, by party request, the AAA will provide a list of qualified panel members from which an appointment may be made. *Id.* R. 13. If the parties fail to make an appointment within the specified time, the AAA shall make the appointment from panel members. *Id.* R. 12–14. Each party may designate their own arbitrator (“party-appointed arbitrator”) and additionally appoint a neutral arbitrator who will serve as chairperson. *Id.* R. 14. All appointees “shall be skilled in patent law.” *Id.* R. 12.

Not all parties to IP disputes care about the preservation of their ongoing business relationships.¹³³ Sometimes, parties to a dispute are not willing to work things out and would rather have their day in court.¹³⁴ Some commentators have argued that the patentee's required disclosure as his end of the "patent bargain"¹³⁵ extends to the litigation of the issues involved and disputes arising out of patent monopolies.¹³⁶

There are also public policy concerns with the resolution of patent disputes through ADR. Published decisions draw attention to possible inadequacies or emerging trends in the law.¹³⁷ The quasi-secret nature of ADR deprives legal systems of these benefits.¹³⁸ The public policy aspects at play have resulted in the general notion that patent disputes concerning invalidity as unarbitrable, especially internationally.¹³⁹

B. ADR in the Overlap of Patents and Antitrust

The aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds.¹⁴⁰ Antitrust law and patent law are sometimes thought to occupy opposite ends of the spectrum of competition law: patents representing government-con-

¹³³ Berryhill, *supra* note 68 ("Unlike the relationships between parties to a labor dispute, a construction contract, a commercial transaction between seller and buyer, or even divorcing parents raising children, the parties to a patent dispute of the first type are not engaged in a mutual enterprise where cooperation is socially desirable.")

¹³⁴ Douglas Dorskocil, Symposium, *Knowing Your Toolset: How To Use ADR To Your Advantage During Patent Litigation*, 44 IDEA 247, 259 (2004) (conceding that "[m]ediation is useless if the other side is not willing to talk").

¹³⁵ The patent bargain refers to the contractual nature of patent rights and the view that these rights are monopolies, granted to the patentee in exchange for a full and enabling disclosure of his invention. For a more detailed discussion of this concept, see Part I of this Note, *supra*.

¹³⁶ Matthew B. Zisk, *Mediation and Settlement of Patent Disputes in the Shadow of the Public Interest*, 14 OHIO ST. J. ON DISP. RESOL. 481, 507-08 (1999) ("The outcome of a litigation is relevant to the patentability and should thus arguably be disclosed as part of the exchange for the patent rights.")

¹³⁷ Paul M. Janicke, *Maybe We Shouldn't Arbitrate: Some Aspects of the Risk/Benefit Calculus of Agreeing to Binding Arbitration of Patent Disputes*, 39 HOUS. L. REV. 693, 725 (2002). The U.S. Court of Appeals for the Federal Circuit is an example of decision-generated reform. This court was created in response to years of inconsistent judicial opinions by the varying circuit courts in an effort to promote uniformity in patent law. *Id.*

¹³⁸ *Id.* at 725-26.

¹³⁹ See Smith, *supra* note 11, at 357 ("There are public interests at stake in any dispute revolving around patent validity, and these interests may not be effectively represented in arbitration.")

¹⁴⁰ Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990).

ferred monopolies and antitrust laws codifying the government's distaste for monopolies.¹⁴¹ For much of the twentieth century, courts and federal agencies in the United States regarded patents as conferring monopoly power in a relevant market.¹⁴² This meant that, in many cases, the courts considered patents to be a government-endorsed exception to the antitrust laws.¹⁴³ For a long time, the courts held that the patent exception was so broad as to immunize the conduct of firms holding patents from antitrust scrutiny.¹⁴⁴ The middle of the twentieth century saw a decline in the judicially-created patent exception. In 1948, the Supreme Court declared that "the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly."¹⁴⁵ Today, patent and antitrust laws are seen as "complementary, as both are aimed at encouraging innovation, industry and competition."¹⁴⁶

Though the aims of patent and antitrust law are thus intertwined, conflicts do arise. For example, a licensing arrangement could include restraints that adversely affect competition in good markets by dividing the markets among firms that would have competed using different technologies.¹⁴⁷ Additionally, antitrust concerns often arise when a licensing arrangement harms competition among entities that would have been potential competitors¹⁴⁸ in a relevant market, absent the license.¹⁴⁹ Antitrust concerns often crop up in patent licensing disputes because, as an assignment of a monopoly, the patent license could be used by a patentee

¹⁴¹ In economics, a monopoly (from the Latin word *monopolium*—derived from the Greek *monos* ("one") and *polein* ("to sell")) is defined as a persistent market situation where there is only one provider of a kind of product or service. Monopolies are characterized by a lack of economic competition for the good or service that they provide and a lack of viable substitute goods.

¹⁴² See *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 37 (1923).

¹⁴³ Ballabh, *supra* note 26, at 889.

¹⁴⁴ *Id.*

¹⁴⁵ See *United States v. Line Material Co.*, 333 U.S. 287, 308 (1948) (patent pool struck down on price fixing grounds apparently without examination of the pro-competitive effects of the patent pool on innovation and consumer welfare).

¹⁴⁶ Atari Games Corp, *supra* note 140.

¹⁴⁷ Ballabh, *supra* note 26, at 891.

¹⁴⁸ A firm will be treated as a potential competitor if there is evidence that entry by that firm is reasonably probable in the absence of the licensing arrangement. *Id.* at 891 (such potential competitors would be said to have a "horizontal relationship").

¹⁴⁹ *Id.* at 893.

to improperly extend their monopoly power from the patented good to control a market that previously was competitive.¹⁵⁰

Though antitrust laws are fairly well established in the United States and in the European Community, they are still in their nascent stages in the developing world.¹⁵¹ The worldwide harmonization of antitrust law failed once¹⁵² and is not likely to occur anytime soon, chiefly because the major players in the field, the European Community and the United States, desire different outcomes.¹⁵³ Thus, this issue is more likely to be raised when the effect of the alleged unfair practice is in a country with strong protections against anti-competitive practices.

When the defense is raised that a given contract is contrary to the applicable scheme of competition law, most European countries and the U.S. accept the arbitrability of this defense.¹⁵⁴ The adjudication of contractual issues involving intellectual property following a merger is actually encouraged by the European Commission.¹⁵⁵ This is fortunate since the most popular forums for international intellectual property arbitration are located in Switzerland.¹⁵⁶ The decision on whether to examine the contractual issues first and then proceed to the competition law issues or to do them simultaneously is usually decided by the procedural rules of the forum. The first method is thought to be more efficient in licensing disputes, since the issues of restraint of competition

¹⁵⁰ See, e.g., *MERGES & DUFFY*, *supra* note 8, at 1240 (specifying two instances that are of most concern: tying agreements—the selling of one product on the condition that a second unrelated product is purchased—and assertions by the patentee that the sale of an unpatented good constituted contributory infringement).

¹⁵¹ China, for example, did not enact antitrust laws until 2008, when it enacted the new Anti-Monopoly Law, which entered into effect on August 1, 2008. See Peter J. Wang, H. Stephen Harris Jr. & Yizhe Zhang, *New Chinese Anti-Monopoly Law*, *JONES DAY COMMENTARY*, Oct.2007, http://www.jonesday.com/pubs/pubs_detail.aspx?pubID=S4662 (follow hyperlink to .PDF version). See also Ballabh, *supra* note 26, at 901 (stating that “[m]ost developing countries do not have competition law and regard it as a threat to their economic well-being”).

¹⁵² Chapter V of the post-World War II Havana Charter contained a section covering “Restrictive Business Practices,” but this was never incorporated into the General Agreement of Trades and Tariffs. See Symposium, *The Internationalization of Antitrust Law: Options for the Future*, 44 *DEPAUL L. REV.* 1289 (1995).

¹⁵³ See Ballabh, *supra* note 26, at 901 (stating that while the European Union favors harmonization of antitrust law, the United States favors cooperation in the enforcement of national laws).

¹⁵⁴ See Dessemontet, *supra* note 10, at 571.

¹⁵⁵ *Id.*

¹⁵⁶ The WIPO Arbitration and Mediation Center is located in Geneva, Switzerland, and the ICC International Court of Arbitration is in Paris, France. See WIPO Arbitration and Mediation Center, www.wipo.int/amc/en/index.html; International Chamber of Commerce, International Court of Arbitration, <http://www.iccwbo.org/court/arbitration/id4400/index.html>.

usually require access to substantial amounts of economic data, and are therefore expensive to examine.¹⁵⁷

C. Enforcement of Awards

In the last few decades, arbitral awards have been touted as being easier to enforce internationally, because while courts in countries such as India and China have been reluctant to enforce foreign judgments, foreign arbitral awards must be respected and enforced under the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”).¹⁵⁸ While this is generally true, the New York Convention allows authorities in signatory states to refuse enforcement of awards where the subject matter of the dispute “is not capable of settlement by arbitration under the law of that country.”¹⁵⁹

Defenses against enforcement of arbitral awards under the New York Convention include absence of valid agreement, lack of finality, unenforceability under local laws, and public policy of the enforcing jurisdiction.¹⁶⁰ Obviously, the home countries of both parties to the dispute must also be signatories of the New York Convention. However, with a list of signatories 144 countries long,¹⁶¹ including every major economic power,¹⁶² this is rarely an issue. The United Nations has drawn up recommended model rules of arbitration.¹⁶³ Most major economic powers have also implemented domestic arbitration laws in some form, using these Model laws as a guide.¹⁶⁴

¹⁵⁷ Dessemontet, *supra* note 10, at 554.

¹⁵⁸ See Smith et al., *supra* note 11, at 305. See also Convention on the Recognition and Enforcement of Foreign Arbitral Awards, July 6, 1958, 21 U.S.T. 2517 (1970), available at http://www.uncitral.org/pdf/english/texts/arbitration/NY-conv/XXII_1_e.pdf [hereinafter the “New York Convention”].

¹⁵⁹ See *id.* art. V(2)(a).

¹⁶⁰ See generally New York Convention, *supra* note 158.

¹⁶¹ U.N. Comm’n on Int’l Trade Law, Status: 1958—Convention on the Recognition and Enforcement of Foreign Arbitral Awards, available at http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention_status.htm (listing the 144 parties to the treaty and the current state of the ratification of the treaty in each country).

¹⁶² *Id.*

¹⁶³ U.N. Comm’n on Int’l Trade Law, *Report of the United Nations Commission on International Trade Law on the Work of Its Eighteenth Session*, Annex I, U.N. Doc. A/40/17 (June 21, 1985), <http://www.uncitral.org/pdf/english/yearbooks/yb-1985-e/vol16-p3-46-e.pdf> [hereinafter UNCITRAL].

¹⁶⁴ The UNCITRAL Model Law has served as the basis for approximately fifty-seven national arbitration laws. UNCITRAL, *Status of Conventions and Model Laws 17*, U.N. Doc. A/

D. ADR in Patent Disputes in the BRIC Countries

While the status of ADR as an alternative to patent litigation in countries like the United States, Canada, and Switzerland is well established, its status in the developing world is very much in question. The focus of our discussion now shifts to the feasibility of using ADR in these disputes in Brazil, Russia, India, and China: the four countries of the hypothetical BRIC alliance.

1. Brazil

Disputes involving IP rights are arbitrable in Brazil.¹⁶⁵ While patent licenses, trademark agreements, publishing contracts, franchising agreements, and other such contract-related patent disputes are arbitrable (those capable of settling),¹⁶⁶ concerns with the public effect of patent validity claims render that area of IP law inherently unarbitrable in Brazil.¹⁶⁷ Following the enactment of the Brazilian Arbitration Law (“BAL”) in 1996, the last decade has seen a substantial growth in the use of both domestic and international arbitration in Brazil.¹⁶⁸ Despite its enactment in 1958, it was not until 2002 that Brazil ratified the New York Convention,¹⁶⁹ though in some sense, the convention was indirectly internalized by the enactment of the BAL in 1996.¹⁷⁰ Like foreign court orders, a foreign arbitral award can only produce effects in Brazil after ho-

CN.9/651 (May 30, 2008), available at <http://daccessdds.un.org/doc/UNDOC/GEN/V08/539/75/PDF/V0853975.pdf>.

¹⁶⁵ The Brazilian Code of Civil Procedure allows for the arbitration of civil disputes such as those arising out of patent transactions. See generally CODIGO DE PROCESSO CIVIL [C.P.C.] arts. 1072–1102 (Braz.).

¹⁶⁶ William Grantham, *The Arbitrability of International Intellectual Property Disputes*, 14 BERKLEY J. INT’L L. 173, 216 (1996).

¹⁶⁷ *Id.* at 217.

¹⁶⁸ Fabiano Robalinho Cavalcanti, *Enforcement of Foreign Arbitral Awards in Brazil*, in THE ARBITRATION REVIEW OF THE AMERICAS 2009 (2009), available at <http://www.globalarbitrationreview.com/reviews/13/sections/51/chapters/502/brazil/>.

¹⁶⁹ DAVID LEINIG MEILER, ARBITRATION IN BRAZIL — RATIFICATION OF THE NEW YORK CONVENTION 1, available at <http://www.felsberg.com.br/ingles/AreaAtuacao/Pdf/Arbitragem/Client%20Alert%20-%20NY%20Convention.pdf> (“The New York Convention . . . is now law in Brazil.”).

¹⁷⁰ Fernando Eduardo Serec & Antonio M. Barbuto Neto, *Arbitration—Brazil: The New York Convention and the Enforcement of Foreign Arbitral Awards*, INTERNATIONAL LAW OFFICE, Dec. 4, 2008, available at <http://www.internationallawoffice.com/newsletters/detail.aspx?g=2d2e3066-1253-4966-b965-67a5b2bd31e7> (“Despite having been created 50 years ago,” the New York Convention “was not ratified in Brazil until July 23, 2002 through the enactment of Decree 4.311/2002. . . . [H]owever, the convention was indirectly internalized in Brazil by Law 9.307 of September 23, 1996 (the Arbitration Act).”).

mologation by the Brazilian Judiciary.¹⁷¹ Yet, because the Brazilian legislature used the text of the New York Convention as the basis for drafting the corresponding provisions into the BAL,¹⁷² the “Brazilian Supreme Court applies the same test for the enforcement of foreign decisions, without re-examining its merits.”¹⁷³ In 2004, a Constitutional amendment shifted competence for homologation requests from the Supreme Court to the Superior Tribunal of Justice,¹⁷⁴ a court of last resort in disputes involving federal law.¹⁷⁵

Brazil was one of the few emerging industrial powers that had attempted to foster economic and industrial growth by finding alternatives to IP protection by attempting to create a system that combines social welfare and technological innovation to produce “just” economic growth.¹⁷⁶ Even before its ratification of the New York Convention, Brazilian courts were well respected internationally, and there were no specific instances of their declining to enforce contractually agreed-to international arbitral awards.¹⁷⁷ An analysis of Brazil’s homologation decisions shows “the favourable approach taken by the highest Brazilian courts towards the recognition and enforcement of foreign arbitral awards even before the ratification of the New York Convention.”¹⁷⁸ Since ratification, the “moving of the recognition process to the Federal Supreme Court” and then to the Superior Tribunal of Justice has been seen as a “step in the right direction.”¹⁷⁹

¹⁷¹ See C.P.C., *supra* note 165, arts. 483–84.

¹⁷² See Cavalcanti, *supra* note 168 (“[T]he legislature used the text of the New York Convention as the basis for drafting these two provision, which, in the end, basically provide that the homologation of foreign arbitral awards may be denied in Brazil in the same circumstances as the ones provided in article V of the New York Convention.”) (The “two provisions” referred to are articles 38 and 39 of the BAL, which deal with the enforcement of foreign arbitral awards.).

¹⁷³ MEILER, *supra* note 169, at 1.

¹⁷⁴ Cavalcanti, *supra* note 168.

¹⁷⁵ Serec, *supra* note 170.

¹⁷⁶ LEWIS, *supra* note 45, at 35.

¹⁷⁷ ENFORCEMENT OF ARBITRATION AGREEMENTS AND INTERNATIONAL ARBITRAL AWARDS: THE NEW YORK CONVENTION IN PRACTICE 72 (Emmanuel Gaillard & Domenico Di Petro eds., 2008).

¹⁷⁸ Serec, *supra* note 170.

¹⁷⁹ Before the Supreme Court held the arbitration act to be constitutional (in 2002), few arbitral awards were submitted for recognition. Between 1996 and 2004, the Federal Supreme Court granted three requests for recognition and denied two. Between 2005 and June 2008, the Superior Tribunal of Justice granted recognition to [thirteen] foreign arbitral awards, while denying four. These four were “denied[,] based mainly on the Arbitration Act.” See Serec, *supra* note 170.

2. Russia

Despite the best efforts of the international community and the Russian government, Russia is still not a full member of the WTO.¹⁸⁰ Traditionally, Russia has been known for its disregard of IP rights.¹⁸¹ The enforcement of IP rights in Russia over the last few decades has been notoriously relaxed.¹⁸² The reluctance of U.S. and European policymakers to allow Russia to join the WTO could be explained by their belief that Russia will be unable to comply satisfactorily with IP protection standards.¹⁸³

Russia's relative inability to bring its patent system in line with world practices can be blamed on its communist past. The former USSR practiced a system of "collective ownership of certified inventions protected by inventors' certifications of authorship."¹⁸⁴ This was a system which allowed any Soviet organization to use an invention without its author's permission.¹⁸⁵ Although the Patent Law of the Russian Federation, adopted in September 1992, conforms to international standards of patent legislation, remnants of old Soviet practices still manifest themselves in the day-to-day experiences of foreign investors in Russia.¹⁸⁶ Given the slow pace of Russia's accession into the WTO and the hurdles left to overcome, Russia is an appropriate candidate for International ADR mechanisms to replace traditional patent litigation.

3. India

As the world's largest democracy and second most populous country, India often considers itself the voice of the developing world.¹⁸⁷ India still faces problems with implementing the TRIPS agreement. However, shortly before the 2005 TRIPS deadline for

¹⁸⁰ World Trade Organization, Accession Status: Russian Federation, http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm (last visited Jan. 27, 2009). Russia's accession process to the WTO was started in June 1993, and sixteen years later, much work still remains.

¹⁸¹ See Marina Portnova, *Ownership and Enforcement of Patent Rights in Russia: Protecting an Invention in the Existing Environment*, 8 *IND. INT'L & COMP. L. REV.* 505 (1998).

¹⁸² The Business Software Alliance, a group of leading U.S. software companies, has called Russia a "one-copy" country, implying that the enforcement of IP laws in Russia is so relaxed that only one legitimate piece of software is necessary to satisfy the entire country because of endless copying. Karl Emerick Hanuska, *Microsoft at the Gates to Confront Software Pirate-Infested Russia*, *AGENCE FRANCE-PRESSE*, Oct. 9, 1997, available at 1997 WL 13410803.

¹⁸³ Peter K. Yu, *Access to Medicines, BRICS Alliances and Collective Action*, 34 *AM. J. L. & MED.* 345, 354 (2008).

¹⁸⁴ Portnova, *supra* note 181, at 506.

¹⁸⁵ Baev, *supra* note 64, at 366.

¹⁸⁶ *Id.* at 365.

¹⁸⁷ Yu, *supra* note 183, at 350.

developing countries, India introduced a new patent law.¹⁸⁸ Locally, the Arbitration and Conciliation Act governs both domestic and international arbitration in India and was passed to bring Indian law up to date with UNCITRAL Model Law.¹⁸⁹ It consolidates the law relating to domestic arbitration, international commercial arbitration, and enforcement of foreign arbitral awards.¹⁹⁰

In general, Indian courts do not interfere with the parties' decision to arbitrate. Under the Arbitration and Conciliation Act, the power of the courts to set aside an arbitral award is very limited.¹⁹¹ The generally accepted view in India's court system is that the award of the arbitrator is final and binding regardless of the outcome. A court may refuse to enforce an arbitral award only if the arbitral tribunal did not have jurisdiction over the matter¹⁹² or if the decision was not reached in a procedurally fair fashion where both parties had equal opportunity to be heard.¹⁹³ Thus, given the backlog in Indian courts, the fairly recent development of its domestic patent law and the prevalence and general acceptance of arbitration, the country would appear to be a good candidate for the use of international ADR, contract-mandated or otherwise.

4. China

Patent disputes in China are generally grouped into two categories: administrative (patent validity) and civil (patent infringement).¹⁹⁴ Thus, China offers a system of dual enforcement.¹⁹⁵ While older opinions favored the administrative enforcement of patent rights,¹⁹⁶ China's entry into the WTO has resulted in an overhaul of their legal system, with new provisions including dam-

¹⁸⁸ See generally Janice M. Mueller, *The Tiger Awakens: The Tumultuous Transformation of India's Patent System and the Rise of Indian Pharmaceutical Innovation*, 68 U. PITT. L. REV. 491 (2007).

¹⁸⁹ Arbitration and Conciliation Act, 1996, No. 26, Acts of Parliament, 1996 pmbl.

¹⁹⁰ See Smith, *supra* note 11, at 343.

¹⁹¹ See *id.*

¹⁹² See *Kapur v. Kapur*, (2003) 2 Arb. L.R. 508, 510 (Del.) (stating that the arbitration tribunal's determination of jurisdiction can be challenged by the aggrieved party upon the conclusion of the proceedings).

¹⁹³ See *Rajasthan State Mines & Minerals, Ltd. v. Eastern Eng'g Enter.*, A.I.R. 1999 S.C. 3627, 3641-42.

¹⁹⁴ See Smith, *supra* note 11, at 346 (quoting Xie Xiaoling, *Lun zhuan li jiu fen ji qi jie jue tu jing* [On Patent Litigation and Its Solving Approach], 12 GUANGDONG XING ZHENG XUE YUAN XUE BAO [J. UANGDONG INST. PUB. ADMIN.] 61, 62 (2000)).

¹⁹⁵ CHRISTOPHER HEATH & LAURENCE PETIT, PATENT ENFORCEMENT WORLDWIDE 285 (Hart Publ'g 2005) (discussing the pros and cons of a dual enforcement system).

¹⁹⁶ See 13 INTELL. PROP. & TECH. L.J. 28 (2001).

age compensation and pre-litigation remedies, now only available through the courts.¹⁹⁷ Today, IP related suits in China can be initiated both where the legal breach occurred, as well as in the defendant's domicile jurisdiction.¹⁹⁸ Arbitration would be a good balance between the two regimes of enforcement since the parties to the dispute could pick between the remedies available under the applicable scheme of law.

Unfortunately, domestic patent arbitration is practically unknown in China.¹⁹⁹ The question of patent validity is an administrative dispute that cannot be resolved through arbitration.²⁰⁰ Therefore, it is easy enough for one side in a patent arbitration to allege that the patent is invalid if she feels like the proceedings are not going her way. Additionally, since Chinese law does not allow it, China is not bound to recognize foreign arbitral awards under the terms of the New Convention.²⁰¹ Therefore, while it is unclear whether a foreign arbitral award regarding patent infringement would be enforced, matters concerning the validity of a patent are handled by the administrative state agency and the people's courts,²⁰² and would therefore not be arbitrable.²⁰³ Thus, parties engaged in a dispute concerning patent validity or infringement have recourse only to the patent administration agencies and the courts.

Parties to property rights disputes in China may, however, submit their dispute to binding arbitration and expect the award to be enforced. Experts believe that it would be possible for an arbitral tribunal to refer specific issues, such as patent validity, to Chinese courts while retaining jurisdiction over any remaining issues.²⁰⁴ Thus, public policy concerns may disallow binding arbitration for parties in a patent disputes if the disagreement goes to the validity of the patent. The employment of ADR in international licensing agreements should, however, be more straightfor-

¹⁹⁷ China has been a member since December 11, 2001. World Trade Organization, China and the WTO, http://www.wto.org/english/thewto_e/countries_e/china_e.htm.

¹⁹⁸ YANG XIAOGUANG, *THE CHINA IP FOCUS* 2003, 72.

¹⁹⁹ Smith, *supra* note 11, at 346.

²⁰⁰ *Id.*

²⁰¹ *Id.*

²⁰² See Zhuan Li Fa [Patent Law] (promulgated by the Standing Comm. Nat'l People's Cong., Mar. 12, 1984, effective Mar. 12, 1984) arts. 3, 45, 46, para. 2, 12 P.R.C. Laws 163 (allowing appeals regarding patent validity only to the Patent Reexamination Board or the people's court).

²⁰³ See Zhong Cai Fa [Arbitration Law] (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 31, 1994, effective Sep. 1, 1995) art. 3, para. 2, 6 P.R.C. Laws 91, available at http://www.cietac.org.cn/english/laws/laws_5.htm (disallowing arbitration of administrative disputes).

²⁰⁴ Smith, *supra* note 11, at 343-44 (2006).

ward and less likely to be challenged in court. Another option in China would be a court-conducted conciliation proceeding, essentially equivalent to consensual ADR, where the court can issue a binding Conciliation Statement that is legally enforceable upon the conclusion of the settlement mechanism.²⁰⁵

VI. CONCLUSION

Over the last few decades there has been a gradual movement towards the use of ADR in intellectual property disputes, both domestically and internationally. In many ways, the traditional system of litigation is broken, both in terms of time delays and in the quality and fairness of the result delivered.²⁰⁶ International intellectual property disputes, like those arising out of other international commercial transactions, are especially ill-suited for resolution in the courts of the home country of one of the disputing parties. National bias, delays, enforcement concerns, and language and jurisdictional barriers often stymie the dispute resolution process.²⁰⁷

ADR has already proven itself as an effective means of dispute resolution in the international arena, eliminating or mitigating several of the problems commonly faced by traditional litigation. Flexible methods like negotiation and mediation, coupled with mini-trial methods like arbitration provide a customized remedy to both big and small companies wishing to resolve their international licensing disputes.²⁰⁸ Due to public policy concerns about the international enforcement of arbitral awards that purport to judge the validity of a patent and the inherently consensual nature of ADR, such mechanisms will probably continue to be chiefly limited to those intellectual property disputes arising out of contracts.²⁰⁹ Additionally, public policy concerns about ADR circumventing and supplanting the established systems of dispute

²⁰⁵ *Id.* at 347.

²⁰⁶ See generally Lim, *supra* note 69 (discussing this proposition based on the lack of technical expertise in courts adjudicating patent disputes).

²⁰⁷ See Part IV of this Note, *supra*.

²⁰⁸ See Lim, *supra* note 69 (discussing this proposition based on the lack of technical expertise in courts adjudicating patent disputes).

²⁰⁹ See generally Wayne D. Collins & Joseph Angland, *Issues in Competition Law and Policy*, 2008 A.B.A. SEC. ANTITRUST 1979.

resolution in common law countries will most likely cause its reexamination in the future.²¹⁰

While contractual pre-agreement to arbitration makes its operation and enforcement easier, it has the danger of possibly locking parties into a process that inherently favors one side over the other. Agreeing to ADR requires a careful examination of the possible issues that may arise. In the opinion of Chief Judge Judith Kaye of the New York Court of Appeals:

it would be nice to know, for example, just what the nature of the dispute will be; how and where it will erupt; whether your client will be the wronged party or the wrongdoer; whether your client will want vengeance, vindication or a quick and very private settlement; whether your counterparts, when they become your adversaries, will want to eat the orange or cook the peel- in other words, their desires and objectives and how they will relate to yours. . . . [I]n the end the only reliable tools will be the judgment and experience of counsel.²¹¹

For now, ADR offers something for everyone, benefiting both big and small companies equally. It offers smaller firms a time-efficient mechanism for dispute resolution while at the same time cutting litigation costs, a combination that enables these firms to actually afford to assert their rights while also bringing their products to market. At the same time it benefits big companies, by letting them keep their disputes private and confidential, away from the eyes of investors and regulators, while still allowing them to resolve their disputes in a manner that does less damage to their ongoing business relationships.

²¹⁰ Common law principles like *stare decisis* and *res judicata* mandate the formation of a body of common law consisting of past judicial decisions that form the basis of precedent for future cases. In the long term, the inherently private nature of ADR proceedings and the *inter partes* effect of arbitral adjudications will tend to undermine these principles.

²¹¹ Judith S. Kaye, Symposium, *Business Dispute Resolution—ADR and Beyond: An Opening Statement*, 59 ALB. L. REV. 835, 841 (1996).