Arbitrati

ng echnology Cases

Why arbitration may be more effective than litigation when dealing with technology issues.

By Sandra J. Franklin

The recent explosion in the general use of arbitration is coinciding with the booming interest in intellectual property and technology. On the one hand, companies find it generally saves time and money to seek resolution of disputes through arbitration. Companies have also recently seen the increasing value of technological advances sold by them and used by them, particularly in the realm of information technology. The related area of intellectual property asset management has been catapulted to the forefront of business strategy. This article explores how the broad areas of arbitration and technology presently dovetail. It does not address the related use of mediation, facilitation, and other methods of alternative dispute resolution (ADR), though they are often successfully used in tandem with arbitration.

Fast Facts

Recent court hearings have run heavily in favor of arbitration.

Discovery and evidentiary formalities during trial prove much more difficult in a technology case.

Confidentiality and quick resolution can come through arbitration.

Why Take a Technology Case to Arbitration?

Much has been published on the use of arbitration, the types of arbitration, and the mechanics of arbitration. Recent court rulings have run heavily in favor of arbitration. But, specifically, why submit a case involving technology to binding arbitration? Typically, technology-related cases are more complex than general litigation, requiring at least two areas of special expertise—one on the relevant law and one on the underlying technology. The relevant law often includes intellectual property law, computer law or "law of the Internet," government contract law, and international law, among others. The technology, of course, can be anything from software development to biotechnology to aeronautical engineering. To successfully resolve a dispute involving technology, technical expertise and comfort in both areas must be readily available. Litigation has proven to be an unwieldy vehicle for the resolution of disputes, even where no special expertise is required. Players in fast-paced technology markets cannot afford to have progress stalled for lengthy and expensive litigation. For them, confidentiality is also a giant issue when a dispute over technology develops. A "leak" of sensitive information, as well as time delays, could cripple a company's launch of a new product. The level of secrecy and timing shape "cutting edge" technology.

Discovery and evidentiary formalities during trial prove much more difficult in a technology case, partly because of the necessity for confidentiality and partly because the underlying technology itself can be obscure. The parties must have a technically astute decision-maker who, with knowledgeable attorneys, can direct the case to an informed resolution, quickly, and in virtual secrecy.

Indeed, the U.S. Supreme Court, in instituting the so-called "Markman hearing" in 1996 (*Markman v Westview Instruments, Inc*, 517 US 370, 1996), declared juries to lack the sophistication to determine the meaning of patent claims. The Supreme Court favors court (over jury) determination of patent construction issues, with technical experts giving guidance but not testimony. Expert testimony on patent claims can be given in an arbitration, however, and often forms the basis for an informed arbitral award. The battleground over business method patents and Internet-based patents provides particularly fertile ground for resolution through binding arbitration.

In the international arena, parties distrust foreign legal jurisdictions and are even more wary of the time and money it can take to get a judgment in another country. Out of necessity, the parties have been driven to create their own dispute resolution mechanisms in order to stimulate international enterprise.

Is a Case Arbitrable?

In the U.S. virtually all intellectual property issues may be the subject of binding arbitration, barring contractual language to the contrary. The Federal Arbitration Act (9 USC 1–14, 201–208, 2000) governs both domestic and international arbitration. The act established the validity, irrevocability, and enforceability of agreements to arbitrate. The *Mitsubishi Motors Corp v Soler Chrysler-Plymouth, Inc* case (473 US 614, 1985) did much to expand the boundaries of arbitration in the United States by enforcing an international arbitration agreement even where there were public policy concerns over American antitrust law. The 1998 Alternative Dispute Resolution Act, as amended (28 USC 651–658, 2000), directs every federal district court to establish an ADR program. Currently, the Revised Uniform Arbitration Act is circulating to the states for adoption, to bring state laws in line with current arbitration practice.

The U.S. Congress expressly allowed voluntary, binding arbitration of patent validity, enforceability, and infringement disputes with the 1983 addition of Section 294 to Title 35 of the U.S. Code, and arbitrations have included interference issues. Arbitrators do not, however, have the independent power to invalidate patents. Though there are no specific statutory provisions for the arbitration of trademark, copyright, and trade secret matters, they are routinely arbitrated and enforced by the courts. The expansion of employment arbitration beyond union issues into white collar employee cases has seen the natural inclusion of technology development disputes. No doubt the recent fallout in technology financing will spawn disputes in venture capital deals, which make excellent candidates for arbitration.

Internationally, arbitrability turns on whether the subject matter goes beyond the merely private concerns of the parties. Some countries disfavor the arbitration of intellectual property rights because the exclusionary property rights contained in registrations can be enforced against anyone, not just the other party in the dispute. Nevertheless, most countries allow arbitration in intellectual property disputes that are capable of settlement between the parties alone and equate arbitration with the waiver of contractual rights. Practitioners should check to see if a particular country has adopted the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (full text in note to Section 201 of the Federal Arbitration Act) to see how far that country goes in allowing patent and other intellectual property disputes to be arbitrated.

Arbitration awards are binding only as to the parties in the U.S. and most countries. Many countries require the participation of officials responsible for issuing and enforcing patents and other public grants. Some countries, notably China, have tribunals or authorities with exclusive jurisdiction over arbitration of any international trade dispute, including intellectual property issues. In the U.S., for another example, there may be instances where the jurisdiction of the U.S. International Trade Commission will supersede arbitration agreements or awards.

Domain Name Disputes

Domain name dispute arbitration is an example of necessity eventually dictating at least a partial solution to a pervasive intellectual property problem for parties involved in national or international commerce. The Uniform

Domain-Name Dispute Resolution Policy (referred to as UDRP) is directed primarily at cybersquatting, or intentional misappropriation of trademarks, and does not provide for the arbitration of trademark ownership disputes where there is a legitimate claim on both sides. What it does do is provide for expedited administrative arbitration of complaints based on bad-faith appropriation of a domain name. Usually, the entire case is conducted via e-mail and the arbitrator must render a decision within 14 days of receipt of the full file. The rules for UDRP were implemented by the Internet Corporation for Assigned Names and Numbers (ICANN) on October 24, 1999, and

the first case was heard in January of 2000. Since then, thousands of domain name arbitrations have been filed under the UDRP, with the number likely to steadily increase with the establishment of new top level domain names such as .biz. ICANN's web site (www.icann.org) currently lists four arbitration agencies that can receive and administer domain name cases: the National Arbitration Forum, eResolution, the World Intellectual Property Organization (WIPO), and the CPR Institute for Dispute Resolution (formerly the Center for Public Resources). Each organization has its own supplemental rules.

These forums handle other types of arbitration also. There is a plethora of arbitration agencies that can easily be found on the Internet by searching under "arbitration" or "alternative dispute resolution." Of increasing popularity are private arbitration services, which focus on particular technical areas and may have fewer administrative restrictions.

Government Contracting

The government contract world has been diligently working to make ADR a viable option for contract disputes. Defense contracts, in particular, have long been the source of fundamental technology advances, which have made their way into the mainstream via various technology transfer vehicles. There has been a tremendous amount of litigation between the government and contractors over contract interpretation, often involving technology rights.

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Since the enactment of the Administrative Dispute Resolution Act of 1996 (Public Law 104-320, 110 Stat. 3870), the defense department has endorsed various forms of alternative dispute resolution. Federal Acquisition Regulations require the use of a contract clause that permits the use of arbitration, which may be binding, depending on the guidelines of each agency. Government solicitations cannot require the use of arbitration, and agreements to arbitrate must specify a maximum award.

The Air Force, the Defense Logistics Agency, and the Army Corps of Engineers have been the most active in ADR. Though not mandated, the Air Force has been opting to use judges from the Armed Services Board of Contract Appeals as arbitrators; the judges often act as both mediators and arbitrators in the same case, often leading to settlement before formal arbitration. The Army has seen some success with its Partnering Program whereby it enters into a partnering agreement with its contractors, and dispute resolution mechanisms are set up in advance of a dispute arising. The armed services have yet to break out and embrace commercial arbitration methods, including the use of true neutrals. It is believed that once the matter of enforcement of awards affecting the military is specifically addressed, proven ADR methods will be embraced. This pattern was seen in the development of commercial arbitration and then in the development of international arbitration.

Conclusion

There are very few remaining barriers to the use of arbitration and it will only become more prolific. The importance of technology and its place in the marketplace mandate a method for the speedy yet confidential resolution of disputes. Technically qualified arbitrators will increasingly provide the resolution of cases involving technology, in domestic, international, commercial, and government cases. ✦

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