CHOICE OF LAW IN INTERNATIONAL INTELLECTUAL PROPERTY ARBITRATIONS: A THREE DIMENSIONAL CHESS GAME?

-by-

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I. INTRODUCTION

An arbitral tribunal making a choice-of-law determination in an international arbitration may sometimes feel as if it is watching, or perhaps more to the point is the referee of, a chess match between the parties. Like chess, the analysis may be difficult and two-dimensional and the parties, in arguing their respective choice-of-law positions, often are jockeying for an opening advantage with an ultimate resulting outcome known only sometime later. At the risk, perhaps, of stretching the metaphor too far, in comparison to such a determination in the usual commercial matter, a choice-of-law analysis in an intellectual property ("***IP***") related international arbitration can take on all the complexity of the fictional three dimensional chess game played on *Star Trek*.

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The reasons for this increased complexity are several. Some arise from basic choice-of-law issues that are always present in international arbitrations, some from the inherent nature of IP and IP law and some from typical characteristics of an international IP commercial transaction.

First, generally speaking in international arbitrations as opposed to litigation in court, there are more jurisdictions[2] whose law could be applicable to one aspect or another of the arbitral proceedings. Also, the scope of the application of the law of the site of the arbitration can be less clear than in a court proceeding.

Secondly, there are different types of IP – patents, copyrights, trade secrets and so on. Some have no validity except under the law of the state under which they arose, while some in essence have international effect by treaty or because they arise under contract. Also, in some

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[2] Section 101(5) of the American Law Institute, *Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes* (Proposed Final Draft) (Current through March 30, 2007) (the "***Principles***") provides a convenient definition of "state" for the purposes of this article.

> "State" means an entity with a defined territory and a permanent population, under the control of its own government, that engages in, or has the capacity to engage in, foreign relations with other such entities. The allocation of authority between a State and its territorial subdivisions is determined under the law of that State.

Under this definition the United States would be a State and State of the United States (***e.g.***, New York) would be a subdivision. As this deviates somewhat from normal practice here in the United States and might be a little confusing, this article will refer to a body meeting the definition of **§**101(5) as a "***state,***" one of the United States as a "***State***" and a body that is either a state or a State as a "***jurisdiction***."

The Principles do not formally apply to arbitration. However, the Reporters note that "they may be used by analogy in jurisdictions that do not have specific rules on the arbitrability of intellectual property disputes." *Principles* § 202 Reporters' Note 6. Accordingly, and while the *Principals* are not final and perhaps not without some controversy, they can provide some guidance on the general state of law. The same is certainly true of the more general, but final for many years, *Restatement (2d) of Conflicts* (1971) (the "***Restatement***"). It is therefore reasonable to use them both for statements on the general state of the law on the specific issue or issues in question, at least in those cases where there is no specific law or precedent on point; and we will be returning to both throughout this article.

For a history and discussion of the *Principles, see* Dreyfuss, *The ALI Principles on Transnational Intellectual Property Disputes: Why Invite Conflicts?*, 30 BROOK J. INT'L L. 819 (2005).

states there are public policy defenses to a claim that sounds in an IP right. Indeed, for example, some states make arbitration unavailable for the determination of patent validity.

Thirdly, the typical international commercial IP transaction may involve multiple forms of IP, IP arising under the laws of multiple states or both. This complication is often ignored at the drafting stage as it is not unusual for the parties to choose the law of only one jurisdiction for the choice-of-law provision and that jurisdiction may even be one under which none of the IP in question arises.[3]

And if the reader think that these issues are more academic rather than real, it is useful to consider the following not atypical international IP transaction: a license[4] of computer hardware and software technology from a Massachusetts company to a Japanese company for the making of a product in Japan to be sold in Asia. The IP rights of the Massachusetts licensor would include a copyright in the software, trade secrets in at least the source code of the software and perhaps in manufacturing techniques in the hardware and United States and foreign counterpart patents in the hardware and perhaps the software. While licensors usually can impose both the jurisdiction of the choice-of-law clause and the seat for the arbitration, sometimes licensees are able to bargain for what they perceive as more neutral law and a less unequally convenient arbitration location. In this case, the choice-of-law provision might reference New York law and the arbitral forum might be San Francisco. In any event, in this author's experience, most parties do not expressly provide for choice of any law other than the substantial law of the contract.

[3] For example, an international patent license between a United States entity and a foreign one might reference the law of the State of the principal place of business of the United States entity (*e.g.*, New York). Yet, the foreign licensed patents arise only under the laws of the foreign states which granted them and even the United States patent arises under federal and not State law.

[4] While IP issues can arise in a number of contractual contexts – distributorship agreements, asset purchase agreements and so on – the license is the most common form of IP agreement.

In a dispute over this hypothetical transaction, note:

1) The dispute involves an international agreement involving IP.

2) The parties are from two different states.

3) The rights licensed include patents, trade secrets and copyrights.

4) The license grant covers IP rights of multiple states.

5) The license has a choice-of-law provision which provides for the application of the substantive laws of one of the United States – State L. State L may or may not be the domicile of the United States party. Except for trade secrets, law on IP validity and attributes is at the federal level in the United States.

6) Other than as set forth in 5, there are no other choice-of-law provisions.[5]

7) The license provides for arbitration which is to take place in one of the United States – State F. State F may or may not be the same as State L and may or may not be the domicile of the United States party.

8) Various defenses under United States IP and IP related law, that of Japan and perhaps that of other states as well, might be raised.

These factors are typical of the complications which may arise in any choice-of-law analysis in an international IP related arbitration. Indeed, as will be seen,

[5] In very complex international transactions, parties sometimes provide for a choice of *lex arbitri*. This usually would be the case in agreements where the seat of the arbitration is in a state different from that whose law was chosen as the substantive law of the contract. In any event, at least in the United States, the interplay between the substantive choice-of-law provision and the arbitration clause can be complex, with the former potentially defeating the later. *See Volt Information Sciences, Inc. v. Stanford University*, 489 U.S. 468 (1989).

international IP arbitrations may involve circumstances which may make a traditional choice-of-law analysis difficult, if not impossible. This article will explore this interplay of choice-of-law and IP considerations.

II. GENERAL CHOICE-OF-LAW PRINCIPLES IN INTERNATIONAL ARBITRATION

The first step in the analysis of the interplay of choice-of-law and IP issues in international arbitrations is a review of the general choice-of-law principles applicable in such arbitrations.[6] However, a true international analysis, considering, for example, various states as the arbitral location or seat, and thus various *lex arbitri,* is well beyond the scope of this article. Accordingly, while the discussion in this article will be as universal as possible, most cited law,

[6] At some point, and this is as good as any, one needs to confront the question as to whether arbitral tribunals are bound to follow any of the choice-of-law principles discussed in this article and whether a party has a remedy for a tribunal's failure to do so. Neither the Federal Arbitration Act, 9 U.S.C. §§ 1-16 (the "***Act***"), nor The United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 330 U.N.T.S. 38 (New York, June 10, 1958) (the "***New York Convention***"), the statute and treaty applicable to international arbitrations conducted in the United States, denies an award enforceability merely because of a mistake in law. Some courts in the United States have denied enforceability on the grounds of manifest disregard of the law or capricious or irrational decision. But neither of these grounds has been universally accepted in the United States and the continued viability of each remains in some doubt, particularly in light of the Supreme Court's recent decision in *Hall Street Assoc. v. Mattel, Inc.,* No. 06–989 (2008).

The theory of manifest disregard of the law is based on dictum in *Wilko v. Swan*, 346 U.S. 427, 436, 74 S. Ct. 182, 98 L. Ed. 168 (1953). Courts apply it very narrowly, if at all. *See, e.g.*, *Rodriguez v. Prudential-Bache Securities, Inc.,* 882 F. Supp. 1202, 1209 (D.P.R. 1995) "[T]he hurdle [to show manifest disregard of law in commercial arbitrations] is a high one. In order to vacate an arbitration award, there must be some showing in the record, other than the result obtained, that the arbitrators knew the law and expressly disregarded it" and *Fine v. Bear, Sterns & Co., Inc.*, 765 F. Supp. 824, 827 (S.D.N.Y. 1991) "[Manifest disregard of the law] is applicable only where the law alleged to have been disregarded is well defined, explicit, and clearly applicable, so that the error was capable of being readily and instantly perceived by the average person qualified to serve as an arbitrator." Other courts have essentially rejected it. *See, e.g., Baravati v. Josephthal, Lyon & Ross, Inc.*, 28 F. 3d 704, 706 (7th Cir. 1994).

The two theories of capricious or irrational decision are often referred to interchangeably. As with manifest disregard of the law, they are applied narrowly. *See, e.g., Brown v. Rauscher Pierce Refsnes, Inc.*, 994 F. 2d 775, 781 (11th Cir. 1993). "For an award to be vacated as arbitrary and capricious, [it] must contain more than an error or interpretation, [but rather] there must be no ground for [it]" and *Ainsworth v. Skurnick,* 960 F.2d 939, 941 (11th Cir.1992) "An award is arbitrary and capricious only if a ground for [it] cannot be inferred from the facts of the case."

Accordingly, it is fair to conclude that it would be difficult, if not impossible, to obtain a court reversal of a tribunal's erroneous choice-of-law analysis, except perhaps if it is basically without any logical relationship to the law or the parties' agreement. *See, e.g., Karaha Bodas Co., L.L.C. v. Perusahaan Pertambangan Minyak Dan Gas Bumi Negara*, 364 F.3d 274, 290 (5th Cir. 2004) ("Under the New York Convention, the rulings of the Tribunal interpreting the parties' contract are entitled to deference. Unless the Tribunal manifestly disregarded the parties' agreement or the law, there is no basis to set aside the determination that Swiss procedural law applied." (footnotes omitted)). Nevertheless, in the experience of this author, most tribunals attempt to follow applicable law. And this article will assume such for the issues under consider in it.

will, of necessity, assume that the arbitral site is in the United States and that the arbitration is therefore between a United States entity and foreign entity.

At least five states' laws may be applicable in any particular international arbitration.[7] These are: (a) the laws of jurisdiction or jurisdictions governing the parties' ability to agree to arbitrate, (b) the law of the jurisdiction governing the agreement to arbitrate, (c) the law of the arbitral forum, (d) the law of the jurisdiction or jurisdictions where the award will be recognized and enforced and (e) the substantive law of the contract.[8] In addition, the rules of the administering body, if there is one, may also have an impact. [9] Let us consider each in turn.

(a) The Laws of Jurisdiction or Jurisdictions Governing the Parties' Ability to Agree to Arbitrate

Presumably this would be the law of one of the States for a United States entity, either the State of its organization or principal place of business (assuming it is not a natural person) or the State of its residence (if it is a person). It would likewise be the state of organization or the principal place of business or residence for the foreign entity. However, in the typical and normal sophisticated international commercial transaction, there is usually no issue pertaining to the parties' ability to arbitrate and we can accordingly eliminate this consideration to simplify our analysis.

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[7] *See, e.g.,* Redfern and Hunter, *Law and Practice of International Commercial Arbitration* p. 91 (Sweet & Maxwell 4th ed. 2004) ("***Redfern and Hunter***").

[8] *Id*.

[9] An arbitration can either be administered by a body, such as the American Arbitration Association ("***AAA***") or the International Chamber of Commerce ("***ICC***"), or be *ad hoc*. Most parties with experience in international arbitration will chose to have an administered arbitration. Because *ad hoc* arbitrations are not administered by any administering body, they can be difficult for both the parties and the tribunal. For example, there are no administering body arbitral rules and the parties either need to agree on procedures or the tribunal would only be allowed to use those permitted by applicable law. This is often not easy. *See, e.g., Kuwait v. American Indep. Oil Co*., 66 I.L.R. 518 (1984). *See also Advanced Micro Devices, Inc. v. Intel Corp.*, 9 Cal.4th 362, 36 Cal.Rptr.2d 581 (1994) for another example of the pitfalls an *ad hoc* arbitration.

(b) The Law of the Jurisdiction Governing the Agreement to Arbitrate

It is well settled that the arbitration clause in a larger contract is a separate agreement, or, in other words, that defenses that go to the enforceability of the contract as a whole do not as a general rule go to the enforceability of the arbitration clause.[10] That being the case, the choice-of-law analysis for an arbitration clause is nevertheless usually governed by the choice-of-law provision for the contract as whole, if for no other reason than that the parties usually do not choose or think to adopt a separate choice-of-law provision for the arbitration clause. [11] Nothing, or practically nothing, however, stops the parties from choosing one state's laws for the operative part of the contract as a whole and another state's laws for the arbitration clause, even if the latter is different from the arbitral forum.[12] Doing so, however, does add unnecessary complexity.[13] There is also an overarching question – which we will return to in part II(c), *supra* – of whether the parties can avoid the application of a law of the seat of the arbitration by use of a choice-of-law provision in the arbitration clause, specifically, or in the contract's choice-of-law provision, in the more general case.

Whatever may be the pros and cons of a separate choice-of-law provision for the arbitration clause, in its absence the law governing the arbitration clause will generally be the same as that which governs the contract as a whole. Since most international IP agreements will usually contain a choice-of-law provision for substantive law but no separate choice-of-law

[10] *See, e.g., Prima Paint Corp. v. Flood & Conklin Mfg. Co.,* 388 U.S. 395 (1967).

[11] *See, e.g., Volt Information Sciences, Inc. v. Stanford University*, 489 U.S. 468 (1989), as an example of just such an instance.

[12] *See, e.g.*, *Redfern and Hunter* p. 103.

[13] Id.

clause for the agreement to arbitrate, we can also simplify our analysis by eliminating this consideration.

(c) The Law of the Arbitral Forum – the *Lex Arbitri*

Before we can even consider what laws of the forum jurisdiction should apply, we need to briefly consider whether they should apply at all. In a typical international arbitration, the site of the arbitration might be chosen for no better reason than that it was a neutral location (*i.e.*, not the home state of either party) which either was equally convenient, or inconvenient, to both parties or was simply just a "good" place in which to stay during the hearings. Note also that the hearings themselves could be in multiple locations and states.[14] Finally, in some international arbitrations, the parties leave the choice of the location of the hearings to the arbitral tribunal's decision. For these and other reasons, many have argued that the choice of the seat of the arbitration should have no effect on the laws to be applied in the proceedings.[15] This is the so-called delocalization theory[16] which is exemplified by decisions such as those in the *Aramco*[17] and *Texaco*[18] arbitrations.

[14] A traveling arbitration proceeding – one which has hearings in multiple locations – must not be conducted in violation of the local law of the states to which it goes, particularly as to those pertaining to the taking of testimony and other evidence. The mere fact, however, that the Tribunal has elected to take testimony in various different states should not change the identity of the seat of the arbitration, assuming one has been agreed to by the parties or otherwise designated. *See Redfern and Hunter* p. 94.

[15] *See, e.g., Redfern and Hunter* p. 105 *et seq*.

[16] *Id.*

[17] *Armaco* arbitration, 27 I.L.R. (1963).

[18] *Texas Overseas Petroleum Company and California Asiatic Oil Company v. The Government of the Libyan Arab Republic*, 17 I.L.M. (1978)

The view contrary to delocalization is the "seat" theory which maintains that an arbitration, even an international one, ought to be governed by the law of the jurisdiction in which it takes place. Support for this theory is found in the New York Convention, the treaty that governs most international arbitrations.[19] It is implicit in the Act[20] and United States courts have adopted it in principle, if not in name.[21]

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[19] Most countries are signatories to the New York Convention. Article V of the New York Convention provides:

> 1. Recognition and enforcement of the award may be refused, at the request of the party against whom it is invoked, only if that party furnishes to the competent authority where the recognition and enforcement is sought, proof that:
>
> > (a) The parties to the agreement referred to in article II were, under the law applicable to them, under some incapacity, or the said agreement is not valid under the law to which the parties have subjected it or, failing any indication thereon, under the law of the country where the award was made; or
> >
> > (b) The party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present his case; or
> >
> > (c) The award deals with a difference not contemplated by or not falling within the terms of the submission to arbitration, or it contains decisions on matters beyond the scope of the submission to arbitration, provided that, if the decisions on matters submitted to arbitration can be separated from those not so submitted, that part of the award which contains decisions on matters submitted to arbitration may be recognized and enforced; or
> >
> > (d) **The composition of the arbitral authority or the arbitral procedure** was not in accordance with the agreement of the parties, or, failing such agreement, **was not in accordance with the law of the country where the arbitration took place**; or
> >
> > (e) **The award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the law of which, that award was made**. (emphasis added)

[20] *See, generally,* 9 U.S.C. §§ 1-16.

[21] *See, e.g*., *Scherk v. Alberto-Culver Co.,* 417 U.S. 506, 519 (1974) ("Under some circumstances, the designation of arbitration in a certain place might also be viewed as implicitly selecting the law of that place to apply to that transaction. In this case, however, '(t)he laws of the State of Illinois' were explicitly made applicable by the arbitration agreement.") *and Yusuf Ahmed Alghanim & Sons v. Toys "R" Us, Inc*., 126 F.3d 15, 21 (2nd Cir. 1997)("We read Article V(1)(e) of the Convention to allow a court in the country under whose law the arbitration was conducted to apply domestic arbitral law, in this case the FAA, to a motion to set aside or vacate that arbitral award. The district court in *Spector v. Torenberg,* 852 F.Supp. 201 (S.D.N.Y.1994), reached the same conclusion as we do now, reasoning that, because the Convention allows the district court to refuse to enforce an award that has been vacated by a competent authority in the country where the award was rendered, the court may apply FAA standards to a motion to vacate a nondomestic award rendered in the United States.").

It is thus reasonable to opt for the seat theory. But this then leads to the next issue, namely: What law of the seat should apply and what should not? Typically, matters to which the *lex arbitri* is likely to cover include:

- the validity and form of the arbitration agreement;
- arbitrability;
- the jurisdiction of the arbitrators;
- the appointment, removal and replacement of arbitrators;
- challenge of arbitrators;
- time limits;
- the conduct of the arbitration, including possible rules for the disclosure of documents;
- interim measures of protection;
- whether there is power to consolidate arbitrations;
- whether the arbitral tribunal is able to decide *ex aequo et bono*;
- the form and validity of the arbitral award; and
- the finality of the award (including any right of recourse against it under national law).[22]

It takes only a cursory glance at this list to see that all of the items in it appear explicitly to be only issues of "procedure" [23] rather than those going to the substance of the matters in dispute, although implicitly one or two (*i.e.*, the jurisdiction of the arbitrators and the form and validity of the arbitral award) could be argued to reach some substantive issues. The question flowing from this distinction which is relevant to the topics under consideration in this article is then: to what extent must or should or can an arbitral tribunal consider the substantive laws of the seat of the arbitration if the choice-of-law clause in the contract points to the laws of another jurisdiction. [24]

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[22] *Redfern and Hunter* p. 95.

[23] There is, of course, one other source of procedural rules that is applicable, the arbitration rules of the administering body, assuming there is one, or whatever rules the parties adopt in an *ad hoc* arbitration.

[24] Note for this part of the analysis it will be assumed that the seat is not the state whose laws would be pertinent if the parties had not elected any choice-of-law provision or if they could not chose an alternative state for the

Or, to put it more precisely in terms of an IP related arbitration, should the arbitral tribunal consider the seat's laws relating to the validity and enforcement of IP?[25] And does it make a difference if the seat's law in question relates to public policy since public policy issues have a special significance, both under the New York Convention and United States arbitration law.[26] However, note that both the New York Convention provision and the public policy

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particular issue in question under the principles discussed in part II(e), *infra*. In either of those cases, the analysis reduces to that in part II(e) as the seat is the substantive law state as well. One example of such circumstances in an IP arbitration might arise if some or all of the IP in question was seat state IP.

[25] Actually there are several different possible scenarios, depending on the state whose law is applicable to the IP, the jurisdiction chosen in the choice-of-law forum and the identity of the seat. No separate choice-of-law issue relating to the *lex arbitri* is presented if the later two or the first and third are the same. On the other hand at the other extreme, the tribunal will be likely forced to decide the applicability of the seat's substantive law if all three are different. For example, assume the seat has some law which affects the enforceability of the IP in question if it had been IP issued by the seat. Assume also, however, that the IP was issued by a state other then the seat and that the choice-of-law clause points to yet another jurisdiction. Is the tribunal required to take that law of the seat into account in deciding whether or not the IP is valid and enforceable? In other words, does a tribunal sitting in New York need to take United States IP law into account in deciding the validity and enforceability of French IP licensed to a United States entity by a Japanese entity under a license with a Japanese choice-of-law provision?

[26] Under the New York Convention, the only substantive grounds for which an award can be denied enforcement are in Article V(2) which provides:

> Recognition and enforcement of an arbitral award may also be refused if the competent authority in the country where recognition and enforcement is sought finds that:
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> > (a) The subject matter of the difference is not capable of settlement by arbitration under the law of that country; or
> >
> > (b) The recognition or enforcement of the award would be contrary to the public policy of that country.

There is no comparable provision under the Act, but the courts have fashioned a public policy grounds for non-enforcement. That theory owes its foundation to *United Paper Workers' International Union, AFL-CIO v. Misco, Inc.*, 484 U.S.29 (1987). That case involved a labor arbitration, but it has been followed in the commercial context. *See, e.g., Brown v. Rauscher Pierce Refsnes, Inc,* 994 F. 2d 775, 782 (11th Cir. 1993). However, the public policy is only available as grounds for reversal if it is both "explicit" and "well defined and dominant… ascertained by reference to laws and legal precedents." ***Id.***

Finally, *cf. generally Principles*§ 403, which provides in pertinent part:

> Judgments Not To Be Recognized Or Enforced
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> (1) The enforcement court must not recognize or enforce a judgment if it determines that:
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> ….

grounds adopted by the United States courts apply to the enforcement of an award and are thus more to the point with respect to the impact of the law of the enforcement jurisdiction rather than that of the seat.[27]

This distinction is not without some significance as it can be expected that, except in case of enforcement proceedings (or similar vacatur proceedings), pertinent court decisions on the appropriate substantive scope of the *lex arbitri* will be rare, if they exist at all. This can be seen from the following: If you assume that nearly all court actions regarding an arbitral award are in enforcement or vacatur proceedings, then either the state of enforcement will be the same as the seat or it will not be. In the first situation, any *lex arbitri* public policy grounds for denial of enforcement will be found in the law of the enforcing state as well since the two states are the same. In the second situation, it can be presumed that a court of one state would be reluctant to deny enforcement to an arbitral award based upon a public policy of another state whose policy did not exist in the enforcing state. Thus, it is not surprising that there is a little guidance on the issue in United States court decisions. [28]

> (e) recognition or enforcement would be repugnant to the public policy in the State in which enforcement is sought;

and the Reporters' Notes to that section:

> "Given these other avenues for addressing policy concerns, subsection (e), which echoes provisions of other instruments [citations omitted] should be reserved for cases where enforcing the judgment would cause extreme-- manifest--incompatibility problems.

[27] *Id.*

[28] A Westlaw search of all federal case for the term "lex arbitri" turned up only 5 "hits" of which 4 were different stages of the same case. One of those decisions did involve a public policy defense to the enforcement of the award, but the public policy was that of the enforcing state not the *lex arbitri*. *Karaha Bodas Co., L.L.C. v. Perusahaan Pertambangan Minyak Dan Gas Bumi Negara,* 364 F.3d 274 (5th Cir. 2004).

Turning now to the issue of the scope of the applicable law of the seat, the more expansive view that such law can or should be relevant would seem to run contrary to at least the spirit, if not the underlying facts, of decisions like that of the Supreme Court in *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.* [29] where the Court held that an American entity can be compelled to arbitrate United States antitrust claims in Japan notwithstanding the strong United States public interest in the enforcement of the antitrust laws and notwithstanding that wholly domestic antitrust disputes would not be arbitrable. The literature also seems consistently to view, or at the very least assume, that the law of the seat applicable in an international arbitration is restricted to procedural matters.[30] The Principles are also explicit, at least for matters that do not rise to the level of public policy. Section 301 on territoriality provides in pertinent part (emphasis and footnotes added):

> (1) Except as provided in §§ 302 and 321-323[31], the law applicable to determine the existence, validity, duration, attributes, and infringement of intellectual property rights and the remedies for their infringement is:
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> …
>
> (b) for other intellectual property rights, **the law of each State for which protection is sought**.

[29] 473 U.S. 614 (1985).

[30] *E.g.*, *Redfern and Hunter* p. 95.

[31] Section 302 provides that the parties' choice-of-law clause should be given effect except for matters such as "(a) the validity and maintenance of registered rights; (b) the existence, attributes, transferability, and duration of rights, whether or not registered; and (c) formal requirements for recordation of assignments and licenses." Section 321 deals with the situation of infringing activity in multiple jurisdictions, and is discussed further in part II (e), *infra*. Section 322 deals with issues of public policy and is discussed immediately following the text to which this footnote applies. Section 223 deals with mandatory laws and provides:

> The court may give effect to the mandatory rules of any State with which the dispute has a close connection if, under that State's law, the rules must apply regardless of the law that is otherwise applicable.

To the extent there is any doubt in the language that the Principles do not intend that the forum state may generally apply its own substantive law, that doubt is dispelled in the Reporters' Notes.[32] Finally, at least the rules of some of administering bodies are consistent with the view that only procedural law of the seat should be considered by the Tribunal.[33]

On the other hand, there is support for the contrary view in the previously cited *dictum* in footnote 13 in *Scherk v. Alberto-Culver Co.,*[34]

> Under some circumstances, the designation of arbitration in a certain place might also be viewed as implicitly selecting the law of that place to apply to that transaction.

There is also *dictum* that is arguably to a similar effect in one of the opinions in *Karaha Bodas Co., L.L.C. v. Perusahaan Pertambangan Minyak Dan Gas Bumi Negara*[35] series of cases.

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[32] *See Principles* §301, Reporters Note 2, which provides;

> *Characterization of connecting factors.* The international conventions on intellectual property, when applicable, do not characterize with certainty the connecting factor or factors, nor do they, as a general matter, clearly set forth a choice-of-law approach. For example, although art. 5(2) of the Berne Convention states that "the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed," many scholars contend that art. 5(2) of the Berne Convention should not be construed as a rule on conflicts of law. [citations omitted]
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> Article 5(2), moreover, is unclear as to the precise characterization of the connecting factor, i.e., "*where* protection is claimed," especially when the infringement is committed on the Internet, and also as to the exact scope of the applicable law. For example, the reference to the country "where" protection is claimed could mean the substantive or the conflicts law of the forum State, or it could mean the substantive law of the country (or countries) "for which" protection is claimed. As an example, suppose a copyright-infringement suit brought in the United States regarding an unauthorized transmission from Canada of a U.S. work, received in France. "[T]he country where protection is claimed" in this instance might mean the *lex loci delicti*, which, in turn, might mean the place(s) of commission/initiation of the infringement (Canada), or the place(s) of its impact (France). Alternatively, "where protection is claimed" might mean the lex fori, the law of the forum State where the action is brought (the United States). In other words, even if the Berne Convention purported to announce choice-of-law rules, the disagreement as to what those rules are counsels clear enunciation of choice-of-law rules in these Principles.
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> Art. 9 of the European Commission's Amended Rome II Proposal designates that for intellectual property rights other than a "unitary Community industrial property right," "the law of the country *for which* protection is sought" controls infringement (emphasis added). The same approach is taken here.

[33] *E.g.*, AAA International Arbitration Rules, Rules 1(b) and 28(1). *See* the discussion in part II (e), *infra*.

[34] 417 U.S. 506, 519 (1974).

> By allowing concurrent enforcement and annulment actions, as well as simultaneous enforcement actions in third countries, the Convention necessarily envisions multiple proceedings that address the same substantive challenges to an arbitral award. For instance, Article (V)(1)(d) enables a losing party to challenge enforcement on the grounds that the arbitral panel did not obey the law of the arbitral situs, i.e., the *lex arbitri*, even though such a claim would undoubtedly be raised in annulment proceedings in the rendering State itself. In addition, this case illustrates that enforcement proceedings in multiple secondary-jurisdiction states can address the same substantive issues.[36]

And § 322 of the Principles on the impact of public policy provides:

> The application of particular rules of foreign law is excluded if such application leads to a result in the forum State that is repugnant to the public policy in that State.[37]

Finally, at least one rule of one administering body would support this more expansive view.[38]

Where then does that leave us? Perhaps the best that can be said is that a tribunal probably may apply the substantive law of the seat of the arbitration, unless either (i) the parties have chosen another jurisdiction's laws and the matter is one on which they can make such a choice[39] or (ii) another jurisdiction's law must be applied.[40] If the matter is one of public policy, the argument for applying the seat's law is stronger and may even trump the parties' choice of

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[35] 335 F.3d 357, 368 (5th Cir. 2003).

[36] It should be noted, however, that Article (V) (1)(d) speaks in terms of "the arbitral procedure …not [being] in accordance with the law of the country where the arbitration took place."

[37] However, the Reporters' Notes to that section make it clear that this is a rule that is to be applied in extreme circumstances and with care. *Principles* §322, Reporters Note 2.

[38] Appendix II to the ICC Rules of Arbitration, Article 6.

> When the Court scrutinizes draft Awards in accordance with Article 27 of the Rules, it considers, to the extent practicable, the requirements of mandatory law at the place of arbitration.

[39] *See* the discussion in part III(e), *infra*.

[40] *See, e.g., Principles* § 323.

law. Finally, and perhaps this goes without saying, a tribunal should not issue an award that would directly or indirectly violate the seat's law.[41]

(D) The Law of the Jurisdiction or Jurisdictions where the Award Will Be Recognized and Enforced

Under the New York Convention, a state need not enforce an arbitral award if either its subject matter is not capable of settlement by arbitration under the law of that state or the recognition or enforcement of the award would be contrary to the public policy of that state.[42] United States case law[43] is in accord, as are the Principles.[44]

The identity of this jurisdiction – or jurisdictions - is, of course, somewhat of a wild card. To be sure one or more of them could, probably will, be one or more of the jurisdictions identified in part II (a), *supra*, namely the respective states of organization or locations of the principal places of business or residences of the parties. But a jurisdiction where enforcement may be sought could just as well be some other jurisdiction where, for example, one of the patents under dispute was issued. In fact, an international patent agreement may license a master patent (issued, for example, in the United States) and corresponding patents issued in a number of countries around the world and the number of possible enforcement jurisdictions may be significant. Even more numerous are the possible enforcement jurisdictions for a worldwide

[41] An example of this might arise under a law such as the regulations in the United States that govern export control. *E.g.,* 15 C.F.R. Parts 730-774. Not only do those regulations cover direct export from the United States of covered technology, they also pertain to shipment of the technology from one foreign country to another. 15 C.F.R. § 730.5. Consider then an arbitration in the United States between two foreign entities over a transaction in yet another country which, if it takes place, would violate those "re-export" regulations. If part of the relief the claimant is requesting is an order compelling that the respondent complete the transaction, should, or could, the tribunal grant it?

[42] New York Convention Article V(2).

[43] *See* note 26, *supra*.

[44] *Principles* §322.

copyright license. Since a copyright issued in one Berne treaty country is valid in all,[45] an award relating to an international copyright license may well be subject to enforcement in well over 100 countries.

Should or must, a tribunal take the law of these jurisdictions into account in its award? Can it? The tribunal could be faced with either an insurmountably large task or the danger that the award might be a nullity or both. Perhaps not surprisingly, there is some difference of opinion in the literature as to whether in the general case a tribunal has a duty to ensure that an award is in fact enforceable, at least in the jurisdiction in which it will likely be enforced is different from the seat of the arbitration or the jurisdiction whose laws were chosen, either by the parties or the tribunal, as the substantive ones applicable to the dispute.[46]

Again, there is no easy answer and again the best that can be done is to draw some general conclusions. Certainly nothing would seem to prevent the arbitral tribunal from taking into account the law of a jurisdiction in which the award may be enforced. Whether it should or must do so in all likelihood must depend on the specific circumstances in the arbitration in question. Thus, at one extreme is the case where one of the states which have issued the patents in question is a state which prohibits the arbitration of the validity of patents it has issued.[47] Can a tribunal sitting in a state which does permit the arbitration of the validity of its patents decide the validity of patent in a state which does not? Even if it can, should it? At the other extreme is the previously mentioned worldwide copyright license. It is simply impractical, if not

[45] *See* note 74, *infra*.

[46] *See, e.g.*, Buhler and Webster, *Handbook of ICC Arbitration* p. 221 (Thompson 2005).

[47] *See* part III(b), *infra*.

impossible, for any tribunal to consider whether its award would be enforceable in all jurisdictions in which such enforcement might be sought.

(e) The Substantive Law of the Contract

There is wide agreement that the parties have substantial latitude to choose the substantive law that is applicable to their contract, at least certainly on matters to which they could have contracted, [48] and that, in the absence of such a choice-of-law selection by the parties,

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[48] Many jurisdictions follow the rule that a contractual choice-of-law provision can only pertain to those aspects of a contract about which the parties could have contracted. In those jurisdictions, matters such as capacity to contract, adhesion and other issues relating to the legality cannot be the subject of a choice-of-law provision. *See Restatement* §187, which provides:

> **(**1) The law of the state chosen by the parties to govern their contractual rights and duties will be applied if the particular issue is one which the parties could have resolved by an explicit provision in their agreement directed to that issue.
>
> (2) The law of the state chosen by the parties to govern their contractual rights and duties will be applied, even if the particular issue is one which the parties could not have resolved by an explicit provision in their agreement directed to that issue, unless either
>
> > (a) the chosen state has no substantial relationship to the parties or the transaction and there is no other reasonable basis for the parties' choice, or
> >
> > (b) application of the law of the chosen state would be contrary to a fundamental policy of a state which has a materially greater interest than the chosen state in the determination of the particular issue and which, under the rule of § 188, would be the state of the applicable law in the absence of an effective choice of law by the parties.
>
> …

See also Principles § 302 which provides (emphasis added):

> Agreements Pertaining To Choice Of Law
>
> (1) Subject to the other provisions of this Section, the parties may agree at any time, including after a dispute arises, to designate a law that will govern all or part of their dispute.
>
> (2) **The parties may not choose the law that will govern the following issues:**
>
> > **(a) the validity and maintenance of registered rights;**
> >
> > **(b) the existence, attributes, transferability, and duration of rights, whether or not registered;**
> > **and**
> >
> > **(c) formal requirements for recordation of assignments and licenses.**

the tribunal has substantial discretion in choosing the jurisdiction or jurisdiction whose laws apply to the dispute.[49] That agreement, however, does not end the analysis. At least three questions remain. First, can the choice-of-law provision be trumped? Second, if so, what circumstances trump the parties' express choice-of-law provision? Third, to what factors should the tribunal look to determine the identity of the jurisdiction or jurisdictions whose laws would either (i) trump a choice-of-law clause or (ii) apply in the absence of such a clause?

The first and second questions may be more effectively considered together. Here, the case law specific to choice-of-law in international IP arbitrations, such as it is, seems on first glance to be somewhat at odds with the positions espoused by the *Principles* and the *Restatement*. The later in essence allow the parties to choose the law applicable to their contracts except in certain specific circumstances, namely where the parties could not have contracted on the issue in question and the jurisdiction they choose "has no substantial relationship to the parties or the transaction and there is no other reasonable basis for the parties' choice or … the law of the chosen state [is] contrary to a fundamental policy of a state which has a materially greater interest than the chosen state…."[50] More specifically with respect to IP, the Principles provide that the parties' choice of law cannot reach issues such as the (i) validity of registered rights, (ii) the existence, attributes, transferability, and duration of any rights and (iii) formal license recordation requirements.[51]

The issue of the parties' power to contract on choice of law in an international IP arbitral context with respect to IP related issues has been reached in only one United States decision, an

[49] *See, e.g.*, part II(f), *infra*.

[50] *Restatement* §187.

[51] *Principles* § 302.

opinion by the Court of Appeals for the Federal Circuit, the court of appeals which is responsible for appeals in patent related cases. In *Deprenyl Animal Health, Inc. v. University of Toronto Innovations Foundation*[52] a patent licensee of a United States patent brought a declaratory judgment action against the Canadian licensor claiming, among other things, patent invalidity. The case was on appeal from a final judgment of the district court dismissing the action. The license in question contained an arbitration clause requiring arbitration in Canada and a choice-of-law clause selecting the laws of the Province of Ontario, Canada.

The court first held that "the enforceability of forum selection, choice of law, and arbitration provisions are questions of law subject to *de novo* review."[53] It then went on to respond to the licensor's argument that the dismissal should be affirmed because the arbitration clause covered all issues regarding the patent, including validity and infringement, and the licensee's position that the clause was not so broad as to encompass the infringement and invalidity claims. The court held that the scope of the arbitration provision was an issue in the first instance for Canadian courts and accordingly remanded the case with instructions to stay it pending the outcome of the arbitration. In so doing it responded to the argument that its ruling might result in the determination of the validity of a United States patent in accordance with Canadian law:

> Nothing prevents patent-related disputes such as this one from being resolved in binding foreign arbitration. As with other property rights, patent-related rights can be contracted away. [citation omitted] Parties may agree to arbitrate patent infringement and validity issues, and such agreements bind the parties. 35 U.S.C. § 294 (2000) ("A contract involving a patent or any right under a patent may contain a provision requiring

[52] 297 F.3d 1343 (Fed. Cir. 2002). Acknowledging that the state of the law on the parties' power to choose foreign law to apply in arbitrations regarding United States patents is unclear, at least one commentator has described this case as standing for the proportion that the parties do in fact have the power to do so. Smith *et al*., *Arbitration Of Patent Infringement and Validity Issues Worldwide*, 19 HARV. J.L. & TECH. 299, 326 (2006)

[53] *Deprenyl* at 1349.

arbitration of any dispute relating to patent validity or infringement arising under the contract.... Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract."). Section 294 is not limited to domestic arbitration, nor is there any compelling reason to so interpret its authorization of the arbitration of disputes over patent-related rights. [citation omitted]

Moreover, the Supreme Court has recognized a strong federal policy in favor of arbitration, particularly in the international realm. *Mitsubishi Motors Corp. v. Soler Chrysler Plymouth, Inc.*, 473 U.S. 614, 628-29, 105 S.Ct. 3346, 87 L.Ed.2d 444 (1985). In *Mitsubishi Motors,* the Supreme Court held enforceable an agreement to resolve an antitrust claim by foreign arbitration. *Id.* at 640, 105 S.Ct. 3346. The Court explained that international comity, respect for foreign tribunals, and the commercial system's need for predictable dispute resolution required holding the plaintiff to its agreement to arbitrate. *Id.* at 629, 105 S.Ct. 3346. These concerns apply with vital force to the resolution of disputes regarding patent rights.

[The licensee] contends that, notwithstanding the arbitration clause in its agreement, it should not be bound to arbitrate. This is so, it maintains, because the Canadian arbitration proceedings may apply Canadian law to the issue of the validity of the '164 patent, and Canadian law may estop DAHI, as a licensee, from challenging the patent's validity. In *Mitsubishi Motors,* the Supreme Court rejected a similar argument. *Id.* at 636, 105 S.Ct. 3346. …

Likewise, we see no reason to presume that the Canadian arbitral panel will apply Canadian law to determine the validity of the United States patent. In fact, it is uncertain whether the issue of validity necessarily falls within the scope of what the parties agreed to arbitrate. That is an issue for the Canadian courts to determine, at least in the first instance.

Because the agreement contains a broad arbitration clause, and because the present dispute including [licensee's] allegations of noninfringement and invalidity arose from [licensor's] July 28, 2000 letter contending that the sale of Anipryl is subject to the license agreement, considerations of international comity demand that the district court stay proceedings in the present litigation pending the outcome of the Canadian arbitration. Should the Canadian court determine that either the noninfringement or invalidity issues fall outside the scope of the arbitration clause, the district court may address them at that time. We express no view as to whether the decision of the Canadian court regarding arbitrability will be binding in the district court proceedings.[54]

[54] *Id.* at 1357-1358.

Does the *Deprenyl* case actually stand for the principle that the parties have the power to elect that the validity of a United States patent be decided not just by arbitration, but also by arbitration in accordance with the substantive laws of another state? As will be discussed below it is clear that, at least in the United States, one may arbitrate issues regarding United States patents.[55] But the view[56] that the court held that the parties may choose foreign law to apply to the issue of the validity of a United States patent in that arbitration is, it is submitted, more than the court intended.

First, as a practical matter, to the extent the language in question can be so interpreted, it is *dictum*. Second, the court itself recognizes the difficulty of applying foreign law to the question of the validity of a United States patent and notes that it would be speculative to assume that the arbitration tribunal would do so.[57] Third, the grounds under both the New York Convention[58] and the Act[59] to refuse to enforce an agreement to arbitrate (as opposed to the grounds to refuse to enforce an arbitral award) are limited and do not include the possibility that the arbitral tribunal may make a finding or issue an award that is incorrect or even that is contrary to public policy. The public policy argument, if it is raised at all, must be raised in the proceeding to enforce the award.[60] Although the *Deprenyl* court does not expressly discuss the

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[55] 35 U.S.C. § 294. *See* Part III(b), *infra*.

[56] *See* note 52, *supra*.

[57] *Deprenyl* at 1357-1358. It should be noted that the choice-of-law clause in question selected the Provincial law of Ontario. IP law is at the federal level in Canada. Patent Act (R.S., 1985, c. P-4). Whether and to what extent a choice-of-law provision which references the law of a subdivision (such as a State of the United States or a Province of Canada) incorporates federal or state level law, particularly for IP from a different jurisdiction is open to question. *See* part III(e), *infra*.

[58] New York Convention Article II(3).

[59] Act § 2.

[60] New York Convention Article V(2).

impact of the New York Convention or the Act, it seems clear from the language of the opinion that it was mindful of them.[61] Fourth, the application of foreign law to the validity of a United States patent would, at least in the face of a request by one of the parties to apply United States law, be contrary to the very provision of the Patent Act, which permits the arbitrability of patent issues.[62] Finally, for reasons discussed in more detail below,[63] the application of one state's laws to another state's IP in many instances makes no sense and could result in an anomalous award.

It is thus reasonable to assume that the appropriate approach is that contained in the §187 of the *Restatement* or the various applicable provisions of the *Principles* or both. Having thus concluded that the parties' ability to choose the applicable law is not without limit, and by extension considered the circumstances when such limitation might apply, the remaining question is what the factors determine the identity of the jurisdiction or jurisdictions whose laws would either (i) trump a choice-of-law clause or (ii) apply in the absence of such a clause.

It should be noted that the two (*i.e.,* a jurisdiction whose laws may trump a parties' choice-of-law selection and a jurisdiction whose law applies in the absence of such a selection) are not, or may not be, the same. In the absence of a contractual choice-of-law clause, most courts in the United States would employ the traditional most significant relationship analysis to determine which substantive law governed the contract.[64] More specifically, the most significant relationship analysis considers the applicability of the laws of a number of jurisdictions

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[61] At least twice the court notes that the issue of the scope of the arbitration clause is "for the Canadian courts to determine, **at least in the first instance**." *Deprenyl* at 1358 (emphasis added). *See also Deprenyl* at 1357.

[62] 35 U.S.C. § 294(b).

[63] *See* part III(a), *infra.*

[64] New York's conflict rules, for example, apply the "most significant relationship" test. *See, e.g.*, *Stephens v. American Home Assur. Co.,* 811 F. Supp. 937 (S.D.N.Y. 1993). This is the test set forth in the *Restatement* § 188.

including: place of performance, place of contracting, place(s) of negotiation, residence(s) of the parties and so on.[65] On the other hand, the *Restatement* restricts the jurisdiction or jurisdictions whose laws may override a choice-of-law clause adopted by the parties in essence to those jurisdictions with "materially greater interests than the chosen state"[66] and the *Principle*s in essence to the state or states whose IP is at issue or who have applicable recordation requirements.[67]

In summary, then, the parties will have great latitude in choosing any jurisdiction's laws as that applicable to the arbitral resolution of their IP dispute. The only exceptions will be in areas where, under applicable law, they could not contract on the issue. In those cases, the law of jurisdictions with greater interests in the issues in question will prevail. Those jurisdictions should include, among others, any state whose IP is in issue or any state with applicable recording requirements for the IP or matters related to the IP.

(f) The Rules of the Administering Body

The rules of an arbitral administering body are not technically speaking "law" which is applicable to the parties' agreement or the resolution of the parties' dispute. Rather they are additional contract terms which are incorporated into the parties' arbitration provision if and when the parties make reference to them.[68] In addition, it is to be expected that the rules of most

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[65] *Restatement* § 188 (2). *See also, e.g., Principles* § 315.

[66] *Restatement* §187 quoted at length in note 48, *supra*.

[67] *Principles* § 302 quoted at length in note 48, *supra*.

[68] *See, e.g. Mastrobuono v. Shearson Lehman Hutton, Inc.,* 514 U.S. 52 (1995).

of these bodies will be general in nature and not specific to the issue of choice-of-law in IP disputes. Finally, it is not practical to consider every administrating body.

Nevertheless, there is reasonable consistency among the bodies' rules on matters which do have some bearing on the issues under consideration. Thus the rules do provide some guidance that is instruction for us. In particular, the rules as a general matter typically require a tribunal (i) to apply the rules, themselves, unless in conflict with the laws of the seat of the arbitration and (ii) to respect the parties' choice-of-law provision, if there is one, and, in the absence of such a clause give the tribunal substantial latitude to apply the law of the jurisdiction it thinks is most appropriate.

For example, with respect to the first issue the International Rules of the AAA provide:

> These Rules govern the arbitration, except that, where any such rule is in conflict with any provision of the law applicable to the arbitration from which the parties cannot derogate, that provision shall prevail.[69]

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[69] AAA International Arbitration Rules, Rule 1(b). The ICC's applicable rules are slightly different and provide:

> The proceedings before the Arbitral Tribunal shall be governed by these Rules and, where these Rules are silent, by any rules which the parties or, failing them, the Arbitral Tribunal may settle on, whether or not reference is thereby made to the rules of procedure of a national law to be applied to the arbitration. ICC Rules of Arbitration, Article 15(1).

See also Appendix II to the ICC Rules of Arbitration, Article 6, quoted at length in note *supra*.

While those of the London Court of International Arbitration ("***LCIA***") provide:

> The law applicable to the arbitration (if any) shall be the arbitration law of the seat of arbitration, unless and to the extent that the parties have expressly agreed in writing on the application of another arbitration law and such agreement is not prohibited by the law of the arbitral seat. LCIA Arbitration Rules, Article 16.3.

Finally, the rules promulgated by the United Nations Commission on International Trade Law ("***UNCITRAL***"), rules which are frequently used in *ad hoc* arbitrations, provide:

> These Rules shall govern the arbitration except that where any of these Rules is in conflict with a provision of the law applicable to the arbitration from which the parties cannot derogate, that provision shall prevail. UNCITRAL Arbitration Rules, Article 1 (2).

And with respect to question of choice of substantive law the International Rules of the AAA provide:

> The tribunal shall apply the substantive law(s) or rules of law designated by the parties as applicable to the dispute. Failing such a designation by the parties, the tribunal shall apply such law(s) or rules of law as it determines to be appropriate.[70]

The administrating bodies' rules are thus reasonably consistent and, to the extent they do anything, they are consistent with and support the conclusions drawn in the previous sections of this article. But in leaving maximum discretion on the issues to the parties' agreement and, failing that, to the tribunal (except as may otherwise be required by applicable law), they provide little in the way of real guidance on the ultimate issues addressed in this article. In particular, most rules tend to provide little help on the identity and scope of the *lex arbitri* jurisdiction[71] or any guidance on whether the parties can choose a particular jurisdiction's law to govern a

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[70] AAA International Arbitration Rules, Rule 28(1). Other bodies have similar rules. For example, the ICC's applicable rule provides:

> The parties shall be free to agree upon the rules of law to be applied by the Arbitral Tribunal to the merits of the dispute. In the absence of any such agreement, the Arbitral Tribunal shall apply the rules of law which it determines to be appropriate. ICC Rules of Arbitration, Article 17(1).

The LCIA Rules similarly provide:

> The Arbitral Tribunal shall decide the parties' dispute in accordance with the law(s) or rules of law chosen by the parties as applicable to the merits of their dispute. If and to the extent that the Arbitral Tribunal determines that the parties have made no such choice, the Arbitral Tribunal shall apply the law(s) or rules of law which it considers appropriate. LCIA Arbitration Rules, Article 22.3.

And the UNCITRAL Rules provide:

> The arbitral tribunal shall apply the law designated by the parties as applicable to the substance of the dispute. Failing such designation by the parties, the arbitral tribunal shall apply the law determined by the conflict of laws rules which it considers applicable. UNCITRAL Arbitration Rules, Article 33(1).

[71] *Compare* AAA International Arbitration Rules, Rule 1(b) and ICC Rules of Arbitration, Article 15(1) *with* LCIA Arbitration Rules, Article 16.3.

specific issue or on whether and to what extent the tribunal must assure that the award will be enforceable in other jurisdictions.

III. ADDITONAL IP-SPECIFIC CONSIDERATIONS

There are at least five characteristics of IP, IP law, IP transactions or the arbitration of IP which significantly compound a choice-of-law analysis. First, different types of IP spring from different legal bases and these differences have significance to a choice-of law analysis. Second, IP issues are not always arbitrable in all countries. Third, laws other than the law that created the IP in question may affect the validity and enforceability of IP rights and many of these laws may, and often do involve, public policy concerns. Fourth, IP agreements sometimes involve multiple forms of IP and often involve multiple states. Fifth, the laws pertaining to IP are often at a different level of jurisdiction than those the parties point to in the choice-of-law clause. Some aspects of these characteristics have been mentioned above; this section will consider them in more detail.

(a) Legal Bases of the IP

Some types of IP – for example, patents and, in many states, trademarks – only come into existence after an application for them is made to the appropriate agency of the state and that agency has approved the application.[72] In other words, these forms of IP exist only after application and/or registration and they are the creatures of the state which created them. They have little or no effect outside the borders of that state and are thus territorial.[73] Other forms of IP, namely copyright, while initially a creature of the state in which they were created, have,

[72] *See, e.g.*, 35 U.S.C. §§ 151 *et seq.* (for patents).

[73] *See, e.g. Paper Converting Machine C. v. Magna-Graphics Corp.*, 745 F.2d 11 (Fed. Cir. 1984). Note, however, there are several international treaties to which the United States is a party which give some "effect" outside the United States to a United States patent. For example, the Patent Cooperation Treaty allows multiple country patent application filings based on a single original filing. The Paris Union Convention specifically allows the filing in various foreign countries of coordinated patents based on a United States patent.

pursuant to treaty, international effect without registration.[74] Others, such as moral rights[75] or some trade secret rights[76] arise automatically from a jurisdiction's laws but may vary greatly from jurisdiction to jurisdiction. Trade secret rights also can arise under contract.[77] Finally, rights in domain names arise under what is an essentially private legal regime[78] although there are parallel or additional rights in domain names under many states' laws.[79]

Does it make any sense to adjudicate the validity of IP other than under the law of the state which gave it birth? In most cases the answer must be no. The following example

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[74] The validity and enforceability of copyrights is the subject of the Convention for the Protection of Literary and Artistic Works, signed at Berne, Switzerland, on September 9, 1886, effective in the United States March 1, 1989, the so-called Berne Convention. The Berne Convention, which has been adopted by most of the countries in the world, in essence provides that a copyright that is valid in one signatory country and that meets the requirements of the Convention is generally valid in all signatory countries.

[75] Moral rights are certain rights of authors in their works, such as the right of attribution. They exist generally in some foreign countries but, except for works of visual art, not in the United States. For the law in the United States, *see* 17 U.S.C. §106A.

[76] Under the Uniform Trade Secrets Act, which has been enacted in many States, any information "that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy" is entitled to receive protection as a trade secret. Uniform Trade Secrets Act § 1(4).

[77] *See, e.g., PepsiCo. Inc. v. Raymond*, 54 F.3d 1262 (7th Cir. 1995).

[78] Rights in domain names are adjudicated pursuant to rules promulgated by the Internet Corporation for Assigned Names and Numbers ("***ICANN***"), an essentially non-governmental body. While ICANN itself does not administer disputes under these rules, a number of other bodies do, including the World Intellectual Property Organization ("***WIPO***") and the AAA. WIPO's procedures are typical. The parties submit the demand and response to WIPO for forwarding to the panel by e-mail (with a copy by post), no hearings are allowed and the panel's decision is made on the papers. The award is sent to the parties electronically and posted publicly on WIPO's web site. For a fuller description of the WIPO's domain name procedures *see* http://arbiter.wipo.int/domains/.

The first domain name dispute brought under the ICANN rules was administered by WIPO and decided in January of 2000. *World Wrestling Federation Entertainment, Inc. v. Michael Bosman*, Case No. D99-0001 WIPO Arbitration and Mediation Center Administrative Panel Decision (January 2000) at http://arbiter.wipo.int/domains/decisions/html/1999/d1999-0001.html.

A decision under the ICANN procedures does not preclude a *de novo* court action by either party.

[79] An example of such laws in the United States is the Anticybersquatting Consumer Protection Act, 15 U.S.C. § 1125(d).

demonstrates why this is so. Under United Sates law, a patentee has one year from the date it describes the invention in a printed publication to file the application for the patent on it.[80] In the European Union there is no grace period and any such prior publication destroys the right to patent.[81] Would it make any sense to enforce an otherwise invalid European Union patent by applying the United States rule or invalidating an otherwise valid United States patent by applying the European rule?

(b) Arbitrability

The arbitrability of IP issues varies from state to state. For example, until the doctrine was reversed by statute, the validity of a patent could not be arbitrated in the United States.[82] Patent validity still may not be arbitrated in many countries, such as France.[83] The ability to arbitrate the validity of other types of IP is not universally settled.

Can or should a tribunal sitting in the United States decide the validity of a French patent, even if the choice-of-law provision references, for example, New York law. What is the effect of such an award, particularly if it was to be enforced in France? Alternatively, can or should a tribunal sitting in Paris decide the validity of a United States patent, whether or not the choice-of-law provision references French law?

(c) Other Laws which Impact the Validity and Enforceability of IP Rights and Public Policy Implications

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[80] 35 U.S.C. §102 (b).

[81] European Patent Convention Article 54.

[82] 35 U.S.C. §294.

[83] *See* Smith *et al*., *Arbitration Of Patent Infringement and Validity Issues Worldwide*, 19 HARV. J.L. & TECH. 299, 333 (2006) for a description of the state of the law in France. *See id.* generally for a survey of such issues in various countries.

In addition to the law that created the IP right in question, other laws affect that right's validity and enforceability. These include laws that may govern the attributes, transferability[84] and duration of the right and the recordation of contracts pertaining to the right. The parties may have limited or no ability to choose the jurisdiction whose law would govern many or most of these issues.[85] In addition, there are other laws which go to the use or licensing of IP or which are defenses to claims of infringement.[86] And unlike the usual commercial contract, IP disputes may, and often do involve, public policy concerns such as antitrust issues.[87]

At first glance this consideration may seem clear cut: as with the issue of validity, it makes the most sense to decide these issues under the law of the state which issued the IP in question. But there are at least two "exceptions" which make this general rule open to question.

First, as discussed previously,[88] there may be public policy issues of the arbitral seat that could affect whether or not a contract pertaining to foreign IP should be enforced. Second and generally, whether or not these concerns should affect the choice-of-law analysis may well depend on the concern in question. At least in the international context, the parties may be able to choose foreign law to avoid the application of United States antitrust or misuse law.[89] On the

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[84] For example, in the United States, a license or an assignment of a copyright is subject to a reversionary right on the part of the author. 17 U.S.C. §203. This right cannot be waived. 17 U.S.C. §203(a)(5).

[85] *See Principles* § 302.

[86] Examples of these laws are the antitrust laws (*e.g.,* 15 U.S.C. §§1 *et seq.*) and the export control laws (*e.g.,* 15 C.F.R. Parts 730-774)

[87] *See, e.g., Mitsubishi Motors Corp. v. Soler Chrysler Plymouth, Inc.,* 473 U.S. 614 (1985).

[88] *See* part II(c), *supra*.

[89] That would seem to be the implication of cases like *Mitsubishi Motors Corp. v. Soler Chrysler Plymouth, Inc.,* 473 U.S. 614 (1985) and *Deprenyl Animal Health, Inc. v. University of Toronto Innovations Foundation,* 297 F.3d 1343 (Fed. Cir. 2002).

other hand, should the parties be able to use a choice-of-law clause to avoid the application of a law like that in the United States that provides for reversionary rights in assigned or licensed copyrights?[90]

(d) The Nature of IP Agreements

IP agreements sometimes involve multiple forms of IP and often involve multiple states. An example of the former might be the license of a computer program. IP rights in software always include copyright, may include trade secrets[91] and, in some states, may also include patent rights.[92] An example of the latter might be an international patent license which licensed a United States patent for the United States and corresponding patents for each jurisdiction in which such patents had been granted.

Yet it would be rare for an agreement to provide for more than one applicable law in the choice-of-law clause. Inevitably it is unlikely that a single jurisdiction's laws will be appropriate to deal with all of this complexity.

(e) The Level of the Jurisdiction

The laws pertaining to IP are often at a different level of jurisdiction than those the parties point to in the choice-of-law clause. In other words, in the context of a contract involving only United States parties and issues, the choice-of-law provision will typically point to a State (such as New York or California), yet many IP issues are federal in nature and can only be

[90] *See* note 84, *supra*.

[91] Typically industry practice is to license object code (machine readable code) under a copyright license and source code (human understandable code), if at all, as a trade secret.

[92] For example, computer software inventions are patentable in the United States but not in the countries of the European Union.

resolved by reference to federal law. The same is true in some other countries such as Canada and, to a lesser extent, in the European Union.

In the case, for example, of a multi-state patent license whose choice-of-law provision references the laws of one of the States of the United States, three issues are presented: (i) did the parties intend to incorporate federal level concepts such as misuse with respect to both United States and foreign patents, (ii) can they do so and (iii) what should be done in the absence of such an understanding? With respect to the first, it would be surprising to find that the parties had even thought about this level of problem, let alone formed any kind of agreement on it. The second is thus academic. Finally, there is no general answer to the third as it depends on many factors such as the nature of the law in question, the identity of the seat of the arbitration and so on.

IV. CONCLUSION

While there may be some rules of application that are useful in analyzing choice-of-law issues in international IP arbitrations, many of these issues cannot be resolved by reference to a general set of rules. In these situations, the good sense of the tribunal will be necessary to balance what may be conflicting considerations to reach an outcome that is fair, reflects as much as possible the parties' intent and works logically within the framework of the law of the various jurisdictions whose IP may be at issue in the arbitration.