College of Commercial Arbitrators

Arbitrating Trademark, Copyright, and Trade Secret Cases

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Abstract: There are a wide variety of intellectual property disputes. Here we focus exclusively on trademark, copyright and trade secret disputes ("TCT disputes"), leaving patent disputes for another white paper. TCT disputes can range from the simple domain name dispute over rights to Internet domain names that incorporate the trademarks of others to highly complex trademark licensing and trade secret misappropriation disputes. Particularly when trade secrets are involved or important corporate relationships are implicated, the availability of a level of confidentiality not available in the courts can make arbitration the ideal dispute resolution mechanism. This article will discuss TCT disputes commonly brought to arbitration, possible considerations and issues relating to them, and rule selection and drafting issues that may arise in considering arbitration clauses governing potential TCT disputes.

A. The Kind of Disputes Arbitrated

Intellectual property (IP) rights include intangible rights in ideas, inventions, creative representations, software, data, names and commercial reputations. Disputes involving patent rights are covered in a separate white paper. This paper covers disputes involving intellectual property rights such as copyright rights in publications, performances, sound recordings, and broadcasts; trademark rights and geographical designations (e.g., in product and service designations, business names, domain names); and trade secret rights for confidential and proprietary data and information. Rights in trademarks, copyrights, and trade secrets can be bought and sold or licensed in part or in their entirety for a fixed duration or term. For example, trademark rights may be sold in their entirety when selling a business along with the rights in all related trademarks, or trademark rights may be sold or licensed to others separately for their use in a particular geographic area.

Intellectual property rights may be at the heart of or ancillary to a wide variety of agreements. Licenses to rights in copyrights, trademarks and trade secrets are pervasive. Further, all merger and acquisition agreements and many outsourcing agreements and development agreements address intellectual property rights. TCT disputes are often between companies but they can involve other combinations of parties, such as a company and an individual, or a company and a university.

If the license involves cross-border commerce, arbitration is often the most effective approach to dispute resolution because it can provide a neutral forum and it results in an enforceable award under the New York Convention. Moreover the licensor/licensee relationship is often a key, ongoing business relationship. Arbitration offers a quicker, less contentious resolution that may help to preserve these relationships.

The kind of disputes typically arbitrated in the trademark and copyright areas are those involving agreements relating to trademark and copyright rights, such as sales or assignments and licenses of such rights. Such a dispute may involve, for example, a breach of contract claim asserted by the trademark owner against its licensee for failure to monitor adequately the use of the licensed trademark and products bearing the trademark in commerce, or failure to account for all royalties. An example of a trade secret dispute may involve allegations of breach of contract and trade secret misappropriation by a former employee who left the employment of the trade secret owner to open up its own competing business. However, trademark and copyright infringement disputes are also amenable to arbitration. In such cases, the parties benefit from a proceeding that can be tailored to fit their needs and can be streamlined to increase cost and time efficiencies, resulting in a prompt decision rendered by a panel of their choosing that is knowledgeable about trademark and copyright laws and practices.

In the trade secret arena, the kinds of disputes arbitrated may be trade secret misappropriation disputes in which one party is alleged to have misappropriated, infringed, or misused the rights of the trade secret owner or breach of contract cases involving allegations that someone breached a confidentiality provision that covered trade secrets (confidential customer lists or other data).

Under the Uniform Domain-Name Dispute-Resolution Policy (often referred to as the "UDRP"), disputes alleged to arise from abusive registrations of domain names -- sometimes called cybersquatting -- may be addressed by expedited administrative proceedings that a trademark owner may initiate by filing a complaint with an approved dispute-resolution service provider, such as the World Intellectual Property Organization. All filings are done by email and no hearing is held. The decision, which is limited to dealing with the registration of the domain name, is not conclusive — either party may proceed to court — but subsequent court proceedings are rare.

B. Issues that May Arise in Trademark, Copyright, and Trade Secret Cases and Special Tips for Handling Them

Preliminary injunctive relief: When an owner of trademark, copyright, or trade secret rights chooses to enforce those rights, it may want to prevent further use of the rights pending a final decision in the arbitration proceedings or even before an arbitration panel is constituted. Parties may provide for such preliminary injunctive or interim relief in the ADR provision of their contract or in the arbitration rules they adopt in that provision. With regard to obtaining interim relief before an arbitration panel is constituted, most rules of the leading arbitration institutions have introduced the possibility of appointing an Emergency Arbitrator who will decide on interim measures. These rules are being increasingly used by parties to request interim measures. Parties who anticipate the need for arbitral interim relief or who want to leave the possibility open should provide for it in their ADR provision or make certain it is available in the arbitration rules they adopt. Otherwise, the parties may end up addressing the issue of preliminary injunctive relief in court.

Early explanation of key facts: Disputes involving trademark, copyright and trade secret rights can involve complex factual scenarios where an understanding, for example, of ownership rights, key dates, and relationships are important. Providing such information to the arbitration panel may help it to formulate a schedule with the parties and respond to any information exchange issues that may arise before the evidentiary hearing. Thus, the parties should consider providing, in the arbitration demand and response, facts (even a timeline) that will help the panel understand the nature of the dispute — the intellectual property rights at issue, the parties and their relationship, key dates and their significance, and the bases for any relief requested.

Protection of confidential information: Cases involving IP rights often involve technical and business proprietary information that the parties want to keep confidential from third parties. If the parties have not provided for the confidentiality of such information in an arbitration provision or by selecting a provider's rules that will protect it, they should consider agreeing upon a protective order that the panel may enter to protect the information during the course of the arbitration proceedings. Moreover, disputes involving IP rights may have heightened issues of confidentiality that require attention to the distinction between the privacy of the arbitration and the protection of the information submitted in the arbitration or even the fact of the dispute — this may require attention to the particular rules, the provider, and to the country in which the dispute may be brought.

An efficient and flexible process: TCT disputes often involve parties seeking a fair and expeditious resolution of their disagreement, so that parties in an ongoing business relationship may continue or resume their relationship with a cloud removed. Likewise, an expeditious resolution of a dispute between parties who are not in a business relationship or who do not want to continue in one will help them part ways sooner with greater clarity. The arbitration process offers parties the flexibility to mold it to their current and anticipated needs in a way that can be more efficient and less costly.

Experts: Experts are often needed for TCT disputes. In addition to damages experts, trademark infringement cases often involve survey experts. Trade secret misappropriation cases often involve technical experts. Copyright infringement cases often involve subject matter experts. Thus, the parties should anticipate the need for an expert and build into the schedule time to locate experts and consider whether they will want an expert tutorial for the panel, expert reports, and depositions before the evidentiary hearing. Similarly, counsel should consider how they want to present the experts at the hearing. For example, an expert report can function as a witness statement in lieu of extensive direct testimony. Counsel may also agree to present opposing experts at the same time — in tandem — as opposed to individually. If tandem testimony is anticipated, which can be a real assist to the process by clarifying the choice of theory and alerting the panel to the real differences in expert analysis, then the parties should agree to a protocol for presenting the tandem testimony in advance of the hearing. As in court litigation, testifying experts should be well versed in using their expertise to teach the panel the needed information underlying the issue about which they are called to opine. And they should be prepared to answer probing questions from the panel.

Tutorial: In trade secret cases, the panel may benefit from a tutorial before the evidentiary hearing related to the particular technology involved or at issue. Counsel should raise the issue of a tutorial at the pre-hearing conference. Likewise, there may be terminology that should be defined early for the panel, for example at least in the pre-trial briefs.

Choice of Law: In trade secret cases it is important to identify, at the outset, the applicable substantive law. Trade secret disputes are typically governed by state statutes that vary significantly from state to state. For example, statutes may differ as to a claimant's duty to disclose its claimed trade secrets to the adversary. Statutes of limitations may differ from state to state. Also, Congress recently enacted the Defend Trade Secrets Act of 2016, creating for the first time a federal cause of action for trade secret misappropriation. Trade secret disputes may involve parties in different states and some arbitration agreements lack a clear choice of law clause, heightening the importance of identifying the applicable law at an early stage.

C. Special Tips for Drafting Dispute Resolution Clauses

Arbitration is a creature of contract; therefore the arbitration clause should not be an eleventh hour afterthought. Many of the providers have clauses or clause building tools that have been thought out but the parties should actually consider the impact of the process and select the rules and the arbitral institution that might best protect their interests. Considerations that impact all arbitration clauses may be particularly acute in the situation of TCT disputes,

1. Should the matter be administered or non–administered?

i) If administered, make sure the clause and rules selected match the administrator — don't mix and match a clause from one administering organization and rules from another one

ii) If non-administered, consider using the non-administered rules of the CPR International Institute for Conflict Prevention and Resolution, United Nations Commission on International Trade Law (UNCITRAL) or other non-administered rules that apply to non-administered or *ad hoc* arbitrations

2. How many arbitrators should be appointed, or should the number be varied according to the importance or size of the dispute?
3. How should arbitrators be selected and if they are party selected should the panel be aware of that?
4. What qualifications, if any, should be set forth for the arbitrators — without severely limiting the pool of arbitrators?
5. What law should govern the substantive and procedural issues in the case?
6. In international cases, carefully consider the seat or place of the arbitration (i.e. do not automatically bargain away your choice of a seat until you learn what impact the local rules and procedures may have on your rights in the arbitration).
7. For international matters specify a language for the arbitration proceedings.
8. Do the arbitration rules you are about to adopt protect adequately your confidentiality and privacy needs with regard to, for example, binding third parties.

Counsel, or your opponent? If not, do you want to address confidentiality and privacy needs in the dispute resolution clause? Consider including a confidentiality provision in the clause and take care to adopt rules and controlling law that best maintain the confidentiality of the proceedings, the fact of the dispute, the testimony, information exchanged and presented in the proceedings, and information about the proceedings. Be aware that some administrative bodies such as the AAA and ICC impose confidentiality only on the panel and the body itself, not on the parties, witnesses, or counsel. WIPO imposes confidentiality requirements on the parties and confidentiality can be dealt with in the clause itself as the IBA (International Bar Association) recommends in its drafting guidelines. Attention should be paid to making witnesses subject to a confidentiality order.

9. Where a relationship may embody multiple documents, for example, amended licenses, revised employment agreements – make sure dispute resolution clauses in the various documents are consistent. Similarly, consider having all related business parties (e.g., an IP owner, licensee, manufacturer, distributor) be controlled by the same arbitration clauses in their respective agreements and consider whether permitting joinder or consolidation in arbitration is efficient or otherwise beneficial so that all necessary parties may participate in a single arbitration.

10. Consider alternative ways of structuring the arbitration. If an argument on the law or presentation of written submissions followed by argument will be effective, that can be a very efficient and cost-effective way to proceed.

D. Choosing Your Arbitrator

Disputes over IP rights may go to the heart of the intellectual property right or involve commercial issues relating to those rights. In either case, the parties may want a decision maker who has hands-on experience protecting and enforcing the IP rights at issue or who has had experience as a transactional attorney negotiating and drafting contracts relating to those rights. In addition, parties may find acceptable arbitrators who do not have such experience in legal practice but who have acquired experience in deciding cases involving IP rights. And, as noted above, the parties should not so specifically define qualifications that it severely limits the ability to appoint the arbitral panel.

Furthermore, given the frequent need for prompt resolution in TCT disputes where there are ongoing relationships, arbitrator candidates should have ample time in their schedules to conduct the entire process including addressing any emergency needs the parties may have.

E. Advantages of Arbitration for Disputes Involving IP Rights

Disputes involving trademark, copyright and trade secret rights are disputes that involve important and valuable assets and that implicate, for example, business reputation and functioning. Parties generally want to stop the damage and understand their rights and liabilities as soon as possible. Thus, such disputes are often time sensitive. In the case of a trademark infringement dispute, the trademark owner may seek to stop someone from using a confusingly similar trademark on an inferior product. And in the case of a trade

secret misappropriation dispute, the trade secret owner wants to prevent further use and disclosure of its trade secrets to the public. So IP owners generally seek not only an injunction but also damages for the use of their property. Arbitration can be that time-sensitive process that gives parties the answer they need.

Furthermore, the ability that arbitration proceedings have to address quickly important and ongoing business relationships can preserve those relationships and reduce friction by clarifying the ongoing obligations of the parties without public exposure
Arbitration can be cheaper and faster because the parties are in charge of tailoring the process and choosing an arbitration panel that will meet those needs. It is not uncommon for parties to create their own process from scratch. Most parties, however, adopt rules and make some modifications in order to attain a more expeditious and less expensive process from soup to nuts.

Conclusion

Trademark, copyright and trade secret disputes from the simplest to the most complex can benefit from resolution by arbitration for a variety of reasons. For example, the parties' desire for confidentiality of their sensitive business information, the frequency of ongoing business relationships between them, and the existence of international parties make arbitration an advantageous process for such disputes. Furthermore, unlike litigation, parties have the opportunity to select arbitrators – decision makers -- knowledgeable about laws, regulations and the industry relevant to their kind of dispute, as well as relevant practice experience such as enforcement and licensing of trademark, copyright, and trade secret rights.

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