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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 ("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 patent, trademark, copyright and trade secret -- intangible rights. Rights in trademarks, copyrights, and trade secrets can be bought and sold in their entirety, or licensed for a fixed duration or term. For example, trademark rights may be sold in their entirety with a business (along with the good will in the mark) or trademark rights may be licensed for their use in a particular geographic area or with other limitations (e.g., what products or services the trademark can be used on, specific marketing instructions, vendors that must be used and other essential aspects of controlling the brand including quality control).

Disputes involving patent rights are covered in a separate white paper. This paper covers disputes involving copyright rights (e.g., publications, software, performances, sound recordings, and broadcasts), trademark rights and geographical designations (e.g., in product and service marks, business names, domain names), and trade secret rights (e.g., confidential and proprietary data and information).

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. 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 rights. These disputes 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. Trademark and copyright infringement disputes are suited to arbitration because the disputants may benefit from a tailored proceeding that fits their needs. An arbitration by a panel of the parties' choosing that is knowledgeable about trademark and copyright laws and practices can be streamlined to decrease cost and and increase time efficiencies, resulting in a prompt decision.

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, formulas, or other data).

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 result 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. Within the arbitration, it is possible for the parties to schedule a mediation window that may result in a settlement that can be entered as a consent award also enforced under the New York Convention.

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 a UDRP 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. The panels are well-versed and very prompt in rendering decisions. This can be far less costly that litigation.

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 the availability of such preliminary injunctive or interim relief directly in the ADR provision of their contract or by way of the arbitration rules they adopt in that provision. With regard to obtaining interim relief before an arbitration panel is constituted, most of the leading arbitration institutions have introduced rules that permit appointment of an Emergency Arbitrator who will decide whether to impose interim measures. Requests for interim measures have now become routine. 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 relegated to a court in an entirely separate and additional proceeding for preliminary injunctive relief.

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 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, important "players", key dates and their significance, and the bases for any relief requested.

Protection of confidential information: Cases involving TCT rights often involve technical and business proprietary information that the parties want to keep from third parties and even from any individuals who does not have a "need to know." That can be done by order in the arbitration. Although the arbitration proceeding (unlike a court proceeding) is private, the duty to maintain confidentiality normally runs to the arbitrators and the providers under most provider rules. Parties may wish to consider the providers whose rules are most protective of confidentiality and even the location of the provider if confidentiality is critical. For example, WIPO's and LCIA's rules are more protective of confidential information than the rules of many other providers. That said, in TCT cases parties routinely agree or stipulate to confidentiality orders to protect confidential information. However, even with rules and orders that protect confidential information in arbitration proceedings, U.S. courts have ruled that when court aid is sought for the enforcement or challenge to an arbitration award, the policy of disclosing the basis for court rulings may dictate disclosure of confidential information even when both parties agree it should not be disclosed and despite applicable protective orders or confidentiality agreements. This is one reason to consider requesting a bare award if confidentiality is the paramount concern. Even though complete protection cannot be assured, the protection of confidentiality is far greater in arbitration than in litigation.

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 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. Damages experts are common in these disputes. In addition, trademark infringement cases often involve survey experts. Trade secret misappropriation cases or breach of confidential information provisions 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 assist the panel by clarifying the experts' choices of theory or alert 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. Most protocols have the arbitrators ask each expert the same questions and permit some follow up by counsel.

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, or no later than the pre-trial briefs.

Choice of Law: In trade secret cases it is important to identify, at the outset, the applicable substantive law or laws particularly if both state and federal claims are brought. 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 enacted the Defend Trade Secrets Act of 2016, creating for the first time a federal cause of action for trade secret misappropriation. Thus, trade secret disputes may involve claims based on state and federal law which may require arbitrators to apply different law in deciding each. The parties' arbitration agreement may ultimately lack a clear choice of law clause. This heightens the importance of the parties identifying the applicable law at an early stage, for example, in their initial submissions to the panel (e.g., demand, response) or at the preliminary hearing.

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?
    a. 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
    b. 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 witnesses? 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., a trademark 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

TCT rights may go to the heart of the dispute 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 kind of 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 TCT 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 time to address any emergency needs the parties may have.

E. Advantages of Arbitration for Disputes Involving TCT 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 competitors and the public. So, owners of TCT rights 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 quickly address 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 their 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.

F. 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. These disputes raise acute questions about confidential and sensitive business information that can be better addressed in arbitration than litigation. In addition, licensing of rights often reflects an ongoing business relationship that will be better supported by a quick, private dispute resolution process. When the dispute is international, the enforceability of an arbitral award is often a determinative factor. Finally and often most importantly to the parties, in arbitration, 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. On balance for these TCT disputes arbitration is often the superior approach to dispute resolution.

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