The Resolution of Intellectual Property Disputes Involving East Asian Parties

George W. Coombe Jr.
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By George W. Coombe Jr.*

I. Introduction

This Symposium encourages a timely consideration of intellectual property generally, and the unique contribution to that subject provided by Asian perspectives in particular.

One such contribution derives from Asian cultural and jurisprudential values. Those values are clearly defined during the negotiation of transnational commercial agreements and the resolution of business disputes derived from those agreements involving East Asian parties. Accordingly, it will prove helpful throughout this Paper to focus upon certain questions pertaining to such transnational negotiation and dispute resolution:

Does the inclusion of intellectual property, as subject matter, present special circumstances for parties negotiating a transnational commercial agreement?

How will the presence of an East Asian party affect the negotiation process?

What kind of dispute resolution clause might be agreed upon to reflect East Asian party values and commercial realities?

These questions encapsulate many of the underlying concerns identified with dispute resolution of intellectual property matters. Placing the subject in the geographical context presented by the Symposium facilitates addressing these concerns.

II. Transnational Dispute Resolution: An East Asian Perspective

The resolution of international commercial disputes by conciliation¹ and arbitration has gained considerable momentum throughout

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¹ Conciliation is used interchangeably herein with mediation.
East Asia. An informal survey of several East Asian and Pacific Rim dispute resolution institutions and conciliation and arbitration centers provides pragmatic support for this assertion.\(^2\) Survey results indicate: adoption of national arbitration laws, reflecting the United Nations Commission on International Trade Law (UNCITRAL) Model Rules of International Commercial Arbitration,\(^3\) permitting greater party autonomy and less judicial intrusion in international arbitrations than in domestic arbitrations; creation and expansion of conciliator and arbitrator panels with appropriate experience and expertise; adoption by several centers of institutional rules modeled on those of the UNCITRAL Rules; and cooperation agreements that facilitate the transnational dispute resolution process between and among the several centers. Throughout East Asia, a strong emphasis has been placed upon the conciliation technique and the historical, social, and cultural derivatives pertaining to its use. Indeed, the avoidance of confrontational, adversarial, and adjudicatory dispute resolution appears almost an end in itself at many East Asian arbitration centers.\(^4\)

Due to the commercial importance of Asia to the United States, it is understandable that Asian traditions will influence U.S. thinking. One such tradition, the conciliation of commercial disputes, is already firmly established throughout North America as a useful augmentation to arbitration.\(^5\) Business executives and their counsel have come to appreciate, through direct negotiating experience with their Asian counterparts, that Asian values emphasizing preservation of the business relationship and maintenance of party credibility and trust are the very heart of responsible commercial dispute resolution.\(^6\) These values have become increasingly relevant in the negotiation of transnational commercial agreements involving intellectual property. The


\(^4\) See John Henry Merryman et al., The Civil Law Tradition: Europe, Latin America and East Asia 427 (1994) (general background pertaining to East Asian legal traditions and culture).


General Counsel of the American Arbitration Association recently manifested this perspective:

Advances in technology, increased international investment and trade, and dramatic changes in the political and economic orientation of many countries have only added to the need for prompt and effective means of resolving intellectual property disputes. Considering the disadvantages associated with traditional litigation, it is not surprising that most international commercial disputes nowadays are arbitrated or mediated rather than litigated in national courts. \(^7\)

To enhance appreciation of this perspective, this Paper places the matter within a specific intellectual property context: pragmatic consideration of software disputes and their resolution.

III. Transnational Software License Agreement: Negotiation of an Appropriate Dispute Resolution Clause

The negotiation of a transnational software license agreement, including its dispute resolution clause, provides a convenient focal point for appreciation of the Asian traditions and values of preserving business relationships and maintaining credibility and trust. The basic objective throughout any negotiation process is to encourage amicable resolution of subsequent business disputes between the parties, thereby continuing and strengthening the underlying business relationship involved. Attainment of this basic objective of amicable resolution is enhanced through careful attention to the resolution of anticipated future disputes between the parties during the negotiation of the underlying agreement. Those engaged in such negotiation should consider the implications of the litigation alternative, particularly transnational litigation. The parties also should determine the dispute resolution alternative most responsive to client priorities and take advantage of the comparative good feeling and cooperation existing at this time when the parties manifest a strong desire to negotiate an agreement and continue a long-lived relationship. At the onset of their negotiations, the parties should focus their attention upon the probability that future disputes will arise between them and that these disputes will derive from the language of the underlying agreement.

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and its application. Accordingly, the drafting process itself will reflect the growing determination of client executives to manage and control the dispute resolution process as they would manage and control any other aspect of the business relationship governed by the underlying agreement.

With the above objective in mind, consider the following pragmatic example illustrative of the underlying negotiating concerns previously identified:

The Software License Agreement, about to be executed by a California licensor and a Japanese licensee, has been negotiated over several months during which the parties mutually addressed problems relating to development of the software and the licensee contributed significant segments of the software program ultimately produced. The Agreement indicates California as the governing law; expressly recognizes licensor's proprietary rights in the software; grants a nonexclusive license permitting the licensee to use the software at its principal business premises in Tokyo; and precludes licensee from distributing copies of the program or permitting any third party use.

The parties wish to include a dispute resolution clause in the Agreement that will anticipate future disputes, address them expeditiously, and sustain their business relationship. Negotiating counsel have consulted dispute resolution specialists to assure inclusion of an Alternative Dispute Resolution (ADR) clause reflecting such objectives.

Client and counsel preparation for the overall negotiation process, and in particular, for the drafting of a dispute resolution clause, should concentrate upon the nature of software disputes and consideration of dispute resolution alternatives, including litigation. Preliminary attention, however, should focus upon the realization that a transnational commercial agreement, in the above example involving a Japanese party, requires appreciation and understanding of the legal traditions and cultural and societal values that party brings to the negotiation process.8 In that regard, it will prove helpful for counsel to prepare, and for counsel and client to discuss, a comparison outline of the parties' legal and dispute resolution traditions emphasizing attend-

ant cultural and societal values. Convenient juxtapositions for U.S. and Japanese parties follow:

### A. A Comparison of Legal Traditions

<table>
<thead>
<tr>
<th>United States</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pluralist society</td>
<td>Homogeneous society</td>
</tr>
<tr>
<td>Political, religious, and social thought influenced by 18th Century England and France</td>
<td>Political, religious, and social thought influenced by ancient China and Korea</td>
</tr>
<tr>
<td>Common law heritage (England)</td>
<td>Civil law heritage (Germany, France)</td>
</tr>
<tr>
<td>Adversarial legal system</td>
<td>Inquisitorial legal system</td>
</tr>
<tr>
<td>Federal republic (federal and state governments have separate court systems and their own substantive law)</td>
<td>Unitary state (jurisdiction and choice of law issues are non-existent)</td>
</tr>
<tr>
<td>Principle of stare decisis (judicial precedent) important in the application of legal principles</td>
<td>Judicial precedent relatively unimportant (law is based upon civil codes and regulations)</td>
</tr>
<tr>
<td>Civil justice system most important dispute resolution process (litigious nature of society)</td>
<td>Little reference to the civil justice system to resolve disputes (reliance upon informal compromise or conciliation procedures)</td>
</tr>
<tr>
<td>Jury system</td>
<td>No jury system</td>
</tr>
<tr>
<td>Elaborate mechanisms for discovery</td>
<td>Limited discovery</td>
</tr>
<tr>
<td>Punitive damages</td>
<td>No punitive recovery</td>
</tr>
<tr>
<td>Role of lawyer critical in effective resolution of disputes; power to shape society through judicial decisions, legislation, regulation; important participant in business counselling and negotiation</td>
<td>Lawyer viewed as an unnecessary evil; essentially barristers; little involvement in business counseling or commercial negotiation; business executives conversant with commercial law</td>
</tr>
</tbody>
</table>
### B. A Comparison of Dispute Resolution Traditions

<table>
<thead>
<tr>
<th>United States</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tradition of dispute resolution by reliance upon the civil justice system; litigation</td>
<td>Tradition of informal dispute resolution; reconciliation and conciliation; litigation a last resort</td>
</tr>
<tr>
<td>Arbitration an adversarial procedure, adjudicative in nature</td>
<td>Arbitration a kind of reconciliation</td>
</tr>
</tbody>
</table>
| Objectives:  
1) Determine legal rights and duties of each party;  
2) Win-lose or "all or nothing" decision; and  
3) Maintenance of business relationship secondary | Objectives:  
1) Maintain, create, or restore a harmonious relationship;  
2) Avoid principles implicit in judicial settlement; and  
3) No inquiry into right or wrong or rights of the parties |
| Domestic arbitration is an important dispute resolution mechanism | Domestic arbitration procedure in the Code of Civil Procedure is seldom used |
| Arbitration clauses in agreements are common, whether domestic or international transaction is involved | Arbitration clauses in agreements normally not used except in agreements with foreign business firms |
| American Arbitration Association (AAA) founded in 1926 | Japan Commercial Arbitration Association (JCAA) established in 1950 |
| 1952 Trade Arbitration Agreement signed by JCAA and AAA | 1953 Japan-U.S. Treaty of Friendship, Commerce and Navigation (the FCN Treaty) signed, containing important provisions pertaining to arbitration |
The foregoing analyses completed, the parties and their counsel should consider carefully the nature of those disputes reasonably anticipated during the business relationship created by the software license agreement.

**IV. The Nature of Software Disputes**

Dispute analysis is a sine qua non for selection of dispute resolution alternatives. Principal points of reference include:

1. An appraisal of the business relationship involved, contemporary and prospective;
2. Party comparability;
3. The need for a timely disposition of any future dispute;
4. The desirability for confidentiality pertaining to a future dispute and its resolution;
5. The precedential value of the resolution itself;
6. The need for interim relief;
7. Discovery considerations;
8. The relative costs of a litigation alternative; and

Perhaps the most important underlying consideration, however, is counsel and party understanding of the nature of the prospective dispute reasonably anticipated at the time the software license agreement is negotiated.  

Software license agreements present two primary areas of potential dispute: product performance and product appropriation. Product performance disputes between the licensor or developer and the licensee or user derive from various sources, including: software performance; documentation; warranties; system modifications; delivery; and acceptance. Product appropriation disputes concern either proprietary rights in trade secrets or copyrighted matter.

The very nature of computer software usually dictates the course of the licensor-user relationship. Untested programs subject the user
to considerable risk of design error; design problems rather than manu-
ufacturing defects are the norm; repairs require the direct attention of
the licensor or developer; and a defect in one copy of the software
means an identical problem will be present in all installations. Thus,
the perfect product cannot be developed.

V. Dispute Resolution Objectives

In product performance disputes, the licensee or user and its in-
terests usually are very much at the mercy of the licensor or devel-
oper. The user, with limited computer expertise in many instances,
but often with a considerable investment in time and money, must rely
almost totally upon the developer to analyze operating problems and
make appropriate corrections quickly to minimize business interrup-
tion. Delivery and acceptance are frequent sources of party conten-
tion as the software is adapted and corrected; throughout, the user is
dependent upon the developer’s continued technical support. The li-
censor or developer, perhaps preoccupied with many licensing ar-
rangements, may wish to minimize the time dedicated by its personnel
in correcting user problems and concentrate on the design and pro-
gramming of its software. This would assure a more expansive market,
meanwhile avoiding any unfavorable publicity pertaining to the use of
its software or its customer relationships. Product appropriation dis-
putes present different party perceptions regarding their resolution.
The developer will be concerned with unauthorized use of proprietary
information and loss of control over the dissemination of its product.
The user may wish to assert ownership rights through its inputs during
the design stage or through its contributions to substantial product
modification following delivery and acceptance.

An appreciation of the reality that a dispute, in some form, will
arise during their business relationship will condition that relationship
during the negotiation and drafting of the underlying transaction. Of
course, the possibility of some future recourse to transnational litiga-
tion must be an important part of that reality.

VI. The Litigation Alternative

Traditionally, in the absence of any dispute resolution clause, the
only alternative when a dispute arose during the application of a busi-
ness transaction was litigation. Domestic litigation presents any client
with formidable risks familiar to counsel. The problems of litigation—
exposure to legal expense and delay, “all or nothing” decisions, pub-
licity, and the damaging effect upon business relationships—need no elaboration. Transnational litigation presents two additional concerns: will the forum chosen accept jurisdiction and will the client be able to make effective use of the judgment or decree that emerges from the litigation. Some uncertainty can be removed if the parties agree to resolve any controversy in a designated national court. Questions remain, however, regarding the extent to which such exclusivity provisions, choice of forum, and choice of law, will be honored. The scope of party autonomy in that regard may be constrained by the law of the forum or by that of another country under choice of law principles. Accordingly, it is not surprising that counsel and client often conclude that an arbitration clause can accomplish all of the objectives of the choice of forum provision while avoiding many of the inevitable problems of transnational litigation.

These general concerns are accentuated when considering the realities of litigation for the resolution of software disputes. The pace of technological progress is increasing rapidly, making intellectual property rights harder to determine and less stable over time. The need to obtain a quick settlement, based upon a business solution, has intensified. Traditional reliance upon limited monopolies for inventions and works of authorship, with attendant responsibility assigned to the inventor or developer to police infringement, will not prove effective in the face of technological change. At the same time, a marked increase in the internationalization underlying commercial exploitation of intellectual property, reflecting the globalization of markets, presents increasing conflicts of an international character in which a demand for a neutral forum will be more pronounced. The need for a quick settlement—a single procedure that is more efficient and less costly than recourse to several national courts and access to specialist expertise to address the highly specialized and technical nature of the intellectual property subject matter—favors recourse to other dispute resolution techniques such as conciliation and arbitration.

10. GARY B. BORN & DAVID WESTIN, INTERNATIONAL CIVIL LITIGATION IN UNITED STATES COURTS passim (2d ed. 1992) (exploring uncertainties surrounding the use of choice of forum and choice of law provisions in the context of transnational litigation).

11. See generally 5 AM. REV. INT'L ARB. (1994) (all issues of this volume provide succinct recent insights pertaining to the arbitration of intellectual property disputes with helpful commentaries on the selection of arbitrators, interim relief, confidentiality, and public policy).
VII. International Commercial Arbitration

Appraisal of the arbitration alternative must include at the outset the arbitrability of intellectual property disputes. Most national states treat some categories of claims as incapable of resolution by arbitration. Claims ordinarily are deemed nonarbitrable because of their perceived public importance or a perceived need for formal judicial procedures and protection. In short, the dispute to be arbitrated must concern a subject matter capable of settlement by arbitration. Intellectual property rights, like all other property rights, are secured by the state. Thus, a patent is secured by a patent grant, a trademark or service marks by registration, and copyrights and trade secrets by operation of law, either statute or common law. There is, consequently, a public interest in the ownership of these rights and it is a public policy that is inconsistent with the arbitration of intellectual property issues.

The question of arbitrability is one of considerable importance. If an arbitral tribunal makes an award in respect to a dispute that is not arbitrable, that award is unlikely to be enforceable under Article V(2) of the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). The arbitration agreement itself may not be enforceable under the New York Convention Article II(1). When considering questions of public policy, there is no alternative but to look carefully at the rules of each jurisdiction concerned. Thus, in the software license agreement example given above, counsel should review developments pertaining to arbitrability both in the United States and Japan, and in any other jurisdiction where use of the software may be involved.

12. In the United States, 35 U.S.C. § 294 (1994) expressly provides for the arbitration of disputes involving patent validity, enforceability, and infringement issues. See David Plant, Intellectual Property: Arbitrating Disputes in the United States, 50 Disp. Resol. J. 8, 12 (1995). With respect to copyright issues, while there is no statutory authority, U.S. courts have held that federal law does not prohibit the arbitration of copyright validity or infringement claims arising out of contract disputes. These cases also suggest that U.S. courts would find such issues arbitrable even in the absence of an underlying contract dispute. With respect to trademark and trade secret issues, while again there is no federal statutory authority, U.S. courts would likely find such issues to be arbitrable. Id.


15. Id. art. II(1), 21 U.S.T. at 2519, 330 U.N.T.S. at 38.
raise future problems pertaining to the enforcement of rights by the respective parties.\textsuperscript{16}

The relative attractiveness of commercial arbitration is a reflection of the shortcomings of litigation. The process, if properly applied, permits a maximum of party autonomy, minimal intrusion by courts and, with regard to international arbitration, recognition and enforcement of the arbitral award pursuant to the New York Convention.\textsuperscript{17} Arbitration presents several advantages: party choice of arbitrators and selection of desired expertise; priority over litigation; limited appeal from arbitral awards; confidentiality; party convenience; procedural informality; and enforcement of the arbitral award as a judgment.\textsuperscript{18}

Nevertheless, commercial arbitration frequently fails to live up to its billing as a speedy and economical substitute for litigation, especially in large or complex transnational disputes. While commercial arbitration is superior to litigation, it is often characterized as a dispute resolution technique accompanied by high costs, procedural uncertainties depending upon the arbitral forum, absence of party involvement, uncertainty in application of regulatory law by foreign arbitrators, and lack of uniformity in the enforcement of awards against foreign nationals. Regardless of the care with which an arbitration agreement has been structured, problems of formality and procedure persist. Thus, getting to arbitration may prove a major hurdle. Resort to the judicial process may be necessary to address various preliminary issues. These issues include the enforceability of the arbitration provision, the arbitrability of the dispute, compliance with preconditions to arbitration, waiver of the right to arbitrate, and problems relating to multiparty disputes.

Once arbitration begins, the informality of the process may frustrate those accustomed to the traditional civil process. The absence of pre-hearing discovery and detailed pleadings may mean that a party comes to the hearings without a complete understanding of the character of the opposition's case, let alone knowledge of what documents


\textsuperscript{17} See generally New York Convention, supra note 14, 21 U.S.T. 2517, 330 U.N.T.S. 38.

\textsuperscript{18} See generally ALAN REDFERN & MARTIN HUNTER, LAW AND PRACTICE OF INTERNATIONAL COMMERCIAL ARBITRATION (2d ed. 1991) (the seminal text on international arbitration and the arbitral process).
will be relied upon or what witnesses will be called. Further, the failure to define disputed issues at the pre-hearing stage may have a dramatic impact on the presentation of evidence and the final resolution of the dispute. Difficulties may also arise when arbitrators are required to deal with procedural issues not specifically addressed by the arbitration rules. However, many in the business community believe that the most significant problems with modern arbitration do not relate to formal inadequacies but rather to the increasing formalization of the process brought about by the legal profession. Finally, serious problems may be encountered in the drafting of an arbitral award and its subsequent enforceability.

Stimulated by a growing recognition of the counterproductive features of formal adjudicatory procedures such as litigation and arbitration, many within the legal profession have begun to concentrate on a search for better ways to resolve legal disputes. The principal objectives that have motivated the search for alternative procedures are mirror images of the list of problems identified as inherent in the conventional procedures: the desire for management participation; the need to resolve the dispute without terminating the underlying business relationship or destroying the mutual confidence upon which it is based; the need to focus the attention of the parties upon the main issues in the dispute and to minimize the diversions of time and energy to procedural and other ancillary issues; and the encouragement of free dialogue.

**VIII. Negotiation Alternatives Precedent to Arbitration**

In light of the foregoing considerations, and to take advantage of the nonbinding negotiation alternative procedures in addressing complex disputes, these procedures can be structured within the framework of arbitral proceedings. Indeed, the arbitral framework affords the parties great flexibility that permits them to define the scope and mechanics of the proceeding so as to accomplish the main objectives of the alternative procedures and still lead to a final adjudication in the event that a negotiated settlement is not reached.

Any such framework must be carefully designed or the alternative procedures may undermine the effectiveness of the arbitration agreement if arbitration eventually is required. On the other hand, incorporation of the alternative procedures into a properly structured arbitration agreement may offer the best means of avoiding some of the problems and complications arising from the differences in na-
tional laws and judicial proceedings. The incorporation into an arbitration agreement of provisions for the use of alternative procedures may be of substantial assistance in ensuring that the alternative procedures will work as intended and will not produce unanticipated results. This consequence flows both from the latitude afforded the parties in construing arbitral procedures and, with regard to international arbitration, from the international protection against judicial intervention provided by the New York Convention.

For example, it is possible to design arbitration agreements under which the demand for arbitration automatically would trigger preliminary nonbinding procedures prior to the appointment of arbitrators. If properly structured, such provisions would not only insulate those procedures from judicial interference but also enable the party invoking the alternative procedures to obtain the assistance of the court in compelling a recalcitrant opponent to go forward with those procedures as an integral part of the arbitration. At present, use of the arbitral framework offers the most promising approach for the application of alternative, nonbinding, negotiation procedures to address transnational business disputes.

Appreciation of the foregoing premises permits consideration of an appropriate dispute resolution clause for inclusion in the software license agreement negotiated by the U.S. and Japanese parties.

IX. A Suggested Dispute Resolution Procedure

Most bona fide disagreements or disputes between reputable companies, and in particular, disputes between companies in different countries, are best regarded as business problems to be resolved promptly through business-oriented negotiations. If such negotiations become deadlocked, a nonbinding, nonadjudicative resolution should be attempted before resorting to binding resolution through commercial arbitration.

Consideration should be given to the following three successive stages of dispute resolution:

1. Negotiation - A provision requiring negotiations between executives with decision-making authority, who are at a higher level than the personnel involved in the dispute.
2. Nonbinding Resolutions - A provision requiring some form of nonbinding dispute resolution, such as mediation or minitrial.

It is important that the approach suggested reflect the management policies of both parties to the underlying agreement. It is advisable not to defer the subject of dispute resolution until the end of the contract negotiations. The other side may need time to reflect on the proposal, particularly if it has not previously employed multistep clauses. Traditionally, dispute resolution clauses, when used at all, provided simply for arbitration of future disputes and were regarded as boilerplate. Yet even a single dispute allowed to get out of hand can sour a business relationship. When two parties enter into an important or long term relationship, business executives should discuss how they intend to manage the relationship, including how they will deal with disputes. The type of multistep clauses suggested should not be viewed as boilerplate but rather should represent the expression of both managements' resolve to assure the success of the venture by treating potential disputes as business problems and by providing a process to address them effectively and expeditiously. Management support for the multistep approach is vital.

A. Suggested Clauses for Insertion in the Underlying Software License Agreement, with Commentary.

I. The Negotiation Clause
   a. Negotiations Between Executives

   The parties shall attempt in good faith to resolve any dispute arising out of or relating to this Software License Agreement promptly by negotiations between executives who have authority to settle the controversy. Any party may give the other party written notice of any dispute not resolved in the normal course of business. Within twenty days after delivery of said notice, executives of both parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to exchange relevant information and to attempt to resolve the dispute. If the matter has not been resolved within sixty days of the disputing party's notice, or if the parties fail to meet within twenty days, either party may initiate mediation (or a mini-trial) of the controversy or claim as provided hereinafter.

   If a negotiator intends to be accompanied at a meeting by an attorney, the other negotiator shall be given at least
three working days notice of such intention and may also be accompanied by an attorney. All negotiations pursuant to this clause are confidential and shall be treated as compromise and settlement negotiations for purposes of the United States Federal Rules of Evidence and State Rules of Evidence.

b. Commentary

Negotiation is the time-honored initial step in attempting to resolve disputes. However, because the particular representatives of the parties who are directly involved in the dispute are often so close to the dispute, it can be difficult for them to reach agreement. Therefore, it often is useful to have a specific contract provision that requires, in the event of an impasse between the initial negotiating parties, the establishment of a structure for rational discussion, within which negotiations are more likely to continue on to a productive result. It is therefore suggested that the dispute be referred to the next level of management within each organization, so that managers who are not directly involved in the dispute can attempt, perhaps with greater objectivity, to resolve the dispute, and that negotiations take place within specific time frames.

All deadlines specified in these sample clauses are of necessity arbitrary. The parties should feel free when drafting the underlying agreement to agree on deadlines more appropriate to their relationship. Moreover, deadlines can be extended by mutual agreement; this is likely to happen if, when a deadline approaches, satisfactory progress has been made but more time is needed.

Maintaining the confidentiality of information disclosed and positions taken in the course of dispute negotiations is a common concern. A negotiation clause should attempt to provide contractual assurance of confidentiality.

2. Nonbinding Resolution Clause

a. Mediation (or Minitrial)

If the dispute has not been resolved by negotiation as provided herein, the parties shall endeavor to settle the dispute by (mediation) (minitrial). The neutral third party will be selected from the ______ Panel of Neutrals. If the parties encounter difficulty in agreeing on a neutral, they will seek the assistance of ______ in the selection process.
b. Commentary

Mediation or minitrial? Essentially, mediation involves the introduction of a neutral third party who helps each party rationally evaluate its own claims and risks in relation to those of the opposing party. In addition, the neutral third party may provide insights into the dispute that assist in a negotiated resolution. Mediation is a conciliatory procedure. Hopefully, the mediator will help the parties develop creative, business-oriented options for settlement.

A minitrial is also a negotiating procedure that is often, but not always, assisted by a neutral third party. The dispute is presented in abbreviated trial form to senior officials of the disputing parties, who, after seeing the strengths and weaknesses of each side carefully and openly presented, attempt to reach a negotiated resolution. The neutral commonly explains to the negotiators how the case “played” to him and may evolve into a facilitator or mediator of the settlement negotiations. The minitrial is more structured than a mediation, and generally demands greater preparation from each side. It is particularly applicable to major disputes in which business decision makers find it worthwhile to maintain a strong personal involvement.

c. Alternative Clause: Mediation (or Minitrial) with Designated Neutral

If the dispute has not been resolved by negotiation as provided herein, the parties shall endeavor to settle the dispute by (mediation) (minitrial). The parties have selected ____________ as the (mediator) (neutral advisor) in any such dispute, and the (mediator) (neutral advisor) has agreed to serve in that capacity and to be available on reasonable notice. In the event ____________ is or becomes unwilling or unable to serve, the parties have selected _________________ as the alternative (mediator) (neutral advisor). In the event that neither _________________ or _________________ is willing or able to serve, the parties, assuming they cannot agree on a neutral, will seek assistance of _________________ in the selection process.

d. Commentary

It is often easier to agree upon a designated neutral before any dispute actually arises. The neutral can be available for swift assist-
ance if the neutral’s selection and terms of retention already have been established. Moreover, if the neutral is known and respected by both sides, the mere possibility of the neutral’s intervention may be an inducement to a negotiated settlement. Given the importance of the neutral to both parties, it may be desirable to specify an alternate in the event that the first choice is unavailable or unwilling to serve. Only in the event that neither neutral was available would the parties face the task of agreeing on a neutral with a dispute between the parties pending.

3. Binding Dispute Resolution Clause

a. Arbitration

Any dispute arising out of, or relating to, this Software License Agreement or the breach, termination, or validity thereof, which has not been resolved by nonbinding means, as provided herein within sixty days (ninety to 120 days if the minitrial procedure was chosen) shall be finally settled by arbitration conducted expeditiously in accordance with the Hong Kong International Arbitration Centre Rules.
1. The place of arbitration shall be Hong Kong.
2. The appointing authority shall be the Hong Kong International Arbitration Centre.
3. The governing law of this Agreement shall be the substantive law of Hong Kong.
4. The arbitral tribunal shall be composed of three arbitrators, one to be appointed by each party, and the two arbitrators so appointed, shall, within __________ days, appoint a third arbitrator, (who shall be chosen from a country other than those of which the parties are nationals; who shall be fluent in the language of the arbitration), who shall act as chairman of the tribunal.
5. The language of the arbitration shall be English.

b. Commentary

The arbitration clause proposal is self-executing, in other words it incorporates by reference the rules of an arbitral institution, thereby assuring resolution of all procedural problems pursuant to those rules.19 The arbitral institution or center chosen also will provide the

19. The suggested arbitration clause recognizes the practical realities faced in the give and take underlying the negotiation of a transnational Software License Agreement. Neil
administrative services and logistical support usually required by the parties and the arbitrators. The clause also recognizes the fact that parties to a transnational dispute may represent different nationalities. The right of the parties to appoint arbitrators of their own choosing and, in turn, to involve those party-appointed arbitrators in the choice of the third arbitrator, enhances party confidence in the integrity of the arbitral process and its outcome.

The geographical location of the arbitration is important as the national law of the situs or seat of the arbitration becomes the external legal reference for the procedural governance of the arbitration. Accordingly, whatever location is chosen, the parties should understand the local law application of any mandated procedural rules and their interaction with the rules adopted by the parties. Finally, it is most important that the national state where an international arbitration proceeding is held has adhered to the New York Convention, to assure recognition and enforcement of any arbitral award.

X. Conclusion: Hope and Reality

The resolution of intellectual property disputes must address a crucial overriding element: more often than not, the disputing parties are not contractually bound; thus, a dispute resolution clause is nonexistent. While most licensing and technology transfer agreements will by their terms provide for the arbitration of future disputes, controversies over patent, trademark, and copyright infringements seldom involve parties who are contractually bound to each other. It is this reality that so far has impeded the full utilization of arbitration as a means of resolving intellectual property disputes. Thus, a patent holder, faced with the realities of infringement of that patent in several countries by several parties, must face the expense and uncer-

KAPLAN ET AL., HONG KONG AND CHINA ARBITRATION, CASES AND MATERIALS (1994). Hong Kong and its International Arbitration Centre present a reasonable reference for both parties. Hong Kong has adhered to the New York Convention and adopted the UNCITRAL Model Law. The Centre's Arbitration Rules are those of the UNCITRAL. The Centre also provides excellent physical facilities and administrative support. Its distinguished panel of international arbitrators includes Hong Kong judges as well as international counsel. In short, international commercial arbitration in Hong Kong will permit the parties maximum autonomy in devising arbitral procedures; there will be minimal intrusion by the courts in the arbitral proceeding; and the final award will be enforceable in every other jurisdiction that has adhered to the Convention, subject only to the defenses enumerated under Article V. For a comprehensive analysis of arbitration statutory and decisional authority in Hong Kong, and a helpful insight to the burgeoning practice of arbitration in China, see id.

tainty of initiating court proceedings in each country, at the same time risking, in each, objections regarding the validity of the patent, issues as to patent infringement, and the availability of injunctive relief. For some of these issues there may be different authorities that are competent and will have to be availed of by the patent holder (such as the Patent Office for registration purposes), as well as the courts to rule on damages and other relief. Even worse, the outcome of such cases will normally escape any sort of predictability and decisions may be totally different on one and the same issue in various countries.

Perhaps some hope for institutional address of this transcendent problem may come from the leadership of the World Intellectual Property Organization (WIPO) Arbitration Center in Geneva. The WIPO Center began operations in late 1994 and its WIPO Mediation and Arbitration Rules became effective at that time. The basic premise behind the creation of the WIPO Center is the special nature of intellectual property as a subject matter. The WIPO Rules reflect the belief that dispute resolution alternatives to litigation, particularly mediation and arbitration, offer especially suitable means of accommodating the specific characteristics of intellectual property disputes. The WIPO Rules represent the latest and best-informed example of desirable international practice while the WIPO Center provides quality case management and assures ongoing identification of experienced and highly qualified international mediators and arbitrators who can address the complexities and challenges of transnational intellectual property disputes.

22. Id.