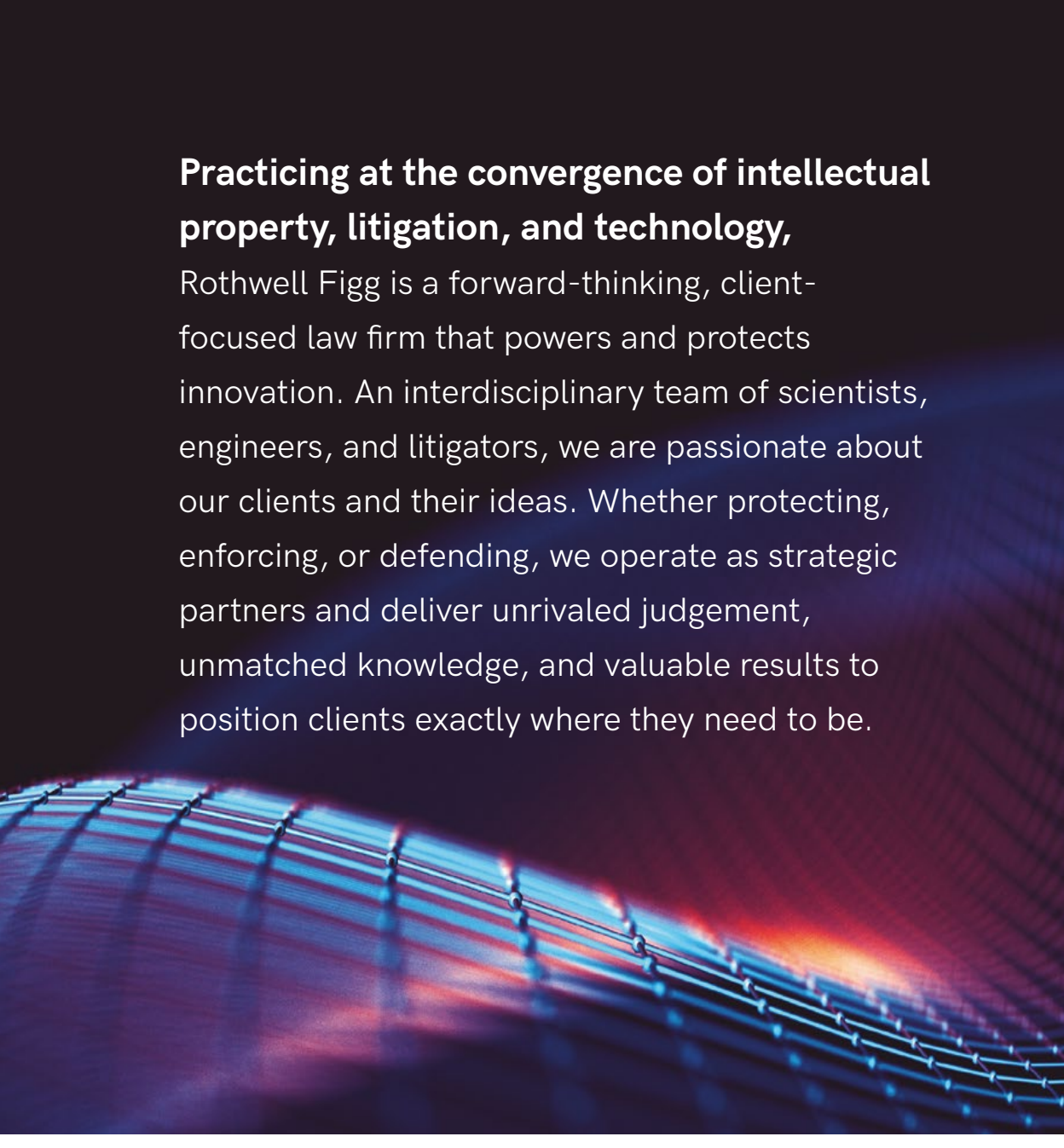
GLOBAL PATENT LITIGATION 2023

Challenges in drafting a dispute resolution clause

Rothwell Figg

Robert P Parker

IAM



Practicing at the convergence of intellectual property, litigation, and technology,

Rothwell Figg is a forward-thinking, client-focused law firm that powers and protects innovation. An interdisciplinary team of scientists, engineers, and litigators, we are passionate about our clients and their ideas. Whether protecting, enforcing, or defending, we operate as strategic partners and deliver unrivaled judgement, unmatched knowledge, and valuable results to position clients exactly where they need to be.

ROTHWELL FIGG

IP • LITIGATION • TECHNOLOGY

Washington, D.C. | Boston | New York

Robert Parker, +1 202 783 6040, rparker@rothwellfigg.com

www.rothwellfigg.com

Challenges in drafting a dispute resolution clause

Rothwell Figg

Author
Robert P Parker

Introduction

Many parties give little thought to the dispute resolution clauses in their contracts. Often, they operate on certain assumptions – for example, that arbitration is preferable to litigation in national courts because arbitrators are neutral, that the process is cheaper or quicker than judicial procedures, and that an arbitration will progress along a fairly well-defined path according to a somewhat predictable timetable.

Based on those assumptions, dispute resolution clauses often get short shrift – even in agreements that cover the parties' most important business dealings. Often, parties incorporate the standard dispute resolution clause that the International Chamber of Commerce (ICC) recommends, which provides:

> *All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules.*

The clause says nothing about the conduct of the arbitration, and the ICC Rules of Arbitration offer few specifics; they are primarily guidelines regarding how the parties and the arbitrators should decide on how the proceedings should be conducted. The standard clause and the Rules postpone the parties' discussion of the conduct of the proceedings until a dispute has already arisen – when tensions can be high and agreement elusive.

Recent decisions from the US Supreme Court are a reminder that standard dispute resolution provides little more than a rough framework, and that arbitration can veer in different directions depending on the nature and location of the parties, the subject matter and the evidence. This flexibility to address a wide variety of circumstances may be an advantage, but it comes at the expense of clarity and completeness. Time and effort devoted to a discussion of how a potential dispute will be resolved and incorporation of that understanding in a contract, will be worth the investment.

This chapter will discuss two recent US Supreme Court decisions that highlight the importance of clear and comprehensive dispute resolution clauses, especially when the stakes are likely to be high. It will then offer a few clauses that have been useful in a variety of contexts.

Henry Schein: the need be clear

Like most countries that account for the lion's share of global commerce, the United States has a statute that sets out general arbitration rules: 9 US Code (USC) Chapter 1, Sections 1 to 16. The main principle is that agreements to arbitration are valid and enforceable according to their terms (Section 2). A party may engage a court to enforce an arbitration agreement and to confirm or enforce an arbitration award (Sections 2 and 9). In very limited circumstances, a party may ask a court to vacate an arbitration award (Section 10).

Because arbitration is a matter of contract, US courts generally construe a dispute resolution clause according to its terms, as they would any other contract (see Rent-A-Center, West, Inc v Jackson (2010) 561 US 63 at 67).

That said, certain unique principles apply to arbitration agreements. Most importantly, the agreement will be construed in light of the "liberal federal policy favoring arbitration agreements, notwithstanding any state substantive or procedural policies to the contrary" (Moses H Cone Memorial Hospital v Mercury Construction Corp (1983) 460 US 1 at 24). In other words, although contractual issues are usually resolved in accordance with state law or common law principles, federal policy gives an advantage to the party that wants to arbitrate the dispute.

Robert P Parker
Partner
rparker@rothwellfigg.com

Robert ('Bob') Parker's practice focuses on complex matters involving a broad range of technology, regulatory and commercial issues. A strategist and trusted adviser, Bob brings to his engagements three decades of litigation experience in a variety of judicial, international and administrative forums. He represents clients, from multinationals to fast-growing start-ups, in IP disputes in federal courts and at the US International Trade Commission. He litigates against companies from around the world, as well as against the US and foreign governments. Bob has lectured and published on three continents and has served on the adjunct faculties of four major universities, including Johns Hopkins University and the George Washington University Law School.

This principle carries even greater weight in the international context. In Mitsubishi Motors Corp v Soler Chrysler-Plymouth, Inc (1985) 473 US 614 at 629 to 630, the US Supreme Court emphasised the particular importance of arbitration clauses in international commerce:

> *Concerns of international comity, respect for the capacities of foreign and transnational tribunals, and sensitivity to the need of the international commercial system for predictability in the resolution of disputes, all require enforcement of the arbitration clause in question even assuming that a contrary result would be forthcoming in a domestic context. . . . [A]gree[ment] in advance on a forum acceptable to both parties is an indispensable element in international trade, commerce, and contracting.*

The pro-arbitration policy that guides US courts does not mean that all issues are resolved in favour of arbitration, much less that all issues are decided under clear rules. A US Supreme Court decision in 2019, Henry Schein, Inc v Archer & White Sales, Inc 139 SCt 524,focused on one muddled issue: who decides whether the parties agreed to arbitrate an issue in the first place – the court or an arbitrator?

In accordance with the general principle that the agreement is paramount, the Court held that:

> *parties may agree to have an arbitrator decide not only the merits of a particular dispute but also 'gateway' questions of 'arbitrability,' such as whether the parties have agreed to arbitrate or whether their agreement covers a particular controversy.*

As subsequent events showed, this decision merely bucked the question of whether the parties delegated decisions on gateway issues to the arbitrator; the Supreme Court did not answer the question but left that to the lower courts. In its instructions, however, it said that the lower courts "should not assume that the parties agreed to arbitrate arbitrability unless there is clear and unmistakable evidence that they did so."

The answer to that question proved so elusive that it returned to the Supreme Court for review. After agreeing to hear the case for a second time, the Supreme Court balked and dismissed the case "as improvidently granted" (Henry Schein, Inc v Archer & White Sales Inc (25 January 2021)No. 19-963 (per curiam).

The parties in Henry Schein therefore litigated for years, through three levels of the US judiciary, on the question of whether the court or an arbitrator should decide whether the dispute was subject to arbitration. In the end, they were no closer to resolving their dispute.

The lesson from this case is that a dispute resolution clause should be clear and comprehensive. It should reflect the parties' expectations regarding the forum, scope and conduct of the proceedings. The more detailed the agreement, the less likely it is that the parties will repeat the Harry Schein experience.

ZF Automotive: the need to be thorough

Another recent Supreme Court case, ZF Automotive, Inc v Luxshare, Ltd (13 June 2022)

Slip op, No. 21-401, highlights the fact that a party may not have all the tools it needs to prove its case. The case concerned a US statute that allows a US court to aid a party to proceedings in a "foreign or international tribunal" in the collection of evidence found in the United States.

The statute, in 28 USC Section 1782(a), states:

> *The district court of the district in which a person resides or is found may order him to give his testimony or statement or to produce a document or other thing for use in a proceeding in a foreign or international tribunal, including criminal investigations conducted before formal accusation.*

The provision seems clear on its face, and at least this much is fairly well settled: the statute allows a party to proceedings to ask a US district court for an order compelling discovery – including the production of documents or deposition testimony – from a person or other entity in the United States. The dozens of published decisions construing or applying the statute confirm its importance as a tool in legal proceedings around the world.

Less clear is the statute's reference to a "foreign or international tribunal". That phrase clearly covers a country's national court system, but beyond that, the certainty drops off quickly. What about administrative or regulatory agencies, or multinational tribunals? Why does the statute use "or" in the phrase "foreign or international tribunals", and is there a difference between the two? And finally, what of private proceedings before arbitration tribunals that are conducted pursuant to national arbitration statutes that offer legal support and encouragement, even if the proceedings are not under the government's auspices as a formal matter?

The Supreme Court tried to clarify the statute in Intel Corp v Advanced Micro Devices, Inc (2004) 542 US 241, which involved proceedings before the European Commission's Directorate-General for Competition (DG Competition). Advanced Micro Devices, Inc (AMD) lodged a complaint with DG Competition against Intel Corp, and in due course AMD recommended that DG Competition seek information available in the United States.

DG Competition applied for judicial assistance under 28 USC Section 1782(a), which the district court denied on various grounds. Ultimately, the case ended up before the Supreme Court to resolve, among other things, the question of whether the DG Competition investigation qualified for assistance.

The Court answered in the affirmative, relying primarily on the fact that, before 1964, the statute applied only to a "judicial proceeding". It reasoned that the new phrase "foreign or international tribunal" covers more than just judicial proceedings, and the legislative history of the change confirmed the intention of Congress to cover cases before quasi-judicial agencies.

The Court held that DG Competition's investigation qualified for judicial assistance in the collection of information in the United States. In other words, Section 1782(a) "authorizes, but does not require, a federal district court to provide assistance" and rejected "the categorical limitations Intel would place on the statute's reach" (Intel Corp at 255).

Efforts to apply the Supreme Court's decision to other situations, including private arbitration, floundered. Lower courts drew different conclusions, even in cases involving the same arbitration.

A dispute between Servotronics, Inc and The Boeing Company illustrates the point. While the companies were engaged in arbitration in England, Servotronics sought information in the United States pursuant to Section 1782(a). Because the statute says that an application must be filed in the district court in which "a person resides or is found", Servotronics filed applications in two different district courts in two different appellate circuits.

One of the appellate courts decided that the statute applied to private arbitration and held that Servotronics could obtain the information (Servotronics, Inc v Rolls-Royce PLC, 954 F3d 209, 213 (4th Cir 2020)); the other appellate court reached the opposite result (Servotronics, Inc v Rolls-Royce PLC, 975 F3d 689 (7th Cir 2020)). The case went to the US Supreme Court, but the parties settled their dispute before the Supreme Court heard the case.

The Supreme Court quickly found two more cases that raised the same issue. Perhaps concerned that the parties in one of the two cases might settle their dispute, the Supreme Court decided to hear both cases together, under the caption ZF Automotive US, Inc v Luxshare, Ltd.

The common issue in both cases was whether private arbitration qualifies as a "foreign or international tribunal" under Section 1782(a). For reasons that are not very persuasive, the Court decided in the negative. It concluded that the statute "requires a 'foreign or international tribunal' to be governmental or intergovernmental", that a "'foreign' tribunal' is one that exercises authority conferred by a single nation" and that "an 'international tribunal' is one that exercises governmental authority conferred by two or more nations." (ZF Automotive at 11). Because most arbitration arises by private agreement between contracting parties, the Court held that private arbitration does not fall into either of these narrow categories.

That decision effectively resolved one of the two cases before the Court. The other case was not as clear because the arbitration involved a private party against a sovereign government, and the arbitration was conducted pursuant to a treaty between two nations.

That did not change the outcome, however. According to the Supreme Court: "What matters is the substance of the agreement: Did these two nations intend to confer governmental authority on an ad hoc panel formed pursuant to the treaty?" (ZF Automotive at 13). The Court concluded that the answer was no, so that case also ended with a decision against the provision of assistance under Section 1782(a).

The point of this discussion is not just to highlight this new decision, although the fact that the statute does not apply to private arbitration may be a relevant factor in deciding on a dispute resolution forum. The broader point is that the selection of a dispute resolution process carries with it a series of assumptions, ancillary procedures and collateral rules or practices that often receive little consideration when drafting a dispute resolution clause.

The published decisions on Section 1782(a) before ZF Automotive indicate that the provision is useful for many parties involved in disputes outside the United States, but it no longer is if the parties opt for arbitration. Many dispute resolution provisions ignore the question of pretrial discovery or information exchange entirely.

Whatever the parties' assumptions about the procedures that would be available in those situations, parties to private arbitration now have one less tool at hand.

Filling the gaps

As discussed above, and as litigators around the world know, the choice of dispute resolution method carries baggage that is often not spelled out in a dispute resolution clause but that may be important if a dispute arises.

When the parties choose arbitration in the expectation that it will be relatively quick and inexpensive, they may be pleased if everything runs like clockwork. But often everything is left to further discussion once a dispute arises, in which case all bets are off. One advantage of judicial resolution over arbitration is that courts have standard pleading, pretrial and trial procedures on which the parties can rely. And very importantly, nearly all judicial decisions are subject to at least one level of review if the initial court makes a significant error.

This is not to suggest that judicial resolution of disputes is perfect or even a better alternative. There will often be questions of neutrality, confidentiality, expertise and similar matters that can be readily addressed in the arbitration context but that raise complications in national courts. Moreover, even if judicial procedures are usually fairly detailed and settled, that does not mean that they are always clear; often, they give substantial discretion to the presiding judge, meaning that even a detailed code of rules and procedures does not guarantee smooth, predictable and efficient proceedings.

To summarise, the selection of a dispute resolution procedure is an important issue that should not be ignored. It is not a one-size-fits-all proposition, with one approach suited to every agreement or even to all possible disputes under one agreement. At the very least, the parties should consider whether a particular approach is the best they can do given the circumstances.

A search online (see Law Insider) for a standard dispute resolution clause calling for judicial resolution offers this:

> *This Agreement shall be governed by and construed in accordance with the laws of the state of New York without regard to its conflict of laws provisions. Any disputes, controversies, or claims arising out of this Agreement shall be heard in the United States District Court for the Southern District of New York, and the parties waive any objection to that court's jurisdiction and to the venue, whether based on convenience or otherwise.*

As noted above, the ICC's standard arbitration clause reads:

> *All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules.*

The first clause implicitly provides that the dispute will be resolved according to the laws and rules applicable in that court, including laws and rules regarding pleading, discovery, trial and appeal. The second clause provides for arbitration under the ICC's auspices, but as stated above, the rules generally call on the parties and the tribunal to set procedures themselves.

Each of these provisions could be modified to make the proceedings more efficient, cheaper and ultimately more conducive to a satisfactory resolution. Within certain bounds, there are no hard and fast limits on the parties' creativity in designing a dispute resolution process that is appropriate to their case. As examples, consider the possibilities available on two important issues: choice of forum and exchange of information.

Choice of forum

Parties that choose to arbitrate their disputes often choose the ICC as their forum. The ICC is an excellent arbitration organisation, but a simple reference to its rules shows that it offers at best a bare-bones approach to deciding how the dispute will be resolved. One possibility is to consider another arbitration forum that has a different profile that is more conducive to resolution of a likely dispute.

One possible arbitration forum is the International Arbitration Center in Tokyo (IACT). The arbitrators who are affiliated with IACT include retired judges from around the world with experience in handling disputes involving commercial, intellectual property, competition and a wide variety of other claims.

Another advantage of IACT is that its rules provide for appeal of an arbitration decision to a panel of judges. This solves one of the biggest drawbacks to arbitration: an arbitration decision is not appealable, even if it is based on an obviously incorrect legal or factual error. Specifically, Article 40 of the IACT Arbitration Rules provides that a party may ask for review by providing the following:

> *(i) a detailed explanation of any alleged material and prejudicial error of law or fact that the requesting party seeks to be corrected by the tribunal, and (ii) a specific identification of the modification sought by the requesting party.*

A dispute resolution clause directing arbitration under IACT auspices that also addresses some of the important procedures the panel will apply will go a long way to providing for efficient, effective and dependable proceedings.

The same ideas apply if the parties choose to have their disputes resolved in court. Agreement to resolve a dispute in a particular country may constitute only the first step. Often, the parties will be able to pinpoint a particular court.

In the United States, the parties may have several options, with the courts in Delaware, New York, and California being popular choices. These courts have excellent judges, experience with complex cases and favourable locations from a logistics standpoint.

On the other hand, these are also some of the busiest courts in the United States, and the congestion on the courts' dockets can result in delays. Other courts, such as the United States District Court for the Eastern District of Virginia, have the same advantages as the courts in the more familiar districts, without some of the disadvantages. In fact, the Eastern District of Virginia was the original "Rocket Docket".

Choice of procedures

The fact that the parties have chosen a particular forum does not mean that they are required to follow all the forum's procedures verbatim. In most cases, the forum will allow the parties to modify the procedures by agreement.

This is especially the case in arbitration, where the rules offer little detail on matters such as information exchange and hearing procedures, with the understanding that the parties will address these matters in their dispute resolution agreement or during the arbitration itself. Parties often agree, for example, to exchange specified information relating to the dispute by a given deadline. They may also agree to the exchange of briefs (or 'memorials')

outlining their legal and factual arguments. They can set the terms for a hearing, including the identification of factual and expert witnesses, and whether direct witness testimony will be presented live at the hearing or in writing.

These provisions not only set out the type of proceedings that the parties agree will be appropriate, but also save the parties the time, effort and expense of negotiating those issues after a dispute arises, when they may be less likely to agree, and time and resources would be required for the discussion and memorialisation of their agreement if they do agree.

If the parties opt for judicial proceedings, the court's rules and procedures will govern by default. In many cases, however, the rules allow the parties to modify the procedures. So long as the agreement does not impose additional burdens on the court, the court will usually allow the parties to agree to certain pretrial procedures, including discovery procedures.

For example, at the outset of a lawsuit in the United States, the parties are often required to discuss ways to expedite the proceedings and to submit to the court a proposed order incorporating their ideas. The order may include the scope and content of an initial information exchange and modifications to the default discovery rules, and it may provide for a proposed pretrial schedule. If the proposed terms seem likely to expedite resolution of the case, most courts will adopt the parties' approach.

In the United States, the parties may also consider an agreement in which they waive their right to a jury trial and agree that the trial will be held before a district judge without a jury. This has several advantages, such as reducing an out-of-town party's concerns about local bias. It also reduces costs as a bench trial is almost always shorter than a jury trial (in terms of total court time), less expensive to prepare and likely to move forward more quickly on the court's docket.

Conclusion

The time spent to discuss and draft a clear and thorough dispute resolution clause is well worth the effort. If a dispute arises after the agreement is signed, the parties will have to address procedural issues that could have been addressed earlier during a time when the parties were more apt to agree. Within certain broad limits, courts will enforce these provisions and allow the parties to resolve their disputes according to their agreement. This is one area where attention and creativity can pay substantial dividends.

Rothwell Figg
901 New York Avenue, NW
Suite 900 East
Washington, DC 20001
United States
Tel: +1 202 783 6040
Fax: +1 202 783 6031
www.rothwellfigg.com