

Arbitration in Switzerland
The Practitioner's Guide

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Chapter 7

IP & IT Arbitration in Switzerland*

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I. Introduction

Common wisdom suggests that disputes concerning intellectual property (“IP”) and information technology (“IT”) should be handled by specialists. The same is true with regard to IP and IT transactions as well as contracts or regulations that involve these topics: They are generally considered to be reserved for the experts, which may also be the reason these two topics have been given a special chapter in this handbook. However, at a closer look one will realize that for many aspects of an arbitration proceeding related to IP or IT, there is nothing about disputes that would greatly distinguish them from disputes on other subject matters. In fact, in many regards, they are classical commercial disputes that – as usual – concern a special field of technology or law, just as is the case with many other arbitrations that relate to failed projects, broken joint ventures or investments that have turned out not to work out as expected.

That being said, there are of course a number of characteristics of IP and IT disputes that are worth special consideration when going into, or deciding over, an arbitration involving such disputes, or when considering the inclusion of an arbitration clause in a contract negotiation instead of relying on state courts. This chapter will deal with these special aspects from an arbitration practitioner’s point of view, not from an academics view. The goal is to try to provide a broad overview and “starting point” for people who are faced with IP or IT arbitration. It will first describe the special nature of IP and IT disputes and whether and why arbitration may make sense for resolving them. It will then discuss a number of selected legal aspects, in particular the question of arbitrability and law applicable to IP and IT disputes, however, without going into general aspects of arbitration, which are well dealt with in the other chapters of this handbook. Finally, we will deal with practical and tactical questions concerning arbitrations involving IP and IT matters. Although this chapter is based on a Swiss law background, in our experience, statements will apply in a similar manner also for many other jurisdictions.

II. The Nature of IP Disputes

A. What IP Rights are About

To understand the nature of typical IP disputes, it is important to understand the nature of IP rights.¹ There are various different types of IP rights that can be subject to a legal dispute. The three most important types of IP an arbitration practitioner should know are patents, copyright and know-how:

- A *patent* is a legal right granted by a state (for the territory of the state) to prevent others from using an invention for commercial purposes. In Europe, an patentable invention is generally understood to be, at the time of application, a new, non-obvious and useful way of solving a technical problem with technical means. In the US, patents are available also for other inventions, such as business methods if they fulfill certain criteria. In exchange for being granted a patent, the invention is made public. A patent has to be applied for in many countries in order to gain protection in many jurisdictions; however, through international conventions it is possible to use one application (for instance, under the European Patent Convention (“EPC”) it is possible to file one application with the European Patent Office (“EPO”),² which, if granted, results in a European Patent). A patent is granted only for a limited period of time (e.g., 20 years following the application), during which time the holder of the patent can take legal action against others who make use of the patented

¹ A short, easy to read introduction in IP rights (in German, French, Italian an English) is offered under <kmu.ige.ch>, an informational website operated by the Swiss Federal Institute of Intellectual Property. It also offers a brochure (<kmu.ige.ch/fileadmin/user_upload/Services_Links/Download/Institut/Guide_Gedacht_Gemacht_Geschuetzt.pdf>), which, however, is in German. Another very good, more profound introduction in IP rights under Swiss law, although again in German, is Kaiser/Rüetschi. A number of freely accessible resources on IP with an international view can be found on the website of the World Intellectual Property Organization (WIPO), such as <http://www.wipo.int/freepublications/en/intproperty/909/wipo_pub_909.html> and <http://www.wipo.int/about-ip/en/iprm/>. The website also contains an extensive and up-to-date bibliography on intellectual property arbitration and mediation under <http://www.wipo.int/amc/en/center/bibliography/general.html>.

² See <http://www.epo.org/>.

invention (or certain parts of it) without authorization. A common way to attack a patent in case of a patent infringement claim is to have it declared void by a court on the basis that the patented solution was not new at the time of its application (by showing “prior art”) or that other criteria were not fulfilled. Such a “nullity” attack may also be used by a licensee in a license dispute;

- A *copyright* is the legal right granted by a state to prevent others from using or modifying a particular original work or parts thereof. As opposed to patents, copyright does not protect a particular idea, but the original and “special” manner in which an individual has expressed or manifested it. For instance, a short news piece drafted in a professional, but nevertheless standard manner will normally not pass the threshold of individuality usually required by copyright laws, whereas an essay will typically do. There are many different types of work that can be subject to copyright, such as literature, paintings, drawings, dramatic works, musical compositions, photographs, motion pictures, sound recordings, choreography, architectural works, and computer programs. Copyright is usually established upon creation of the original work; registration is normally not required and in many countries not even possible. Copyright is limited in time (e.g., 50 years after the death of the creator) and subject to a number of limitations defined by each national copyright law (e.g., the right to cite excerpts of a copyrighted work without asking the author for permission, the right to create backup copies, the right to make personal, non-commercial or academic use of a work).³
 - *Know-how* is a general term to describe information that can be used for pursuing a particular business, but is not general industry knowledge because it is kept secret. *Trade secrets* and *manufacturing secrets* are typical examples of know-how, as are inventions before they are published in the course of the patent application procedure. Most laws do not protect know-how as such (hence, many do not consider know-how as constituting a classical IP right). However, these laws often prohibit the misappropriation of trade and manufacturing secrets, provided certain preconditions are fulfilled, such as that the owner of the know-how at issue has undertaken reasonable steps to keep the information secret (for instance, by sharing it only with a limited number of people bound by non-disclosure agreements) and that the owner has a legitimate own business interest in doing so.
- 4 While there are other IP rights, such as *design* or *database rights*, they play a less important role in commercial disputes that are being arbitrated. The same is true with regard to *trademark rights*, which serve a completely different purpose, namely their ability to distinguish products and services from a particular source from products and services from other sources.⁴ In practice, by far most “hard core” IP arbitrations concern patent issues.⁵
- 5 IP rights are to a large extent based and defined by *national* legislation. Although there are many international treaties and conventions⁶ that set forth a number of principles on IP protection and define minimal standards, IP-related disputes can hardly ever be fought and resolved without taking into account the specific rules that apply to a particular category of IP under a particular national law.⁷ For

³ In some countries, such as Switzerland, the list of exceptions is precisely defined, whereas in other countries, such as the US, which permits “fair use” of copyrighted work, the lines are more blurred.

⁴ For background information, see the references in footnote 1.

⁵ According to WIPO statistics, 46% of all arbitration under the WIPO Arbitration Rules concerned patent issues, 9% related to copyrights, 5% to trademarks (typically trademark coexistence disputes) and 22% to telecommunications and IT (WIPO Arbitration and Mediation Center, “Update on the WIPO Arbitration and Mediation Center’s Experience in the Resolution of Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executives Society International* (March 2009), p. 51, Figure 3); for current statistics on combined mediation and arbitration proceedings, see <<http://www.wipo.int/amc/en/center/caseload.html>>.

⁶ An overview of the WIPO is provided on <<http://www.wipo.int/treaties/en/>>. Well-known examples in the field of copyright and patent law are the European Patent Convention (<<http://www.epo.org/law-practice/legal-texts/epc.html>>), the Berne Convention for the Protection of Literary and Artistic Works (<<http://www.wipo.int/treaties/en/ip/berne/>>), and, of course, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which defines minimal requirements for the protection of various types of IP (including copyrights, patents and trademarks) by national laws (<http://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm>).

⁷ For a discussion on applicable law, see paras. 111-126 below.

instance, it is national law that defines how the copyright of a particular work can be assigned – if at all – by one party to another for use in a particular country. For patents, national law can be equally important, even for European Patents.⁸ The fact that commercial IP disputes often involve a number of different jurisdictions can thus raise many questions with regard to applicable law and the cross-border enforcement of awards.⁹

B. Typical IP Disputes

1. Overview

In broad terms, an IP right can be commercially exploited in three different manners:

6

- The owner can itself make use of a particular invention, a particular copyrighted work or know-how and take legal action against any other person (e.g., a competitor) who makes use of the same invention or copyrighted work without permission or other authorization by law¹⁰ or who tries to misappropriate the know-how; there are also owners of patents who do not use them for producing anything, but simply use them as a “weapon” in case they are attacked by competitors for patent infringement¹¹ or they use them force companies that may be infringing their patents into license agreements to avoid the legal costs of a dispute, even if it is be doubtful whether the patent is indeed infringed or valid;¹²
- The owner can permit third parties to make use of his IP in a particular manner under certain conditions (e.g., the payment of a fee). Such permission is referred to as granting a *license* with regard to the use of certain IP. In simple terms, it is a contractual promise of the licensor not to use his copyright or patent against the licensee as long as the licensee complies with the terms and conditions of the license. In the case of know-how, a license is essentially a promise to share the know-how with the licensee on a confidential basis. In some jurisdictions, an license granted on an exclusive basis may further result in the licensee having certain statutory rights concerning the IP at issue, such as the right to sue a third party for infringement of the IP for which he or she holds an exclusive license;
- The owner can – to the extent permitted by law – sell some or all of his IP rights to a third party. This will put the buyer into the position of the owner of such IP, entitled to exercise the associated IP rights against any third party infringing them and reselling or licensing them in part or in total, if he wishes to do so.¹³ He is also often better protected in case of a bankruptcy of the original owner of the IP right or if the original owner, for some reason, loses ownership of the IP right. Such sale transactions are often referred to as the *assignment* or *transfer* of IP rights, as opposed to the mere licensing of IP rights (in which case the licensor remains the owner). As in the case of licensing, it may be possible to split the bundle of IP rights in a particular work or invention in various pieces

⁸ See para. 7, first bullet, above; although European Patents are issued on the basis of an international convention, the European Patent Convention (<<http://www.epo.org/law-practice/legal-texts/epc.html>>), they ultimately convert into national patents for each country for which protection had been applied for. Once this has happened, they are governed by national law.

⁹ See paras. 111-126 and paras. 82-85 below.

¹⁰ For example, applicable patent law may permit the non-commercial use of a patented invention. Likewise, applicable copyright laws often permit, for example, the resale of a copy of a copyrighted work if such copy was originally sold by the copyright owner, the reproduction of copyrighted work in the form of a citation or the use in connection with media reportings, always provided certain conditions defined by national law have been met. In all these situations, no permission will be needed from the rightsholder because the use of the IP at issue is permitted by operation of law.

¹¹ Such disputes may end up in “cross-license” agreements, where both companies could sue each other for patent infringement due to their large arsenal of patents.

¹² The companies entertaining this business model are frequently referred to “patent trolls” (or “Non-Practicing Entities”); see <<http://www.patentfreedom.com/>> for further background information.

¹³ As opposed to that, the licensee, if permitted at all, can usually only sublicense a right for he or she has received a license or assign the license to a third party.

(e.g., in terms of geographic scope or type of right) and to sell them separately. The assignment of copyrights is restricted in many jurisdictions.¹⁴

- 7 All three manners of exploiting IP rights can theoretically result in a dispute that can become the subject of an arbitration proceeding. However, the first category (i.e., IP right infringement claims) is usually dealt with in state courts in the form of a classical tort claim, unless it arises in the context of a contractual relationship (e.g., a collaboration agreement).¹⁵ Outside an existing relationship, the owner of the IP right at issue usually has no agreement to arbitrate with the third party misappropriating the IP. While it is not excluded that the parties to a plain IP right infringement dispute may agree to have it decided by an arbitral tribunal, this rarely ever happens, as it is often not an attractive form of dispute resolution for such cases.¹⁶
- 8 If an IP dispute ends up in arbitration, it in our experience typically arises out of long-term contracts that either provide for a particular IP license or that provides for the assignment of particular IP rights and in which the parties have already in the first place agreed to settle disputes through arbitrations. These contracts include license agreements; franchising and distribution agreements; merchandising agreements; content production agreements; joint venture agreements; research and development agreements; outsourcing agreements; manufacturing agreements; agreements relating on prerogatives and delimitations of trademarks; agreements with inventors; pooling arrangements; collaboration or partnership agreements; and, of course, business mergers and acquisitions.¹⁷ We may note that license-related disputes are in our experience much more frequent than disputes over the assignment or allocation of the ownership of IP rights.¹⁸ Furthermore, IP-related contracts with arbitration clauses are much more frequent among international parties than in a purely domestic setup.

2. Disputes over the Licensing of IP Rights

- 9 Disputes concerning the licensing of IP rights can involve a number of different issues. The most frequent issues to be resolved in such disputes are:¹⁹

¹⁴ For example, the assignment may be limited to certain commercial rights or may be valid only if executed in writing. Also, many jurisdictions provide that the original creator of the copyrighted work retains certain “personality rights” he or she cannot assign or beforehand agree not to enforce.

¹⁵ Example: A supplier has entered into a partnership with a sub-supplier, who makes available various IP to the supplier under an OEM (“original equipment manufacturing”) agreement and then is confronted with the supplier selling its business – including the IP supplied by the sub-supplier – to a competitor of the sub-supplier without the sub-supplier’s consent. In such a case, the supplier may eventually argue that the contract provides for the right (i.e., a license) to sell such IP to the purchaser of the business, and the sub-supplier will eventually argue that passing along its IP amounts to a breach of the confidentiality and IP clauses of the contract, which again will often follow the concept of a license: They permit a certain usage of the IP at issue by the other contract party, but prohibit any other usage and require the receiving party to ensure that such restrictions are complied with.

¹⁶ See para. 87, paras. 89-91 and, more general, paras. 29-56 below.

¹⁷ Schäfer, *The Trademark Reporter* 2004, p. 697; Blessing, *ArbInt.* 1996, pp. 197-198, who also mentions employment contracts as a further category.

¹⁸ One of the more frequent cases in which such disputes arise are in connection with joint-ventures and cooperation agreements that break apart: The parties may end up in a dispute over the question which party to the joint-venture or partnership should retain and own which IP rights. Other typical dispute cases about the assignment of IP rights concern setups in which one party is required to develop certain products, works or solutions or undertake other research on behalf of another party, which may lead to a dispute of who owns which research results. Such disputes may arise, for instance, out of OEM agreements (i.e., contract development and manufacturing agreements). Less frequent are disputes that involve the assignment of IP rights in the context of a business or company acquisition. In those cases, IP rights usually become an issue if an IP right that has been part of a transaction turns out to be less valuable or usable than anticipated (which may trigger a dispute concerning representations and warranties, for instance).

¹⁹ See also “ICC Commission on International Arbitration (Working Party Chair: Julian D.M. Lew), Final Report on Intellectual Property Disputes and Arbitration, October 28, 1997”, in *ICC Arb. Bull.* 1998/1, pp. 39-40.

- Is a particular activity covered or restricted by the license? Under which conditions? Have these conditions been satisfied? What are the consequences? Is the restriction permitted under applicable law?
- Is the licensor or licensee entitled to prematurely terminate the license under certain circumstances? If an extraordinary termination was notified, what are the consequences? What happens if the validity of the termination is disputed?
- What are the license fees that have to be paid? Is the license usage to be counted in a particular manner? Is there any particular minimum license fee?
- What is the geographic scope of the license? Has a particular form exclusivity been agreed and complied with? If not, what are the consequences?
- May the license be sublicensed or transferred to another party? May a third party rely on or benefit from the license? May a third party be given allowed to benefit from the work or invention protected as IP?
- Is the licensor entitled to grant a license? Is the underlying IP right still valid and if not, what is the consequence? Will this have an impact on the license granted and the obligations to pay for it? If the IP right relates to a patent, should it be declared null and void? Should the patent owner be required to waive its rights in the patent or otherwise cause the patent to be removed from the registry? In which countries?
- Who is responsible for obtaining additional third party rights that may be necessary to make use of the licensed IP right?
- What are the licensee's rights in case of third party infringement claims? What are the licensee's rights and obligations in case that third parties infringe the IP right licensed? May the licensee raise a damages claim in his own name?
- What is the term of a license? If the license is limited in time, what happens upon its expiry? Is there a renewal option? Will the licensee be reimbursed for investments made and goodwill created during the term of the license?
- What are the warranties with regard to the licensed works, inventions or know-how and their fitness for the intended purpose? What are the remedies in case of a breach of such warranties? What is the term of such a warranty?

3. *Disputes over the Assignment of IP Rights*

Typical disputes involving the assignment or transfer of IP rights are:²⁰

10

- Does the agreement provide for an assignment or only a license of a particular protected work or invention at issue?
- Which rights were to be assigned? Which ones not?
- What activities have to be undertaken to effect the assignment? Who has to pay for such activities? Who is responsible for them?
- Was the assignment effected and when or did the contract simply provide for an obligation to assign?
- What are the conditions under which the assignment is to take place and were these conditions fulfilled?
- Are there particular conditions to be fulfilled following the assignment?

²⁰ See also "ICC Commission on International Arbitration (Lew), Final Report on Intellectual Property Disputes and Arbitration", in *ICC Arb. Bull.* 1998/1, pp. 39-40.

- What is the effect of the assignment? If pursuant to applicable law an assignment as such is not possible, what are the rights of the parties?
- What are the parties’ rights if the assignment is part of a larger transaction and such transaction fails only after the assignment has already taken place?
- Did the party assigning IP rights in a particular protected work or invention own such rights?
- What are the warranties with regard to the assigned work, invention or know-how and its fitness for the intended purpose? What are the remedies in case of a breach of such warranties? What is the term of such a warranty?
- What is the support that the party assigning rights has to give to the party receiving such rights in order to be able to exploit them? Was such support provided?

III. The Nature of IT Disputes

A. Types of IT Contracts

- 11 While there is a great variety of different IT contracts, most contractual relationships concerning IT are in our experience built around the following six types of contract:
- *Purchase agreements:* These agreements are mainly used by companies to purchase computer and network hardware. Many larger companies or groups of companies enter into special deals with suppliers for the purchase of a certain number of different types of devices over a particular period of time (which usually reflects the expected life time of these devices, e.g., three years). In exchange, customers are granted a certain volume discount, other special commercial conditions (e.g., most favorable prices) and, as the case may be, special maintenance and support options. Sometimes, purchase agreements are combined with service agreements for rolling out the hardware (e.g., replacement of all desktop computers over a certain period of time). IT purchase agreements are usually not very sophisticated. In combination with purchase agreements, customers usually agree also on terms for the maintenance of such hardware, either in the form of an extended warranty (on-site, bring-in, etc.) or in the form of a separate hardware maintenance agreement. Often, the parties agree on how fast such repairs and replacements have to take place (example: in the case of a critical server component, the parties may agree on a fix time of four hours);
 - *Software license agreements:* These agreements mainly permit a customer to use a particular software on its own infrastructure (either operated by its own staff or by an outsourcing provider). The key provisions of a license agreement are the scope of the license (who may use which software in which manner, for what purposes and how long?) and the pricing (how much has to be paid under which circumstances?). They may also contain numerous restrictions and obligations the licensor contractually imposes upon the licensee that would otherwise not exist (e.g., the obligation not to resell the software). Software license agreements are usually not very complex from a legal perspective, but can be very sophisticated from a commercial perspective depending on the licensing model. There are many different licensing models, and it is sometimes challenging to evaluate the right licensing model for a particular situation in which the customer is (standard software is often offered in different licensing models). Some licenses are granted for a limited period of time, others are perpetual (as if one were to purchase software in a store). Some are granted for a flat fee (e.g., unlimited usage within a site or company), some provide for a license fee based on certain technical or other metrics (e.g., number of users, number of computer processors, number of computers, workload processed) or other nature (e.g., revenue, value of transactions completed, number of employees, number of clients). Some provide for a onetime fee in one or several installments, other follow a rental model with recurring license fees;
 - *Software maintenance agreements:* Software maintenance agreements are a key source of revenue for every software developer, often more important than license agreements, as they can generate

a source of constant income over a relatively long term. Whereas license agreements provide the customer the right to use a particular software, maintenance agreements provide that the customer will during the term of the contract receive corrections (bug fixes, corrective maintenance),²¹ improvements (adaptive maintenance) and eventually extensions or upgrades of the software (evolutive maintenance). There are many different types of maintenance agreements, some focused on bug-fixing, while others also entitle the customer to receive any new, improved versions of software that are introduced during the term of the contract. Often, new functionality or new modules cost extra. Usually, software maintenance agreements also provide for certain support services (e.g., a hotline to report problems). They are regularly entered into together with software license agreements. The price to be paid is normally not calculated on a time and material basis, but rather as a percentage (typically 15%–25%) of the amounts paid to obtain the license of the software at issue or the amounts that were paid for creating the software (in the case of custom-made software). Software maintenance agreements typically run for a year (with automatic renewal) or longer. Often, particularly for critical software, the customer will agree on certain service levels, which define, for instance, in which time defects have to be fixed (depending on their severity). In the case of standard software, customers are not only entitled to get new major releases of software, but are in fact also obliged to install them, since maintenance is often only provided for the most current and the previous major release of a software. In the case of software developed individually for a customer, more flexible solutions are common;

- *Project Agreements:* Project agreements usually focus on the development or customization of a particular software solution or implementation of a particular system. Once this goal has been achieved, they end (and a software maintenance and support service may kick-in in order to ensure ongoing support and maintenance of the software developed). Insofar as a project agreement provides for the development of software, it is usually accompanied by a license agreement regulating the use of the resulting software. Project agreements regulate the specifications and requirements of what has to be developed or created; the milestones to be achieved; acceptance and warranty; the ownership of IP; the cooperation and support duties of the customer; and the payments required on the part of the customer. They also expressly or implicitly regulate the methodologies and tools used to achieve the intended results;²²
- *Outsourcing Agreements:* The concept of an outsourcing agreement is to delegate an in-house IT activity to an outside service provider. Some companies delegate their entire IT operations to an outside service provider (with such provider employing the IT staff and taking over the IT resources of the customer), whereas others do so only selectively (e.g., remote management of network security devices, license management, helpdesk, website hosting). For instance, a company may maintain internally the development of new computer applications, but outsource its daily data center and software operations since this is often a “commodity” task, for which there are many professional service providers that can handle it at lower cost. A key motivation to outsource is, in fact, the hope of reducing costs,²³ but sometimes also to benefit from the specialist skills and resources a service provider may have (e.g., a fully fledged data center, experience in operating a particular application, external “cloud computing”).²⁴ Experience shows, however, that outsource-

²¹ It is normal that software has defects. Many of these defects will only surface during actual operations. Hence, in commercial operations it is usually a must to enter into maintenance agreements in addition to a license agreement, irrespective of any warranty claims a customer may have.

²² See paras. 170-175 below on the use of methodologies.

²³ Assuming that a provider can be more efficient in operating an IT infrastructure, possibly also creating synergies among several clients.

²⁴ There are many different forms of what is referred to as “cloud computing”. In very simple terms, it refers to making available computer resources or applications online on very short notice, commoditized form on a pay-as-you-go basis, which is possible because the provider is given the freedom (within certain limits) to obtain the necessary resources for making available such service as he wishes. For instance, a typical cloud computing offering are computing services in which a company offers, through the Internet, any number of virtual computing capacity or storage

ing often does not decrease the costs as expected and with disadvantages (e.g., in terms of quality, flexibility). Outsourcing agreements exist in all forms and sizes, from very low volume, very selective outsourcing arrangements to very large deals with multiyear volumes of many hundreds of millions of EUR or USD or even more. They can be very complex, involving many different sub-agreements (including Service Descriptions²⁵ and Service Level Agreements²⁶), and they can cover many jurisdictions and group companies. They often also include licensing, purchase and project components. Setting up an outsourcing relationship may require a due diligence and a transaction agreement (e.g., for transferring hardware, licenses and staff) and may eventually have many similarities with traditional M&A transactions involving an asset sale (here: from the customer to the outsourcing provider). The parties should also regulate the back- or insourcing of the outsourced activities or the transfer to a different service provider in the case of a termination or expiry of an outsourcing agreement, as this can be an equally complex and costly undertaking as setting up an outsourcing in the first place. In some industries, the outsourcing of material business functions, which normally includes IT operations, is regulated specifically;²⁷

- *Other Service Agreements:* Some IT-related services can, by their very nature, not be provided for internally and, thus, cannot be qualified as “outsourcing” services if procured from an outside service provider. Telecommunications services are an example: Telecom providers make available their networks to enable companies to interconnect their sites or connect with other parties. Another example are messaging services, where a particular provider may act as trusted intermediary between various participants of a market (e.g., SWIFT in the case of the financial services industry), or the provider of an online market, who enters into a service agreement with the parties who wish to participate in such market. Another example are training agreements. Typical elements of these services agreements are Service Descriptions,²⁸ Service Level Agreements²⁹ and a fee schedule.

12 There are, of course, various other types of contracts which are regularly seen and used in connection with IT matters. They include, among others, consulting agreements, source code escrow agreements,³⁰ agreements on the termination or winding-down of projects and services and turning off of legacy information systems (“sunsetting”), agreements on temporary workers, agreements on the transfer of employees and, of course, all kinds of collaboration agreements (e.g., agreements to jointly develop and market a particular software).

space a customer may wish to use on a day-by-day basis by – in the background – combining unused computing and storage capacity of existing data centers across the globe. The customer does not know where exactly his data will be processed, therefore, referring to it being processed in “the cloud”.

²⁵ See para. 15 below.

²⁶ See para. 14 below.

²⁷ For instance, under Swiss law, any material outsourcing of a Swiss bank must be approved by the Swiss Financial Market Supervisory Authority (“FINMA”: *Eidgenössische Finanzmarktaufsicht*) unless it complies with the requirements set forth in the “Outsourcing Circular” published by the FINMA. Furthermore, Swiss insurance companies always require the FINMA’s express or implicit approval before outsourcing a material business function to a third party.

²⁸ See para. 15 below.

²⁹ See para. 14 below.

³⁰ The purpose of these agreements is to deposit the source code of a particular software with a trusted third party to ensure that it remains accessible in the case of a bankruptcy of the licensor or if the company maintaining it would no longer do so. In such a case, and only in such a case, the customer can obtain the source code from the trusted third party (the escrow agent) in order to itself continue the maintenance of the software or have it delegated to a specialist. Source code escrow agreements are necessary because software vendors do usually consider the source code of their applications as their “crown jewels” they do not want to share with anybody else (in order to avoid third parties copying it and gaining access to the provider’s know-how) unless this is unavoidable because the provider can itself no longer ensure the ongoing maintenance of the software. A number of specialized companies are offering source code escrow services; although the opinions on the usefulness of such agreements differ, they are fairly standard for business critical software.

All of the above IT contracts are not necessarily limited to what would traditionally be defined as IT, i.e., computer hardware, software, printing, computer security devices and computer networking technology. The term IT should be understood broadly as also including related or similar technologies and applications, such as telecommunications, mobile computing (including smartphones), in-house telephony (which today more and more relies on the same network technology as used for computer communications)³¹ and other office productivity devices (such as printing and scanning centers). 13

The elements used to build the above IT contracts are often the same for different kind of contracts. A key element are so-called *Service Level Agreements* (“SLAs”). They define in a measurable manner in which quality or quantity a particular service has to be provided, for instance, how fast a provider has to respond to a phone call to a help desk, in which time period a software defect has to be corrected or what the minimum availability a system operated by the provider must be in order not to breach the related services agreement.³² Service Level Agreements usually define a number of service levels (e.g., availability of a particular server, application, resource in percentage of the agreed service time), the way in which to measure and report the service level attainment, the exceptions (e.g., maintenance windows, issues in the responsibility of the customer) and the sanctions in case of non-compliance (e.g., credits or penalties, termination, step-in rights, damages). Service providers often offer various different service levels depending on the price the customer is willing to pay. 14

Other typical elements of IT contracts are *Specifications*, which are mainly relevant for project and license agreements and define the (warranted and otherwise required) specific features and characteristics of a particular software, new part of an existing software or other work product to be created or provided under the agreement, and how these features and characteristics have to be implemented in practice (the latter are often referred to as the “Detailed Specifications”). The counter-part to the Specifications for software development is the *Service Description* for services. Service Descriptions explain what exactly a particular service consists of and how a customer can connect to or interact with it. 15

IT contracts may be agreed in single, stand-alone contracts. In case of larger contractual agreements or for business reasons,³³ it is, however, rather common to enter into *Frame Agreements* providing for various general terms and conditions without yet defining a particular service or work to be performed or price to be paid. These specific arrangements are agreed by the parties by entering into separate *Statements of Work* or other forms of services or work schedules or order forms. If a particular deal involves several countries, which is very common for IT contracts of international groups of companies, an additional layer of complexity often is added by providing on the one hand a global *Master Agreement* between the main entity of the customer and of the provider and on the other hand setting forth a concept where the local affiliates of the customer and the provider enter into *Local Country Agreements*. These Local Country Agreements are separate agreements, but incorporate the terms of the Master Agreement on top of specific provisions that are relevant or needed only locally. 16

An important aspect of many mid to long term contractual relationships is that they tend to create considerable dependencies for one or both parties. For instance, if a company has implemented a particular application software to manage its accounting and other enterprise resources (human resources, etc.), it cannot simply switch the vendor if the vendor does not comply with its obligations. In a larger business, 17

³¹ Voice-over-IP (“VoIP”), whereas IP means “Internet Protocol”.

³² The availability of a system or solution is one of the most common metrics in SLAs. It is usually defined as a percentage of the agreed service time (e.g., “24/7” or “8-18 local time on work days”) in which the system or solution will be available in any given month or year (e.g., 99.9% in a 24/7 operation means that in a year with 365 days, the system is guaranteed to have no unexpected unavailabilities during $0.999 \times 365 \times 24 = 8'751.24$ hours; conversely, the provider is not in breach of its obligations if the duration of the unexpected unavailabilities does not exceed $8'760 - 8'751.24 = 8.76$ hours per year; expected unavailabilities have to be defined contractually and usually include “maintenance windows”, i.e., the time during which the provider may shutdown the system for scheduled upgrades and other maintenance work).

³³ For instance, a number of software and hardware vendors offer “package deals” intended to create a longer-term relationship with a particular customer, for which they offer considerable discounts but significantly benefit from a stable stream of revenue over many years.

switching an enterprise resource planning (“ERP”) system will typically take one to two years and result in considerable costs for planning, migrating and implementing the changes necessary as well as purchasing new licenses and maintenance services. Hence, customers are often locked into a particular vendor, unless the goods and services supplied by such vendor are commodity and, thus, readily available on the market (e.g., desktop hardware, certain helpdesk services). This dependency can have an impact on whether and how IT disputes are brought to court or arbitration. Providers may likewise be dependent on a particular customer, for instance, in connection with outsourcing services. If a customer terminates a large outsourcing contract, this can mean that the outsourcing provider will have to either lay-off a considerable amount of staff or have it transferred to a competing provider or to the customer.³⁴ Depending on the circumstances, it can apart from the lost business also result in other negative consequences, such as the loss of purchase power that is necessary for the provider to obtain more favorable conditions with its own suppliers of hard- and software. In practice, legal disputes around IT contracts are rarely initiated by service providers, as they do not want to risk losing a customer after a contract has expired or been terminated and as they fear reputational risks.

B. Typical IT Disputes

1. Introduction

- 18 To understand what IT Disputes are about, it is important to distinguish the different types of contracts under which they can occur. The main distinction to be made is the question of whether the contract (i) regulates a project or is of a transactional type (and ends once a particular task has been completed) or (ii) aims at regulating an ongoing performance of a particular activity or otherwise of an ongoing nature (under Swiss law often also referred to a “contract for the performance of a continuing obligation”).³⁵

2. Disputes over IT Projects

- 19 Most IT disputes that end up in court or arbitration are in our experience related to an IT project that is considered failed. This may happen for various reasons, but an important reason is the fact that the majority of IT projects simply do not fulfill the customer’s expectations.
- 20 According to a recent report of the Chartered Institute for IT (formerly known as the British Computer Society)³⁶ only one in eight IT projects can be considered truly successful, with failure being described as those projects that do not meet the original time, cost and (quality) requirements criteria. Despite such failures, huge sums continue to be invested in information systems projects and written off, according to the authors of the report. They quantify the cost of project failure across the European Union at EUR 142 billion in 2004. According to their research, roughly a quarter of IT projects are cancelled prior to completion, and roughly a third experience overruns in terms of cost or time.³⁷ The top three reasons for cancellation of IT projects are stated to be poor business process alignment, lack of requirements management and overspending. The research also points to a frequent lack of due diligence at the requirements phase and the poor decisions in selecting the software engineers with the right skill set.³⁸ This is only one such study; many others exist and come to similar conclusions.³⁹

³⁴ In various jurisdictions, the termination of an outsourcing contract may trigger a mandatory transfer of employees to the entity that takes over the outsourced activity. In the EU, this is regulated by the Acquired Rights Directive (2001/23/EC), which is meant to protect employees working in businesses that are transferred between owners. Under Swiss law, the same is regulated in Art. 333 CO.

³⁵ In German referred to as *Dauerschuldverhältnis*.

³⁶ See J. McManus/T. Wood-Harper, “A Study in project failure”, in *BCS The Chartered Institute for IT* (formerly known as the British Computer Society), <<http://www.bcs.org/content/ConWebDoc/19584>>.

³⁷ McManus/Wood-Harper: <<http://www.bcs.org/content/ConWebDoc/19584>>.

³⁸ McManus/Wood-Harper: <<http://www.bcs.org/content/ConWebDoc/19584>>.

³⁹ See, e.g., <http://www.it-cortex.com/Stat_Failure_Rate.htm>; <http://www.projectperfect.com.au/info_it_projects_fail.php>; <<http://www.projectsart.co.uk/docs/chaos-report.pdf>>.

For the reason referred to already above,⁴⁰ many IT project failures do not result in legal disputes before a court or arbitral tribunal. Another reason is according to our experience that in particular customers faced with the consequences of a failed project are often unable to establish and prove a clear reason for the failure on the part of the provider, making it difficult to pursue legal claims. Often, a failure is the result of many small problems or issues with interpersonal relationships that accumulated and remained unresolved over time, but which cannot be arbitrated effectively. 21

Nevertheless, particularly in recent years, there appears to have been an increasing number of cases in which projects with problems (sometimes not even truly failed projects, but projects during which certain problems occurred) have led to legal disputes including arbitration. Normally, these cases are initiated by the customer, although there are exceptions, for example, where a customer without justification refuses to make an agreed milestone payment. 22

Typical questions and issues arising in disputes involving IT projects are the following: 23

- Is a particular requirement or other request raised by the customer in-scope (i.e., required as per the existing contract) or does it amount to a change-request (i.e., resulting in additional costs, time and in any case subject to the provider’s consent)? Who is responsible for interfaces and compatibility with other and existing products and systems and the resolution of interconnection problems?
- Has a particular project milestone (e.g., acceptance of a particular deliverable) been achieved, particularly if payments are conditional upon such milestones?;
- In what manner does a particular functionality or feature have to be implemented?
- What are the responsibilities of the provider versus the responsibility of the customer for the various parts of a project? For instance, does the provider have an obligation to achieve a particular result (e.g., materially error-free implementation of a software upgrade) or is the provider merely responsible for assisting the customer in a particular part of the project?
- Does the customer have the right to prematurely terminate a project? If so, under what circumstances?
- What are the remedies available to the customer if the provider fails to achieve a contractually agreed result? How many attempts does the customer have to grant to the provider to achieve a particular result? What is the additional time a customer has to grant to the provider for resolving a particular defect or fulfilling an obligation before the customer can abort the project? If the customer aborts the project, is it possible to return also deliverables that were in conformity with the contract?
- What is the severity of a particular defect or other problem reported by the customer,⁴¹ which usually has an impact on how fast it has to be resolved by the provider?
- Testing of software and other deliverables prior to their delivery to the customer and other quality assurance measures and standards to be followed by the provider for avoiding software defects;
- Who is responsible for a work result not being delivered on time? Has the customer fulfilled all cooperation and support obligations?
- Who is responsible for a particular cost overrun? Who is responsible for unforeseen circumstances?
- The failure of a particular solution to meet certain performance and capacity requirements, and the reason for such failure (e.g., wrong software architecture, lack of computing resources, poor coding of the software, wrong assumptions, changed circumstances);
- Disputes over the skills and know-how of staff provided by the provider, the necessary skill set and changes in key personnel on both sides;

⁴⁰ See para. 17 above.

⁴¹ Many contracts provide for a severity classification scheme defining different levels of severity or a particular problem, defect or incident (e.g., “Critical”, “Major” and “Minor” problems).

- Legal requirements to be fulfilled by a particular software or other solution, and the manner in which such requirement and compliance therewith should be determined;
 - Have the parties agreed to modify the contract in a particular manner? What if the parties have deviated from a contractual provision, but not documented any change? What are the consequences?
 - Does the behavior of the provider involve negligence or even gross negligence?
 - Has a breach of warranty or other breach of contract by the supplier caused any damage? How much? Did the customer mitigate such damage?
 - Is the damage incurred by the customer recoverable (e.g., reputational losses of the customer, additional internal opportunity costs, losses incurred by affiliates not being party to the contract)?
- 24 If IT projects fail, the financial consequences can hit both sides hard: By the time a project is determined to be a failure (and may result in legal action), a customer will already have invested significant amounts. Yet, a provider will usually not have sufficient financial reserves to make any significant restitution payment, even if legally required. Most of the amounts a provider will have received over time will already have been spent to pay its own employees and may have ongoing commitments towards these employees; salary costs are usually the by far largest cost factor of every IT service provider. Customers are usually aware of the foregoing and know that even if they were to have a valid claim for the restitution of certain amounts, they would not be successful in recovering such amounts, meaning that pursuing their rights under the contract may simply be a waste of time, unless the provider has deep pockets or has provided some kind of bank or other guarantee (which is not very common in IT projects, neither on the customer’s nor on the provider’s part). A similar situation may arise in cases of cost-overruns, forcing a customer to make additional payments despite having agreed on capped or fix costs for a particular work result.⁴² Accordingly, both customers and providers usually have a considerable interest in mutual, out-of-court settlements of disputes resulting from failed IT projects.

3. *Disputes over IT Services*

- 25 Lawsuits involving IT services do occur, but are less frequent than for IT projects. One reason may be the dependency and lack of alternatives in the case of an ongoing relationship between the customer and the provider. Hence, most legal disputes in connection with an IT service arise if either the provision of such service results in actual damage to the customer or if the customer wants to exit the contractual relationship.
- 26 Typical questions and issues arising in disputes involving IT services are the following:
- What is scope of a particular service? How does the provider have to perform it? Can the provider invoice additional charges for a particular work? Has the provider agreed to deliver a particular result (“success”) or is the provider only required to try “its best”?
 - Have the service levels agreed been met and if not, why not? Is the provider responsible for such non-performance?
 - Who is responsible for maintaining compatibility with existing and third party services, systems and products?
 - Is the provider entitled to subcontract the performance of a contract? Can rights and obligations be assigned to another party?
 - Has applicable law been complied with by the provider in connection with the performance of a service (e.g., data protection laws, regulatory requirements)? What is necessary for compliance with applicable law?

⁴² There are, however, methods to prevent such situations, although this requires both good project management and controlling and corresponding contractual provisions. Experience shows, however, that such measures are missing in many projects.

- Disputes over the skills and know-how of staff provided by the provider, the necessary skill set and changes in key personnel on both sides;
- What are the customer’s remedies in case of non-performance of the provider? May the customer withhold certain payments? May the provider withhold or terminate its service in the case of non-payment?
- Is the customer entitled to terminate the agreement or a part thereof for cause? What is the procedure to be followed in order to terminate? Was it followed? Is the termination effective? If not, as of when will the termination be effective?
- What is the migration support a provider has to provide following a termination of a service contract? Is the provider required to provide a “fall back” in case that a migration to a new provider or system does not work as expected? What are the customer’s rights to use the provider’s software and other resources following the termination, if any? When, at which cost and in what form does the provider have to make available to the customer its data?
- Insufficient security, data protection and confidentiality measures and other non-compliance; findings in connection with audits, and the costs involved in resolving them;
- Have the parties agreed to modify the contract in a particular manner? What are the consequences?
- Does the behavior of the provider involve negligence or even gross negligence?
- Has a breach of warranty or other breach of contract by the supplier caused any damage? How much? Did the customer mitigate such damage?
- Is the damage incurred by the customer recoverable (e.g., reputational losses of the customer, additional internal opportunity costs, losses incurred by affiliates not being party to the contract)?

C. Disputes Related to both IP and IT

Not many disputes involve both IP and IT issues. One reason for this is in our experience that IP issues 27 are usually not the reason for the problems typically encountered in IT projects and service relationships; they may play a role, but are often not at the center of such disputes.

Most disputes that involve both IP and IT usually fall into one of the two following categories: 28

- Disputes concerning software licenses: Whenever software is used in a manner that the party owning the rights therein does not want, a dispute may arise over the question whether such party can prevent the software from being used in such a manner. The answer may involve both contract and IP law. The two most common situations are: The parties entered into a license agreement and the question arises on whether the license agreed by the parties permits the use at issue and, if so, under which terms and conditions.⁴³ The other common situation is that the parties are in dispute of whether a (new or additional) license agreement is necessary for permitting a party to make use of a software in a particular manner;⁴⁴
- Classical IP disputes involving IT: The IT industry relies heavily on its ability to make use of, and exploit, IP of many kinds. Typical disputes include disputes over the licensing of IP required to

⁴³ In a recent case decided by the Commercial Court of Zurich, a company terminated a license agreement, but did not delete the software after the term of the agreement because it wanted to still be able to access the data that had previously been stored using the software. The software was no longer used productively, though. The software vendor nevertheless requested the company to pay the full ordinary license fee. The court found that the license had been terminated, and that instead an implicit agreement had been concluded on the basis that the software remained installed for a very limited use. The court awarded the software vendor a license fee for such usage of 20% of the normal license fee (Decision of January 31, 2008, in ZR 2008, pp. 214-218); other cases involve, for instance, that there have been various lawsuits in Germany that concerned the use of open source software in violation of the license terms.

⁴⁴ One such example is the question as to whether and to which extent it is permitted to rely on a license that has been bought not from the software provider but from a customer of such provider who has resold his own license because it is no longer needed (“second hand software”).

legally create and sell hardware or software,⁴⁵ and disputes involving partnerships established for the purpose of creating IP for such products and selling them (e.g., joint venture agreements, OEM relationships).

IV. Choosing Arbitration for IP & IT Agreements

A. Reasons for and against Arbitrating IP and IT Disputes

1. Overview

- 29 Instead of litigating disputes before the state courts of a particular jurisdiction, parties to an IP or IT agreement should always consider having their legal disputes resolved by binding arbitration. The reason is that arbitration has various advantages that can make it a better choice over state court litigation for resolving disputes arising out of IP and IT contracts. In 2009, licensing and other IP disputes already contributed to about 4% of all arbitration cases before the Swiss Chambers’ Arbitration Institution.⁴⁶ In the same year, 7.7% of all disputes referred to ICC arbitration were disputes related to the telecommunications and IT sector;⁴⁷ in the case of mediations and arbitrations administered by the WIPO, the telecommunications and IT sector even accounts for 32%.⁴⁸ That being said, for *non-contractual* IP disputes (e.g., patent infringement cases), arbitration has not been of any practical relevance⁴⁹ and it is unlikely that this will change any time soon, even though arbitration would theoretically be possible in such cases, as well.⁵⁰
- 30 In the following we will discuss the most important reasons for and against choosing arbitration as an alternative dispute resolution, with a special focus on IP disputes.⁵¹

2. Possibility to Select Arbitrators

- 31 One of the main reasons for parties to prefer arbitration for the resolution of disputes over state court litigation in our experience is the possibility of each party to appoint its own arbitrator (in the case of a panel of three arbitrators) and – as is normally expected and permitted in Switzerland⁵² – to be involved even in the selection of the chairperson. This is one means to ensure that the dispute will be resolved in a neutral, impartial and efficient manner.
- 32 In addition to that, the possibility of each party having a certain say in the composition of the arbitral tribunal can be of particular advantage in the case of IP and IT disputes: On the one hand, it allows the parties to influence the approach that the arbitration panel may take on resolving the dispute⁵³ and on the other hand allows the parties to select arbitrators with the necessary legal and, if desired, technical skills and experience. At the same time, depending on the applicable rules, the parties are not required to consider many of the eligibility criteria that would apply to state court judges. We will discuss the question of which arbitrators to select further below.⁵⁴ Of course, the possibility to appoint arbitrators based on their know-how in dealing with matters of IP law may be much less of an advantage in countries

⁴⁵ Example: The manufacturing of semiconductors involves making use of a large number of patented inventions, which, in turn, requires that manufacturers enter into various patent license agreements with the companies and consortia maintaining and commercially exploiting such patents.

⁴⁶ Swiss Chambers “Arbitration Statistics 2009”, <http://www.sccam.org/sa/download/statistics_2009.pdf>.

⁴⁷ ICC, “2009 Statistical Report”, in *ICC Arb. Bull.* 2010/1, p. 14.

⁴⁸ See <<http://www.wipo.int/amc/en/center/caseload.html>>, figure as of June 2011.

⁴⁹ See Schäfer, *The Trademark Reporter* 2004, p. 695.

⁵⁰ See in particular paras. 66-81 below on issues of arbitrability.

⁵¹ See also WIPO Arbitration and Mediation Center, “Why Mediate/Arbitrate Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executives Society International* (March 2007), pp. 301-303 and pp. 306-308.

⁵² Habegger, para. 29 at Art. 361.

⁵³ E.g., a more “business” oriented approach instead of a legalistic approach.

⁵⁴ On this point, see paras. 183-193 below.

where patent and other IP disputes are exclusively litigated before specialist courts (such as in Germany⁵⁵ or as will in the future be the case in Switzerland).⁵⁶

3. Speed of Resolution

Depending on the arbitration institution and rules chosen or the cooperation of the parties, disputes may be resolved much faster than in state court litigation.⁵⁷ While this may not be an issue for the respondent in an IP infringement proceeding, speed of resolution is generally considered an advantage for most parties in contractual disputes, and, of course, also for IP and IT-related contractual disputes.⁵⁸

A key contributor to the higher speed of resolution by use of arbitration is the fact that arbitration results in a final award after only one instance. In state court litigation, an award may become final only after two or sometimes even three instances. Another factor is that the time table to a large extent can be determined by the parties themselves. However, fast results will be achieved only if the parties cooperate or the rules agreed by the parties beforehand provide for an expedited or fast track schedule, and, of course, if the arbitral tribunal runs the arbitration accordingly.⁵⁹ If these prerequisites are not fulfilled, an arbitration proceeding may actually provide more room for dilatory tactics than a state court litigation, particularly in connection with the constitution of the arbitral tribunal, its jurisdiction and if the arbitral tribunal is not strict in controlling the proceeding.

Choosing the right rules and, as the case may be, arbitration institution, makes a difference in practice, as well. For example, under the 2004 Swiss Rules of International Arbitration⁶⁰ (which, in an amended form, could also be used for domestic disputes in Switzerland)⁶¹ the average duration of ordinary proceedings (including evidentiary hearings), resulting in a binding and enforceable award, is 10.7 months, in the case of expedited proceedings only 8 months.⁶² This compares to an average length for the resolution of a dispute of general complexity under the 1998 ICC Rules of around 16 to 24 months⁶³ and 12 to 24 months under the WIPO Arbitration Rules.⁶⁴ If the parties and arbitrators agree, it is possible to conduct an arbitration even faster under the expedited rules that various institutions such as the WIPO or Swiss Chambers' Arbitration Institution offer; such cases may be resolved within months.⁶⁵ By way

⁵⁵ Schäfer, *The Trademark Reporter* 2004, p. 695.

⁵⁶ See para. 192 below, footnote 237.

⁵⁷ The likelihood of the parties settling the case may also be higher in arbitration, if either the arbitral tribunal undertakes efforts to mediate or otherwise support settlement discussions (e.g., by sharing its preliminary views on the case), both of which is possible only with the parties' agreement. In state court litigation, only few jurisdictions (such as Switzerland) require or permit a judge to actively mediate between the parties for the purpose of settling it.

⁵⁸ Schäfer, *The Trademark Reporter* 2004, pp. 697-698, who argues that the faster a proceeding is, the higher the chances of a settlement are, which usually will serve the parties engaged in a long-term relationship better; Gurry, *ASA Special Series no. 6*, p. 112, who points out that major investment decisions, such as the decision to construct plants or to undertake an international marketing campaign, may depend on the establishment of the right to use an invention or trademark.

⁵⁹ According to WIPO officials, WIPO arbitrations under a sole arbitrator tend to be more expeditious than arbitrations under a three-member panel.

⁶⁰ See <<http://www.sccam.org/sa/en/rules.php>>.

⁶¹ Effective as of January 1, 2012, and in view of the new ZPO, the Swiss Chambers have issued "Supplementary Rules for the application of the 2004 Swiss Rules of International Arbitration (Swiss Rules) for Domestic Arbitrations" for such purpose (<http://www.hkbb.ch/wEnglisch/Dienstleistungen/Bilder_PDF/SupplementaryRules.pdf>). As opposed to the 2004 Swiss Rules, the 2012 Swiss Rules are not limited to international arbitrations.

⁶² All cases from 2004-2008 (Swiss Chambers' Court of Arbitration and Mediation, *Newsletter* 1 (2009) (<http://www.sccam.org/sa/download/newsletter_2009_1.pdf>), 1); see also Nater-Bass, *Counsel's Perspective*, pp. 57-60.

⁶³ Nater-Bass, *Counsel's Perspective*, p. 57; Bühler/von Schlabrendorff, *SchiedsVZ* 2009, p. 34.

⁶⁴ According to WIPO officials, referring to a typical case with a sole arbitrator (non-expedited proceedings).

⁶⁵ A case concerning banking software apparently resolved with a final award within three months is reported by the WIPO (WIPO Arbitration and Mediation Center, "Efficient Alternative Dispute Resolution in Intellectual Property", in *WIPO Magazine* 3 (2009), <http://www.wipo.int/wipo_magazine/en/2009/03/article_0008.html>). WIPO officials have reported on other cases in which awards were rendered within five weeks, three and six months after the commencement of the case.

of comparison, the average length of a patent litigation before a state court of the first instance is 12 to 24 months according to a survey covering France, Germany, Italy, Spain, the U.K., China, Japan and the U.S., with appeal requiring another 12 to 24 months.⁶⁶ Hence, arbitrations are typically faster than state court proceedings if the legal dispute in the latter case goes to the highest instance.⁶⁷ If not, arbitration may take longer.

- 36 It must be noted, that in various jurisdictions, arbitrations may be appealed to state courts, although often only on narrow grounds and without limiting the enforceability of the award for the time being. In this regard, the seat of the arbitration plays a key role in the final resolution of the dispute, as the possibilities to appeal vary significantly (in some countries, the proceedings can last many years;⁶⁸ they should in our view be avoided).

4. Flexibility

- 37 Arbitration is usually much more flexible with regard to the procedural rules and typically allows the parties to structure the process according to their needs – provided they are able to handle such flexibility.⁶⁹
- 38 One area where the flexibility of an arbitration may be relevant in the case of IP and IT agreements is the use of experts: In state courts it is typically the court that selects and instructs an expert; reports from party-appointed experts may be of no evidentiary value.⁷⁰ In arbitration it is usually left to the parties to present the expert opinions they consider relevant and necessary, which most parties will consider an advantage in complex disputes.⁷¹ The same flexibility also exists with regard to other types of evidence. Whereas the procedural rules applicable to state court proceedings often contain severe limitations on which evidence may be introduced in which manner and at which point in time, rules in arbitration are typically much more open and flexible, leaving it essentially to the arbitral tribunal to assess their relevance and weight.⁷²
- 39 Another important area is the language of the proceeding: Whereas state courts will usually require the parties to plead in the local official language, the language of an arbitration proceeding can be agreed by the parties. It saves costs and can increase the efficiency of a proceeding considerably if it can be conducted in English as a common language.
- 40 Other aspects include the possibility of the parties to themselves define rules for taking evidence in a manner that suits them best⁷³ or the possibility for parties to join an arbitration. Both, the 2004 and 2012 Swiss Rules, for example, provide a high degree of flexibility with regard to the joinder of third parties

⁶⁶ WIPO Arbitration and Mediation Center, “A Cost-Effective Alternative”, in *WIPO Magazine 1 (2010)*, <http://www.wipo.int/wipo_magazine/en/2010/01/article_0008.html>; the numbers are based on figures provided in “Patent Litigation, Jurisdictional Comparisons, The European Lawyer Ltd, London 2006”, as well as the insights and experience of patent practitioners in particular jurisdictions.

⁶⁷ Schäfer, *The Trademark Reporter 2004*, pp. 720-721.

⁶⁸ One example are the Netherlands: Under their law, a party to an arbitration proceeding may file an application for setting aside an arbitral award with the competent District Court. The decision of the District Court may then be appealed to the Court of Appeal, whose decision may then again be appealed to the Supreme Court (Sanders/van den Berg, page 42, footnote 106). Only then the decision of setting aside becomes final. Such a proceeding takes at least 3.5 to 4 years. In some cases, such proceedings have even lasted 7 to 10 years. However, an application for setting aside an arbitral award does not suspend the enforcement of the award, if the competent court does not decree otherwise (Art. 1066 Netherlands Arbitration Act).

⁶⁹ Schäfer, *The Trademark Reporter 2004*, p. 722.

⁷⁰ See Stieger, *sic! 2010*, pp. 497-499.

⁷¹ On this point, see paras. 217-226 below.

⁷² See Stieger, *sic! 2010*, p. 498.

⁷³ Apart from the use of experts, as discussed above, this includes aspects such as document production requests, legal privilege and the handling of witnesses, including the possibility to perform cross-examination, which may not be available in state court litigation depending on the jurisdiction.

(e.g., local affiliates in case of dispute)⁷⁴ and consolidation of proceedings;⁷⁵ similar rules have also been introduced in the 2012 ICC Rules.⁷⁶

Flexibility with regard to party representation is another advantage of arbitration. In case of litigation before state courts, parties may be required to be represented by local counsel admitted to the local bar, whereas in international arbitration this is not necessary. There is not even an obligation to be represented by outside counsel. In international arbitrations, it is very common to have parties from different countries to be represented by outside counsel from different countries, as well. In state court litigation, this is usually not the case. 41

Finally, the flexibility of an arbitration proceeding makes it also easier for the parties to limit their dispute or structure it in a manner that makes it more efficient. For example, the parties can easily agree (or the arbitral tribunal can order) to split up a proceeding in several phases (“bifurcation”), which is normally not possible in state court litigation unless a party decides not to raise a full claim in the first place.⁷⁷ An arbitration proceeding also has the advantage that it usually can be initiated without yet fully pleading the case in the first brief, permitting a party to decide on tactical grounds how detailed a request for arbitration and how specific its prayers for relief should be. 42

5. *Interim Measures*

Particularly in IP disputes, the possibility to obtain interim relief in a swift manner can be of crucial importance, for instance, if a party needs or wishes to continue making use of a particular IP right pending the resolution of the dispute. In some countries, arbitral tribunals are permitted to order or award interim measures, whereas in others this is reserved to state courts.⁷⁸ However, even if an arbitral tribunal is permitted to order or award interim relief, there still may be an issue of time and enforceability.⁷⁹ The latter is discussed below.⁸⁰ As regards the former, arbitration proceedings are in practice often too slow to provide the protection needed once a dispute unfolds: Depending on the procedure, it may take months until an arbitral tribunal is constituted and can hear the pleadings concerning interim relief requested by one of the parties. Hence, in practice, such a party will usually resort to state courts for obtaining interim relief pending the constitution of the arbitral tribunal or even the final award.⁸¹ 43

6. *Handling Multi-jurisdictional Disputes*

Multi-jurisdictional issues are addressed very differently in arbitration proceedings and in proceedings before state courts. This is particularly important for IP disputes, where this aspect can go to the heart of a dispute. 44

The most important difference is that in arbitration, the parties are able to have a dispute over IP rights resolved for many or all jurisdictions in one single proceeding applying one single law, if they wish so.⁸² This is usually not possible in state court litigation: Disputes that go beyond mere contractual disputes often have to be litigated before the competent state courts of each jurisdiction at issue separately. Even if in a particular case it were possible to have an entire case adjudicated by only one state court, such court would likely be forced by applicable private international law to apply different IP laws to the same case insofar it relates to IP rights of different jurisdictions.⁸³ In arbitration, these restrictions do not exist. It 45

⁷⁴ Art. 4(2) 2004/2012 Swiss Rules.

⁷⁵ Art. 4(1) 2004/2012 Swiss Rules; see also Nater-Bass, *Counsel's Perspective*, pp. 61-62.

⁷⁶ Art. 7, 9 and 10 2012 ICC Rules.

⁷⁷ See paras. 245-249 below.

⁷⁸ Blessing, *ArbInt.* 1996, p. 209.

⁷⁹ See also “ICC Commission on International Arbitration (Lew), Final Report on Intellectual Property Disputes and Arbitration”, in *ICC Arb. Bull.* 1998/1, pp. 45-48; Appendix A of the same report provides an overview on how institutional and ad hoc arbitration rules deal with interim relief.

⁸⁰ See paras. 82-85 below.

⁸¹ See also para. 83 below.

⁸² See paras. 111-126 below.

⁸³ See para. 120 below.

may even be possible to have a dispute decided entirely without regard to any particular applicable law, but rather on the basis of what would be a fair and equitable relief, if the parties wish so.⁸⁴

- 46 Another important difference is the cross-border enforcement of awards. Due to the New York Convention on the Recognition and Enforcement of Arbitral Awards with its over 140 signatories, the enforcement of a (final) arbitral award in practice proves to be as easy if not easier than the enforcement of a foreign state court judgment, as the number of defenses against the enforcement of arbitral awards are very limited. Although there may be certain limitations as to the possibility to enforce arbitral awards if they concern IP rights as such or if third party effects are at issue,⁸⁵ this in most disputes is not a concern of practical relevance.
- 47 The “official” communications necessary to initiate and conduct a proceeding is another area of difference between state court and arbitration proceedings. They are usually much less burdensome in international arbitration. There is normally no need to rely on judicial assistance or similar complicated and lengthy procedures to serve parties with arbitration notices, procedural orders or awards. This can significantly reduce costs and result in much shorter procedures if the parties to a dispute are located in different countries (which is often the case in IP and IT disputes that involve larger or internationally active companies).
- 48 Although it is generally recognized that the flexibility of international arbitration may make it easier to handle and resolve cross-border, multi-jurisdictional disputes, there is no consensus whether this is really an advantage at least in the case of IP disputes.⁸⁶ The reason is that arbitration in principle exposes the party that owns IP rights (namely patents) in many jurisdictions to a much higher risk of losing such IP rights than in proceedings before state courts: Without arbitration, a third party wishing to attack the validity or ownership of such an IP right has to initiate proceedings in many different jurisdictions in parallel; if the owner loses a case in one country, he may still win in the other countries. In this regard, relying on state court proceedings instead of arbitration can be a strategy of spreading the risk of third party attacks. This may also be a key reason why parties to a multijurisdictional IP infringement dispute will hardly ever agree on resolving such a dispute through arbitration once it has arisen – they will not want to put “all eggs in one basket”.

7. Third Party Effects

- 49 Arbitration is an alternative dispute resolution form that is based on a private agreement between the parties to a dispute. For this and general reasons of public policy, it typically resolves a dispute only with effect among the parties (*inter partes*). This usually does not raise any issues in an IT dispute. However, it may be of relevance in IP related matters, where at least one of the parties to a dispute may seek for a resolution that also has third party effects, be it that a patent is generally declared null and void, be it that the assignment or allocation of certain IP rights is effective not only among the parties, but also vis-à-vis third parties. Here, an arbitration may have an advantage or disadvantage (depending on the role of a party) over proceedings before state courts, which may decide over the status, existence and ownership of an IP right with an *erga omnes* effect, i.e., in the form of a public precedent with an effect valid for everybody. Although there are several ways to overcome the typical *inter partes* limitation of arbitral

⁸⁴ See para. 164 below.

⁸⁵ See paras. 84-85 and paras. 86-110 below.

⁸⁶ In legal writing, the use of arbitration for resolving IP disputes is mainly advocated, see, e.g., WIPO Arbitration and Mediation Center, “Why Mediate/Arbitrate Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executives Society International* (March 2007), pp. 302-308; WIPO Arbitration and Mediation Center, “Update on the WIPO Arbitration and Mediation Center’s Experience in the Resolution of Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executives Society International* (March 2009), pp. 49-51; authors taking a skeptical approach public are rather rare. Skepticism is normally experienced in direct discussions with practitioners. See, however, Schäfer, *The Trademark Reporter* 2004, p. 695, pointing out for Germany that state court litigation of IP disputes renders fast results and is of high quality.

awards,⁸⁷ an arbitration may not be the preferred choice for the resolution of a dispute if an *erga omnes* effect is desired and if it is possible to submit it to a state court.⁸⁸

8. Confidentiality

Although arbitration is not *per se* confidential, it is usually possible to maintain confidentiality concern- 50
ing a dispute, which may be of particular importance to both parties in an IP and IT-related dispute.⁸⁹ For instance, in the case of a patent dispute, it may be essential for the owner of a patent to have entered into a mutual non-disclosure agreement to avoid that any invalidity finding by an arbitral tribunal is communicated to third parties, allowing them to make use of the patent without a license. In state courts, confidentiality can usually not be guaranteed except for certain limited aspects such as documents containing business secrets. That being said, it is important that the parties to an arbitration do agree on confidentiality beforehand,⁹⁰ unless the applicable rules require that all parties to an arbitration are bound by confidentiality (not only the arbitral institution and the members of the arbitral tribunal).⁹¹ Whether and to which extent an arbitral tribunal can in a legally binding and enforceable manner order the parties to maintain confidentiality is unclear.

9. Costs of Arbitration

The costs of arbitration are – as a rule of thumb – reimbursed to the winning party (“looser pays” con- 51
cept). This may not be the case in state court litigation. In state courts, the reimbursement of attorney’s fees may either be granted only under specific circumstances⁹² or the reimbursement may be capped at a level that in practice often is insufficient to cover the full costs of a high quality legal representation by specialized IP and IT lawyers from established business law firms.

The other question with regard to costs is whether arbitration proceedings are more expensive than 52
proceedings before state courts. There is no universal answer to this, although in our experience, one of the main reasons why parties negotiating an IP or IT agreement prefer state court litigation over arbitration *are* indeed the presumed costs of an arbitration proceeding. These costs are generally presumed to be higher than the costs of litigating before a state court, at least for smaller and mid-sized cases. While some might wish to miss this as a common preconception, it is not without merit.

It has to be understood, though, that the costs of an arbitration to a large extent depend on circum- 53
stances that are under the control of the parties themselves. For instance, the choice of the applicable arbitration rules (including the selection of the arbitration institution, if any), the seat of arbitration and – as discussed further below⁹³ – the applicable law already can make a considerable difference in overall costs. Although this aspect is usually not discussed in the legal literature and surveys on international arbitration, our experience shows that the costs of an arbitration can vary by the factor of three to four depending on the institution chosen and the law applicable. For instance, while most businesses seem to prefer English law to govern their international agreements with arbitration in London,⁹⁴ international

⁸⁷ See paras. 86-110 below.

⁸⁸ WIPO Arbitration and Mediation Center, “Why Mediate/Arbitrate Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executives Society International* (March 2007), pp. 302, 306.

⁸⁹ “ICC Commission on International Arbitration (Lew), Final Report on Intellectual Property Disputes and Arbitration”, in *ICC Arb. Bull.* 1998/1, p. 50; according to a survey, confidentiality was the most frequently mentioned aspect that businesses consider mandatory for dispute resolution policies and that parties are never willing to concede on (Queen Mary University of London, White & Case, “2010 International Arbitration Survey: Choices in International Arbitration”, <<http://www.whitecase.com/articles-10062010/>>, pp. 5-6, 7, 29-31).

⁹⁰ Preferably as part of the agreement to arbitrate or once the dispute arises. If this is not possible, the parties may be able to rely on the general confidentiality obligations found in most commercial agreements, provided they have been worded broadly enough.

⁹¹ Similar: Schäfer, *The Trademark Reporter* 2004, p. 721.

⁹² Such as in the U.S.

⁹³ See paras. 111-126 below.

⁹⁴ According to a corporate survey, English law is used in 40% of the cases, followed by New York law (17%) and Swiss law (8%); London is the preferred seat of arbitration (30%) with Geneva (9%) and Paris (7%) following (Queen

arbitrations in Switzerland and with Swiss law being the applicable law on the merits of the dispute have proven to be much less costly. Apart from that, Swiss law is widely recognized to be neutral, stable and reasonable. Likewise, there are also considerable differences in administrative costs and arbitrator fees among the various arbitral institutions. Yet, this aspect is still often not considered when drafting both IP and IT agreements and other international commercial contracts, although the vast majority of businesses is willing to concede on the law governing the substance of their disputes, at least if this is a deal breaker.⁹⁵ The same is true with regard to the law governing the arbitration, the seat of the arbitration and the applicable rules.⁹⁶ Hence, there is sufficient room for negotiation.

- 54 The higher degree of flexibility that parties have in presenting the case also has its cost. One such example are the costs related to the preparation of witnesses and experts, their reports and the cross-examination of the witnesses and experts presented by the opposing party. In a complex dispute on technical issues these activities can easily account for a quarter or a third of the attorney’s fees incurred in connection with an arbitration. In contrast to that, the procedural rules in many civil law countries in Continental Europe do not permit the preparation and cross-examination of witnesses and experts; in some countries such as Switzerland a party may not even be permitted to interview witnesses prior to the hearing and may have no interest in putting forward a party appointed expert, as his testimony will have no particular evidentiary weight.⁹⁷ This will, of course, significantly reduce the costs of the proceeding. However, particularly in disputes that raise complex technical issues, the ability to prepare witnesses and make use of party appointed experts is an option that in our experience should be made use of and can be crucial for winning a case, even though this comes at an extra cost.⁹⁸
- 55 When assessing the cost of arbitrating disputes as opposed to state court litigation, it also has to be kept in mind not to compare apples with oranges: In the case of a state court proceeding one not only has to take into account the fact that obtaining a final award may require proceedings before two or more instances. In the case of a multi-jurisdictional IP dispute, it is usually also necessary to undertake parallel proceedings in different jurisdictions, which adds to the costs.⁹⁹ Nevertheless, at least in Continental Europe, arbitration will usually not be able to compete with state court litigation if only the average cost of a proceeding matters.

10. Arbitration as a Compromise

- 56 In contract negotiations, agreeing on arbitration at a “neutral” place or at least with the right of each party to appoint an arbitrator may be a pragmatic compromise if neither party to the contract is ready to accept to have disputes adjudicated before state courts at the place of the other party.¹⁰⁰

B. Selecting the Right Arbitration Rules

- 57 Parties may agree to arbitrate either on an *ad hoc* basis once a dispute has arisen (which rarely happens also in the case of IP and IT disputes), or they may – as usually is the case – refer disputes in connection with a particular IP or IT agreement to arbitration by introducing a suitable arbitration clause of an arbitration institution in their contracts.

Mary University of London, White & Case, “2010 International Arbitration Survey”, <<http://www.whitecase.com/articles-10062010/>>, p. 14, Chart 11, 19, Chart 15).

⁹⁵ Queen Mary University of London, White & Case, “2010 International Arbitration Survey”, <<http://www.whitecase.com/articles-10062010/>>, p. 7.

⁹⁶ Queen Mary University of London, White & Case, “2010 International Arbitration Survey”, <<http://www.whitecase.com/articles-10062010/>>, p. 7.

⁹⁷ Stieger, *sic!* 2010, p. 497.

⁹⁸ See paras. 217-226 below.

⁹⁹ For an overview on costs of litigating a patent dispute before state courts, see WIPO Arbitration and Mediation Center, “A Cost-Effective Alternative”, <http://www.wipo.int/wipo_magazine/en/2010/01/article_0008.html> with estimated averages for France, Germany, Italy, Spain, U.K., China, Japan and the U.S. The figures show that particularly in Europe, patent litigation is not very expensive.

¹⁰⁰ Schäfer, *The Trademark Reporter* 2004, pp. 721-722.

If parties to an IP or IT agreement choose to have their disputes resolved by way of arbitration, they in our experience usually prefer institutional arbitration over *ad hoc* arbitration.¹⁰¹ Although *ad hoc* arbitration may end up being a cheaper, faster and more flexible solution and, thus, may appear to be the better choice in particular for small claims, it requires cooperative parties to be of advantage – and they should choose a jurisdiction with an established legal framework for arbitration. While *ad hoc* arbitration may be popular in other areas of law, it has not been so in connection with IP and IT disputes.¹⁰² We see that parties to IP or IT agreements prefer the well-defined framework that the rules and guidance of an arbitration institution provide, even if it comes at a higher cost and provides less flexibility. As shown below, the speed of dispute resolution is not a reason to exclude institutional arbitration, given that awards can nevertheless be achieved in relatively short time if one selects the right institution and arbitrators with a sufficient availability of time and that are willing to handle a procedure efficiently. Also, institutional arbitration may be of particular advantage if a party to a dispute does not cooperate in the appointment and constitution of an arbitral tribunal, forcing the other party to resort to state courts for putting in place a tribunal. 58

Furthermore, it is no secret that parties drafting IP and IT agreements are in practice often not very experienced in arbitration and, thus, are simply not aware of the choices they have and the differences between various types of arbitrations and arbitration institutions. In fact, if they choose arbitration at all, they – in order to avoid mistakes and not to lose time in evaluating the most appropriate type of arbitration and institution – for the sake of ease go for the standard arbitration clauses of the arbitration institutions they (coincidentally) happen to know or trust. 59

This may explain why at least in European and global IP and IT contracts, it appears that if arbitration is chosen, arbitration clauses based on the ICC Rules of Arbitration¹⁰³ or the rules for international arbitration of a national arbitration institution in the country of one of the parties (e.g., the 2004 and 2012 Swiss Rules in Switzerland)¹⁰⁴ are most common,¹⁰⁵ although many other suitable or even preferable rules may exist. This is probably also one reason why even IP and IT agreements still rarely refer to the WIPO Arbitration Rules,¹⁰⁶ although the World Intellectual Property Organization (“WIPO”) would actually be a premier choice for supporting the resolution of disputes in the field of IP. For instance, the WIPO’s database of neutrals list some 1’500 arbitrators, mediators and experts and is most likely the largest database of specialists for arbitration and mediation covering the entire legal and technical spectrum of IP.¹⁰⁷ The WIPO Arbitration Rules also contain a number of specific provisions particularly adapted to IP disputes, concerning, for example, technical evidence (experiments, site visits, agreed primers and models),¹⁰⁸ expert appointment¹⁰⁹ and confidentiality.¹¹⁰ Although parties can always agree 60

¹⁰¹ For a description see, for example, Schäfer, *The Trademark Reporter* 2004, pp. 712-714.

¹⁰² We have seen some cases where ad-hoc arbitration was agreed because the parties forgot to provide for specific rules to conduct the arbitration and simply stated that all disputes are “to be resolved by arbitration”. In those cases, unless the parties agree on specific rules after an arbitration has been initiated, the arbitration rules of the *lex arbitri* will govern the arbitration.

¹⁰³ See <<http://www.iccwbo.org/court/arbitration/id4199/index.html>>.

¹⁰⁴ See <<http://www.sccam.org/sa/en/rules.php>>.

¹⁰⁵ According to a corporate survey, the most frequently used arbitration institution over the past five years was the ICC (56%), followed by the AAA/ICDR (10%), the LCIA (10%), the DIS (6%) and SCC (3%) (Queen Mary University of London, White & Case, “2010 International Arbitration Survey”, <<http://www.whitecase.com/articles-10062010/>>, p. 23, Chart 18).

¹⁰⁶ See <<http://www.wipo.int/amc/en/arbitration/>> for links to the WIPO Arbitration Rules and WIPO Expedited Arbitration Rules.

¹⁰⁷ See <<http://www.wipo.int/amc/en/neutral/>>.

¹⁰⁸ Arts. 49-51 WIPO Arbitration Rules.

¹⁰⁹ Art. 55 WIPO Arbitration Rules.

¹¹⁰ Arts. 73-76 WIPO Arbitration Rules.

on such and other provisions in the arbitration agreement or once the dispute has arisen, this rarely happens because parties either do not think about it in time or have no interest in cooperating.¹¹¹

- 61 Nevertheless, in our opinion, it would be wrong to assume that the resolution of an IP or IT dispute has fundamentally different requirements in terms of arbitration rules and institutions than do other commercial disputes. IP and IT disputes may indeed raise unique challenges with regard to certain legal and factual aspects. However, whether these challenges are addressed appropriately much more depends on the right choice of the arbitrators¹¹² and party counsel¹¹³ and how the parties structure the proceeding¹¹⁴ than on the general procedural rules or even the arbitration institution. Consequently, the issues that are relevant when arbitrating general commercial disputes are equally important for disputes concerning IP and IT matters. In that regard, modern rules such as the Swiss Rules that provide for high efficiency and flexibility may have advantages over other arbitration rules.

V. Challenges in IP Disputes

A. *Not only a Matter of Contract Law*

- 62 The key challenge of arbitrating an IP dispute is the fact that it regularly involves more than a relationship between two parties and merely issues of contract law. IP rights such as patents and copyrights areas in which most national laws provide for extensive regulations, which typically influence the dispute in one way or another. As will be discussed further below, already the answer to the question whether and which types of IP disputes are arbitrable in the first place differs from country to country.¹¹⁵ Likewise, enforcement of arbitral awards involving IP rights is an issue that needs to be determined on a country by country basis.¹¹⁶ But also with regard to the merits of a dispute, national IP right regulations are of essence. National patent and copyright laws typically define which inventions and works, respectively, can be protected after all. They regulate the rights and obligations of the rightsholder, set forth limitations of his right to restrict users of the IP, and they regulate how the rights in the IP can be transferred among parties to a contract or otherwise.
- 63 Many of these provisions are of a mandatory nature, i.e., they cannot be overruled by contractual agreements. As a consequence, they have to be taken into consideration when determining the contractual rights and obligations of the parties to a license or other sort of IP agreement – if and to the extent the corresponding law applies. For instance, in various countries, the local copyright law does not permit the transfer of any and all rights in a particular work from one person to another, but only allows the transfer and licensing of certain rights of commercial exploitation of the work at issue.¹¹⁷
- 64 Even where the provisions of an IP agreement do not contradict applicable IP law, they may be impacted by them. For instance, a typical situation in patent license disputes is the defense of a licensee against claims of a licensor on the grounds that the license agreement is actually invalid because the underlying IP at issue turned out to be either not owned by the licensor or not protected by law (if, for example, a patent turns out to be void pursuant to the law applicable to a particular dispute, the licensor may under certain laws eventually no longer be able to enforce a license agreement based on such patent).¹¹⁸
- 65 Finally, if a dispute involves the alleged infringement of an IP right, it may extend beyond a mere contractual dispute since the unauthorized use of third party IP is usually considered an unlawful and

¹¹¹ For instance, the applicability of the IBA Rules (or their use as a guidance) is often only agreed upon once the arbitral tribunal has been constituted. In practice, arbitration agreements rarely provide for such provisions given that the model clauses offered by the arbitration institutions do not raise these topics.

¹¹² See paras. 183-193 below.

¹¹³ See paras. 188-192 below.

¹¹⁴ See, for instance, para. 222 and para. 245 below.

¹¹⁵ See paras. 68-70 below.

¹¹⁶ See paras. 84-85 below.

¹¹⁷ This is the case, for instance, in Germany (see § 29 and § 31 German Copyright Act/*Urheberrechtsgesetz*).

¹¹⁸ This is not necessarily true for Switzerland: BGE 75 II 166 para. 3b, BGE 85 II 38 para. 6; BGE 119 II 191 para. 2.

sometimes even criminal act.¹¹⁹ Consequently, if, for instance, a party using a computer program is in breach of its license agreement, the program's owner may in addition to raising a claim for a breach of contract as well raise a tort law claim, and initiate criminal proceedings for what it's worth. This may serve the purpose of increasing pressure on the alleged infringer and of obtaining information the rightsholder may otherwise not be able to obtain (e.g., by being granted access to confiscated materials). Conversely, a party that is alleged to be infringing a particular IP right may have a genuine interest in obtaining declaratory relief concerning its right to use the IP under a particular license agreement. Such declaratory relief might protect the party not only from being sued for breach of contract, but also from being prosecuted for patent or copyright infringement.¹²⁰

B. Arbitrability of IP Disputes

1. The Issue

With regard to arbitration proceedings, the first issue to address in connection with an IP dispute is the question of its objective arbitrability. It is one of the aspects of IP disputes that has been discussed most in legal literature, and the discussion has been particularly hot during the Nineties.¹²¹ Today, it appears that the arbitrability of IP disputes is much less of an issue.¹²² It mainly arises when the question arises in an arbitration whether a particular patent or other IP right is indeed valid or where a party requests an award that may have an effect beyond the parties of the arbitration. 66

The arbitrability of IP disputes is not a given fact, though. The underlying problem is that most IP rights, including patents and copyrights, are not established through contracts, but are rather granted by law for the territory of the corresponding state or group of states. The relevant IP law determines under which conditions and how IP rights are granted, how they can be revoked and what they mean. For instance, a patent act may provide that patents may be issued only by the national patent and trademark office and that only the national patent court may revoke a patent or determine whether it is null and void. Since these laws do normally not make any reference to arbitral proceeding, the question arises whether and to which extent an arbitral tribunal – even if recognized by local law for bindingly resolving contractual disputes – may rule over certain aspects of IP rights, and what the effect of such a decision will be. This question of whether a dispute can, in principle, be decided by a (private) arbitral tribunal instead of a state authority, is often referred to as the issue of “objective arbitrability” and it can become relevant at four stages of a proceeding, namely (i) when the jurisdiction and authority of the arbitrators has to be determined during the arbitration, (ii) if and when state courts get involved during an arbitration (e.g., in the case of interim measures), (iii) if and when an arbitral award is appealed (where appeals are possible), and finally (iv) if and when an arbitral award needs to be recognized and enforced by state 67

¹¹⁹ See, e.g., Arts. 66, 72-73 and 81 Swiss Patent Act (*Bundesgesetz über die Erfindungspatente*, SR 232.14) and Arts. 61-62 and 67-69a Swiss Copyright Act (*Bundesgesetz über das Urheberrecht*, SR 231.1).

¹²⁰ Although an arbitration award will as such not be binding upon a criminal prosecutor and a court in a criminal proceeding, the existence of an arbitration award confirming the existence of a valid license to use a particular IP will at least under Swiss law effectively exclude the infringement of such IP by the licensee using it according to the license. Hence, while the arbitration award may only have an *intra partes* effect, such effect can be sufficient to exclude the infringement if the parties bound is a party with sufficient rights in the IP at issue on the one hand and the alleged infringer of such IP on the other hand. Accordingly, such an arbitration award would have to be considered as an element of fact also in a criminal (or tort claim) proceeding before a state court at least in Switzerland; it would not be permissible for the court to reconsider the validity of the license as the arbitration award has already finally and bindingly determined the relationship between the two parties at issue.

¹²¹ The Swiss Arbitration Association (ASA) already in 1994 published a “Special Series” publication on the topic (no. 6, “Objective Arbitrability Antitrust Disputes, Intellectual Property Disputes”) following an ASA Conference in Zurich on November 19, 1993 with reports from Marc Blessing, Cornelis Canenbley, François Dessemontet, Jens Drolshammer, Bharat Dube, Francis Gurry, Bernard Hanotiau, Julian D.M. Lew, David W. Plant and Kamen Troller; see in particular Blessing, *ASA Special Series no. 6*, pp. 14-20, and Gurry, *ASA Special Series no. 6*, pp. 112-119; Blessing, *ArbInt. 1996*, pp. 199-203.

¹²² See Legler, p. 194.

courts and other authorities.¹²³ The objective arbitrability also sets the scope of what the parties are free to validly agree in their agreement to arbitrate.¹²⁴

- 68 Given the nature of IP rights, it is not possible to answer the question of arbitrability of a particular IP dispute in an universal manner. There is, in fact, not even an internationally accepted rule as to which law should determine the arbitrability of a particular dispute.¹²⁵ Hence, it is necessary to in each instance review the national legislation of the countries at issue. In a Report by the ICC Commission on International Arbitration in 1998, four different categories of countries were identified:¹²⁶
- Those wholly denying arbitrability to intellectual property disputes;
 - Those qualifying arbitrability on public policy grounds;
 - Those granting full arbitrability;
 - Those where the question remained uncertain and had not been addressed either in legislation or by judicial authority.
- 69 That being said, the discussion of objective arbitrability has in our view lost much of its weight since then. There is a clear trend towards permitting parties to let them resolve IP disputes by means of arbitration, if they wish so. In fact, in most countries, it today appears to be possible to resolve most disputes concerning IP rights by arbitration.¹²⁷ While an arbitration award will often have an *inter partes* effect only (i.e., will be binding only between the parties), this is usually sufficient for contractual disputes.¹²⁸ Since there are hardly any disputes of other kind for which the parties in practice choose arbitration as an alternative dispute resolution, the issue of objective arbitrability is today of rather limited relevance in practice.¹²⁹
- 70 If a party nevertheless has concerns with regard to the arbitrability of potential disputes, it should first above all choose to have any arbitration take place in a country that is particularly open towards the arbitration of IP disputes, such as Switzerland,¹³⁰ rather than countries with a more restrictive approach or where the situation is not really clear, such as in Germany.¹³¹
- 71 It also has been suggested that by limiting the authority of an arbitral tribunal courts may be persuaded to give effect to the parties’ agreement to arbitrate.¹³² We have doubts whether this is really necessary and helpful. If a party to a patent license dispute indeed pursues a nullity defense against a claim raised

¹²³ “ICC Commission on International Arbitration (Lew), Final Report on Intellectual Property Disputes and Arbitration”, in *ICC Arb. Bull. 1998/1*, para. 1.6; Blessing, *ArbInt. 1996*, pp. 194-195.

¹²⁴ Berger/Kellerhals, paras. 169, 246.

¹²⁵ See Blessing, *ArbInt. 1996*, pp. 191-194, noting if the *lex arbitri* provides for a material rule (as Swiss law does), it should govern; see also Hanotiau, *ASA Special Series no. 6*, p. 35, with further references, discussing three approaches, who opt for applying the law of the arbitration agreement or by applying an international rule of substantive law.

¹²⁶ “ICC Commission on International Arbitration (Lew), Final Report on Intellectual Property Disputes and Arbitration”, in *ICC Arb. Bull. 1998/1*, para. 2.4, with further information.

¹²⁷ WIPO Arbitration and Mediation Center, “Update on the WIPO Arbitration and Mediation Center’s Experience in the Resolution of Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executives Society International (March 2009)*, p. 51 and footnote 10, with further references; see also paras. 74-80 below for Switzerland; see also Dardel, *sic! 2010*, pp. 830-831.

¹²⁸ See paras. 86-91 below.

¹²⁹ According to the WIPO, the issue of arbitrability has never been raised in any of the arbitrations administered by the WIPO Center (WIPO Arbitration and Mediation Center, “Update on the WIPO Arbitration and Mediation Center’s Experience in the Resolution of Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executives Society International (March 2009)*, p. 52); similar: Legler, p. 194.

¹³⁰ See para. 74 below.

¹³¹ See Legler, *ASA Bull. 2010*, pp. 257-258, with further references.

¹³² See Appendix E to the “ICC Commission on International Arbitration (Lew), Final Report on Intellectual Property Disputes and Arbitration”, in *ICC Arb. Bull. 1998/1*; the proposed clause permits the arbitral tribunal to rule on the validity, enforceability or infringement of IP rights only as preliminary issues and to render awards with an *inter partes* effect only.

by the patent owner, the party is free to bring forward its defense in a manner that avoids enforceability pitfalls,¹³³ even if the agreement to arbitrate does not contain any such restrictions.

Likewise, the arbitral tribunal itself may raise the question to which extent it has the authority to decide 72 on IP related issues that are relevant for a dispute being arbitrated, and the arbitral tribunal is normally also permitted to limit its award accordingly, even if the parties did not request so.¹³⁴ One of the frequently cited cases¹³⁵ is an ICC decision of the year 1989 concerning an IP dispute involving a patent; the place of arbitration was Switzerland.¹³⁶ The arbitral tribunal in that case faced the question of whether it was entitled to determine the validity of a patent registered in West Germany, even though – under German law – a patent can only truly be deemed invalid where it has been declared null and void by the Federal Patent Court or the Federal Supreme Court. In the absence of such a declaration by one of those two courts, the patents are to be considered valid. Recognizing the limitations imposed by German law, the arbitral tribunal nevertheless concluded that, on the basis of the breadth of the applicable arbitration clause, it had complete jurisdiction to rule on defendant’s objections to the legal validity of claimant’s patents in that case. However, the arbitral tribunal emphasized the following:¹³⁷

“[...] In order to eliminate any remaining doubt, it should be specified that this power to decide does not affect the formal validity of the patent registered in West Germany by means of a sovereign governmental act, and that it will carry no consequences vis-à-vis third parties.

By allocating it [in] this jurisdiction, the parties wanted to give the Arbitral Tribunal, in accordance with the meaning and purpose of arbitral proceedings, the possibility to settle this dispute inter partes in a simple, quick and definitive way.”

We concur with this conclusion. Although it is possible that the parties to an agreement word their 73 arbitration clause so that it carves out certain IP disputes or certain IP related issues (such as the validity of a patent in case its validity is being questioned) in order to have them litigated by the competent state courts, this is usually not the route chosen by parties entering into license or other IP agreements. If they do choose arbitration clauses, these clauses are typically of broad nature. Another question is, however, whether a patent license agreement with such a broad arbitration clause would prevent the licensee under such an agreement to initiate a state court proceeding to nullify the patent at issue.

2. Arbitrability of IP Disputes in Switzerland

a. Liberal Approach

One of the countries that – along with the U.S. – has always been particularly open to the arbitration 74 of IP disputes is Switzerland, both for national and international arbitrations taking place in Switzerland.¹³⁸ Already in 1945, the Federal Supreme Court found that claims based on patent law may also be decided by an arbitral tribunal.¹³⁹ Later on, in 1975, the Federal Office of Intellectual Property¹⁴⁰ found that “arbitral tribunals are entitled to decide over the validity of industrial property rights” and that accordingly, the Federal Office will execute their decision with regard to the registries it maintains once

¹³³ For instance, by raising the nullity defense in the form of a plea instead of a counterclaim of its own, thus avoiding any declaration of nullity and any discussion about the award having an effect beyond the parties.

¹³⁴ Hanotiau, *ASA Special Series no. 6*, pp. 29-30, however, points out that except in case of a violation of public policy, arbitrators will not have to raise the issue of arbitrability *ex officio*, unless the applicable rule regulating the arbitrability is mandatory.

¹³⁵ Cf. for instance Gurry, *ASA Special Series no. 6*, p. 115.

¹³⁶ Interim Award in Case No. 6097 (1989), *ICC Arb. Bull.* 1993/2, pp. 76-79.

¹³⁷ Interim Award in Case No. 6097 (1989), *ICC Arb. Bull.* 1993/2, p. 79.

¹³⁸ Blessing, *ArbInt.* 1996, p. 199; Blessing, *ASA Special Series no. 6*, p. 16.

¹³⁹ BGE 71 III 192 para. 2; notably, the Federal Supreme Court already in 1933 dealt with the arbitration of a patent-related case, but it did not evaluate the issue of arbitrability of IP disputes (BGE 59 I 177).

¹⁴⁰ Today: Swiss Federal Institute of Intellectual Property (*Eidgenössisches Institut für Geistiges Eigentum*, “IGE”).

the award has been declared enforceable by the competent cantonal authority.¹⁴¹ Although the decision was rendered under the cantonal concordat that back then regulated national and international arbitrations in Switzerland and is no longer in force, the decision is still cited as a precedence in support of the objective arbitrability of IP disputes in Switzerland.¹⁴² After all, the prerequisites for assuming objective arbitrability for both national and international arbitrations have not become stricter.

b. International Arbitration

- 75 For international arbitrations with their seat in Switzerland, the basis of the objective arbitrability of IP disputes is the Private International Law Statute of 1987 (“PILS”), specifically its chapter on international arbitration. According to Art. 177(1) PILS, “any dispute of financial interest may be the subject of an arbitration”. Under this rule, it is generally accepted that from an objective point of view, disputes concerning IP rights among private parties are considered arbitrable¹⁴³ with two exceptions:
- The first exception are disputes insofar they would require a government authority to deviate from the procedures and conditions provided for by law.¹⁴⁴ The most frequently cited example is the granting of a patent by the Federal Institute of Intellectual Property.¹⁴⁵ As opposed to that, the claims for a partial or full nullification of patent as well as other claims of financial interest (e.g., damages, declaratory relief, injunctive relief, contractual claims) are considered arbitrable under Art. 177(1) PILS.¹⁴⁶ The reason for this is that, absent an agreement to arbitrate, these claims would be decided by an ordinary civil court, with which an arbitral tribunal is generally considered on par;
 - The second exception relates to non-property-rights resulting from a particular IP right, namely personality rights. It is not clear to which extent disputes concerning such personality rights are arbitrable. In practice, they mainly play a role in the context of copyright law, where these rights are also referred to as “moral rights” and typically include the right of attribution, the right to have a work published, and the right to the integrity of the work.¹⁴⁷ In our opinion, disputes involving moral or personality rights are not *per se* excluded from being arbitrated; insofar moral or personality rights can be assigned or waived in advance (e.g., in the context of a ghostwriting agreement), they can become the subject of a commercial transaction and, thus, in our view have to be treated as if they were property rights. Hence, all disputes concerning “tradable” personality rights or aspects thereof have to be arbitrable.¹⁴⁸ Whether a moral right can be assigned, waived or otherwise be the object of a commercial transaction is again a question of the law applicable to the IP right at issue.
- 76 The question has been raised whether the creation of the Federal Patent Court¹⁴⁹ will change anything of the above, particularly because the new Patent Court Act provides that the Federal Patent Court has the

¹⁴¹ “Statement of the Federal Office dated December 15, 1975”, published in *Schweizerisches Patent-, Muster- und Markenblatt* vol I (1976), p. 10.

¹⁴² Liniger, pp. 116-117; Berger/Kellerhals, para. 210; there has been hardly any case law since these early precedents. In BGer. 4C.40/2003 paras. 5.1-5.4, the Federal Supreme Court found that a claim that was allegedly based on patent law could nevertheless be arbitrated because it arose in connection with a contractual dispute and was, thus, covered by the arbitration agreement that the parties to the contract had entered into.

¹⁴³ Liniger, pp. 51-76 with further references; Blessing, *ArbInt.1996*, pp. 199-201; Briner, para. 15 at Art. 177; Vischer, para. 5 at Art. 177; Vischer, paras. 18-19 at Art. 109; David, para. 100; Troller, pp. 413-414; Mondini, *ZZZ 2004*, pp. 491-494; Berger/Kellerhals, paras. 210-211; Weber-Stecher, para. 29 at Art. 354; Troller, *ASA Special Series no. 6*, pp. 157-160; Legler, *ASA Bull. 2010*, pp. 257-261.

¹⁴⁴ Liniger, p. 55, with further references to other authors that have provided for different reasons on why such activities are not arbitrable.

¹⁴⁵ Troller, *ASA Special Series no. 6*, p. 160, who mentions compulsory licenses (until they are granted), expropriation by the state and export restrictions as other non-arbitrable matters.

¹⁴⁶ Liniger, pp. 52-53, with further references; see also Legler, *ASA Bull.2010*, p. 257.

¹⁴⁷ For Swiss law, refer to Arts. 9 and 11 of the Copyright Act (*Bundesgesetz über das Urheberrecht, SR 231.1*).

¹⁴⁸ Similar: Liniger, pp. 53-54 (according to which arbitrability of personality rights shall depend on whether they are pursued for financial interest), 69-71 (according to which arbitrability of personality rights shall depend on whether they are tradable); Berger/Kellerhals, para. 210; Troller, *ASA Special Series no. 6*, p. 157.

¹⁴⁹ See para. 185 below, footnote 237.

“exclusive” jurisdiction over patent disputes.¹⁵⁰ However, legal commentators have concluded with valid arguments that this is not the case, i.e., that patent disputes continue to be arbitrable as in the past.¹⁵¹

An arbitral tribunal should also be competent to decide on issues that are not of financial interest, provided this occurs in the context of a preliminary question, however, with an effect only with regard to the answer of the main question in the context of which the preliminary question has arisen.¹⁵² 77

c. National Arbitration

For purely national arbitrations, the relevant provision in determining the arbitrability of a dispute is Art. 354 of Swiss Code of Civil Procedure (“ZPO”), which states that “any claim, of which the parties can dispose” can be subject of an arbitration. Parties can dispose of a claim if they are in a position to bindingly resolve a claim by means of an out-of-court-settlement or by accepting in front of a court a claim brought against them.¹⁵³ This rule is not considered identical with the rule in Art. 177(1) PILS, but in practice will be either of similar scope or slightly broader. It is generally considered to include claims arbitrable under Art. 177(1) PILS (i.e., all claims that are of financial interest, with only few rather theoretical exceptions) as well as certain non-financial claims (claims protecting personality rights are cited as an example).¹⁵⁴ However, unlike in the case of Art. 177(1) PILS, under Art. 354 ZPO it has to be verified also for claims of financial interest whether the claims are at the parties’ disposal.¹⁵⁵ 78

With regard to claims related to IP disputes, the same applies as stated already above in the context of Art. 177(1) PILS: IP disputes are generally arbitrable, at least with the first exceptions cited above (N 75).¹⁵⁶ As to the second exception, one can argue that Art. 354 ZPO unlike Art. 177(1) PILS provides for the arbitrability also of disputes concerning personality rights that cannot be the object of a commercial transaction; however, in such cases, the question arises whether a dispute that cannot be the object of a commercial transaction nevertheless is at the full disposal of the party whose personality is at issue; at least under Swiss law, the very core of the right of personality is not at the full disposal of a party.¹⁵⁷ Hence, even if a claim is theoretically at the party’s disposal, the question in practice will be whether such party is also bound by its agreement to arbitrate or whether – with regard to the personality rights – it can withdraw its consent to have such claims arbitrated at any time. 79

d. Effect of Foreign Mandatory Law on Arbitrability

There has been a discussion as to whether an arbitral tribunal in Switzerland may decide on issues that pursuant to foreign mandatory law, only a foreign public authority may decide on.¹⁵⁸ An arbitration case in which such an issue arose in connection with German patent law has been discussed already above.¹⁵⁹ In our view, an arbitral tribunal in Switzerland may not consider foreign mandatory law in the context of whether a dispute is objectively arbitrable. Foreign mandatory law should rather be taken into account by the arbitral tribunal when determining whether the issue in dispute is indeed covered by the parties’ agreement to arbitrate and when determining the law applicable to the substance of the dispute. Of course, the application of foreign mandatory law may also become an issue in connection with a recognition proceeding before a foreign court, for instance, if such court were to conclude that 80

¹⁵⁰ Art. 26 Patent Court Act (*Bundesgesetz über das Bundespatentgericht*, SR 173.41).

¹⁵¹ Legler, *ASA Bull.* 2010, p. 261.

¹⁵² Same view: Vischer, para. 11 at Art. 177; see also BGE 118 II 193 para. 5 bb), *Pra* 1993, No. 228.

¹⁵³ Weber-Stecher, para. 7 at Art. 354, with further references.

¹⁵⁴ Weber-Stecher, paras. 8-9 at Art. 354, with further references.

¹⁵⁵ Berger/Kellerhals, para. 235.

¹⁵⁶ Weber-Stecher, para. 29 at Art. 354, with further references; see also Troller, *ASA Special Series no. 6*, pp. 157-160 (discussing the similar situation before the Swiss Code of Civil Procedure “ZPO” was introduced).

¹⁵⁷ Art. 27 CC.

¹⁵⁸ Briner, para. 18 at Art. 177; Hanotiau, *ASA Special Series no. 6*, pp. 32-33, according to whom there appears to be a consensus among leading arbitrators that there is no moral duty to apply foreign rules of public policy of the place where the award could be enforced; Blessing, *ASA Special Series no. 6*, pp. 17-18.

¹⁵⁹ See para. 72 above.

the manner in which the arbitral tribunal has applied (or not applied) mandatory law violates public policy applicable in the court’s jurisdiction. This, however, is not an issue of arbitrability, but of foreign recognition and enforceability, and should not be relied on for deciding the former.¹⁶⁰

- 81 Hence, the parties to an international IP dispute should be aware that the recognition and enforcement of an international arbitration award rendered by an arbitral tribunal with a seat in Switzerland may nevertheless be refused in another country if the dispute is not considered arbitrable or otherwise found to be against public policy in such other country. In practice, the risk of this happening is particularly high if the arbitral tribunal were to render a decision that concerns an IP right as such (e.g., its validity or nullity, even if only with an *inter partes* effect) and not only financial claims (e.g., damages, license fees) resulting from such or from an IP agreement. However, the prevailing opinion appears to be that the enforceability of an arbitral award outside of Switzerland is no prerequisite for assuming the objective arbitrability of the underlying dispute.¹⁶¹

C. Foreign Enforceability

- 82 Another issue to consider in IP disputes is the enforceability of arbitral awards abroad, i.e., outside the country in which it was rendered. There are two pitfalls to consider in connection with IP disputes in particular:
- 83 The first pitfall concerns *interim measures*. In IP disputes, they are usually used to ensure that an alleged infringer of IP rights of a party will not use or disclose the IP rights of such party until the arbitral tribunal has rendered its final award in the matter. This may involve, for instance, an order not to sell certain products that allegedly rely on a particular patent or an order not to disclose certain business secrets to a particular third party.¹⁶² In such a situation, the party seeking interim measures will have to consult with both the agreed procedural rules as well as the rules of the place of the arbitration (*lex arbitri*) as to whether it has to seek such measures from state courts or whether it can (also) request an interim measure from the arbitral tribunal. Most of the time, parties choose the former option if available for the reason that they do not want to wait for the measure to be in place until the arbitral tribunal has been properly constituted. However, even if the latter option is chosen (or if parties are forced to follow it),¹⁶³ parties may nevertheless be required to rely on the assistance of state courts. While it may be possible and permitted for the arbitral tribunal to order an interim measure in the form of an interim award, it has to be expected that many jurisdictions (including Switzerland) will not enforce interim awards of an arbitral tribunal.¹⁶⁴ In such cases, an interim award will merely have the effect of a contractual obligation and at best trigger the right to later on claim damages (or even a penalty, where applicable rules permit so). The same is true with regard to the parties’ obligation to “carry out” any award without delay, as various arbitration rules provide for.¹⁶⁵ Hence, the party seeking (stronger and immediate) interim protection may instead want to ask the arbitral tribunal to issue interim measures in the form of an order and seek assistance by an appropriate state court in enforcing it, where such assistance is available pursuant to local law (place of arbitration or enforcement).
- 84 The second pitfall concerns the enforceability of the *final award*. While there are a number of common reasons why a party may fail to enforce an arbitral award abroad, the fact that a dispute involves IP rights

¹⁶⁰ Recognition and enforceability is first above all the responsibility of the parties: Hanotiau, *ASA Special Series no. 6*, p. 33; Blessing, *ArbInt*. 1996, p. 206.

¹⁶¹ Berger/Kellerhals, paras. 177-179, with reference to BGE 118 II 353; Weber-Stecher, para. 16 at Art. 354.

¹⁶² “ICC Commission on International Arbitration (Lew), Final Report on Intellectual Property Disputes and Arbitration”, in *ICC Arb. Bull.* 1998/1, p. 46.

¹⁶³ We have seen cases in which a state court issued an interim measure “in aid of an arbitration”, but limited in time until an arbitral tribunal had the opportunity to issue an interim measure of its own.

¹⁶⁴ Although the New York Convention requires each contracting state to recognize arbitral awards and enforce them, they may decide to interpret the term “award” as meaning a “final” award, i.e., an award finally resolving a dispute; see also “ICC Commission on International Arbitration (Lew), Final Report on Intellectual Property Disputes and Arbitration”, in *ICC Arb. Bull.* 1998/1, p. 48, Section 4.5, with further references.

¹⁶⁵ For instance, Arts. 28(6) 1998 ICC Rules, 34(6) 2012 ICC Rules and Art. 64(a) WIPO Rules.

may represent an additional hurdle. As discussed already in connection with the issue of arbitrability of IP disputes,¹⁶⁶ the basic reason is that in many jurisdictions, at least certain aspects of IP disputes – such as the annulment of a patent – are reserved to the state courts or other specific public authorities. In these countries, arbitral awards that undermine this concept may either not be recognized or enforced at all or they will be enforceable only in a manner that limits the effect of the arbitral award to the parties to the arbitration, but not to third parties.¹⁶⁷ Under the New York Convention, such an outcome can be reasoned by directly referring to a lack of arbitrability¹⁶⁸ or, which is more likely as it provides for more flexibility for a balanced approach, by arguing that the recognition or enforcement of the award as such or in a particular manner “would be contrary to public policy of that country”^{169, 170}.

Although “public policy” is a vague term, one of the main issues to be addressed in connection with an IP dispute is (again) the question whether it was permissible to arbitrate the dispute. Hence, it is not sufficient that a dispute is considered arbitrable in the country of the arbitral tribunal, as discussed already above;¹⁷¹ the arbitrability will have to be reassessed pursuant to local law whenever a party tries to have it recognized and enforced abroad.¹⁷² The other main issue of public policy in connection with IP disputes will usually be the question as to what effect, if any, the award should have with regard to the IP right(s) at issue vis-à-vis third parties. The classical example is an award that declares a patent to be null and void. The question will inevitably arise whether third parties should be able to rely on such finding by the arbitral tribunal, even though they did not participate in the arbitration and even though the holder of the patent had no agreement to arbitrate with these third parties. Again, there is no universal answer to this question. It is clear, though, that some – and probably an increasing number of – countries will permit, either directly or indirectly, that an award may indeed have third party effects. Various strategies to achieve this result are described below.¹⁷³ Other countries will recognize and enforce an arbitral award *inter partes*, but not in favor of or against third parties.¹⁷⁴ 85

D. Extending the Effect of IP Arbitrations to Third Parties

1. The Issue

The basis of a (private) arbitration is an arbitration agreement among the parties involved. It is a well accepted principle that an arbitral tribunal – at least in principle – only has jurisdiction over parties who themselves are party to an arbitration agreement.¹⁷⁵ At first sight, one may conclude from this that the legal effects of an arbitral award likewise must be *inter partes* only, i.e., that they only extend to the parties of the arbitration, even if IP disputes are clearly arbitrable and the arbitration of an IP dispute is not against public policy. However, in the case of IP disputes, the *inter-partes*-only effect of an arbitral award is far from clear, and it can be of key relevance to all parties of an arbitration. 86

The classical example is once again a patent-related dispute in the context of which one party raises a nullity defense, i.e., claims that the patent at issue shall be declared null and void. Assuming the issue is arbitrable,¹⁷⁶ and further assuming the arbitral tribunal declares the patent null and void, the question arises whether the patent will only be considered as being null and void with regard to any legal 87

¹⁶⁶ See paras. 66-73 above.

¹⁶⁷ See paras. 86-91 below.

¹⁶⁸ Art. V2(a) New York Convention.

¹⁶⁹ Art. V2(b) New York Convention.

¹⁷⁰ See, for instance, Liniger, pp. 111-112.

¹⁷¹ On the issue of arbitrability, see para. 67 above.

¹⁷² See Blessing, *ASA Special Series no. 6*, pp. 19-20; see also Gurry, *ASA Special Series no. 6*, pp. 116-117, discussing public policy grounds for refusing the enforcement of an arbitral award even *inter partes*.

¹⁷³ See paras. 91-109 below.

¹⁷⁴ See “ICC Commission on International Arbitration (Lew), Final Report on Intellectual Property Disputes and Arbitration”, in *ICC Arb. Bull. 1998*, pp. 49-50 and Appendix D to such report.

¹⁷⁵ Berger/Kellerhals, paras. 492-510, with a discussion of the exceptions.

¹⁷⁶ See paras. 66-81 above.

rights, obligations and claims among the parties of the arbitration (*inter partes* effect only) or whether the patent indeed becomes null and void for “everybody” (*erga omnes* or *inter omnes*) once the award is recognized and enforced, if applicable. In the latter case, the effect of the award would be that the owner of the patent does not only lose his right to pursue infringements of his patent against his counterparty in the arbitration, but also against any third party, irrespective of whether they participated in the arbitration or even had an agreement to arbitrate with the patent owner. In other words, the effect would be the same as if a competent state court or other competent public authority (as the case may be) had declared the patent null and void.

- 88 As mentioned above,¹⁷⁷ this issue is one of the key issues that may arise in connection with the recognition and enforcement of arbitral awards that involve IP rights and go beyond mere claims for financial compensation. There are in principle three different ways how an arbitral award may have or can be caused to have at least certain third party effects with regard to the IP rights at issue:
- The pertinent local law at the place of enforcement of the arbitral award provides for the *erga omnes* effect;
 - The parties are required to undertake the necessary steps that effectively result in a third party effect;
 - Other legal theories are used to extend the effect of an arbitral award to third parties.
- 89 That being said, it is important to understand for all parties to an arbitration whether they are interested or not in an arbitral award that has third party effects with regard to the IP rights at issue. It is clear that in a dispute concerning the assignment of certain IP rights, the party asking for a declaration that the IP rights have been validly assigned has an interest in it having an *erga omnes* effect.¹⁷⁸ It is also obvious that the owner of a patent has no interest in his patent being declared null and void also with an effect beyond the arbitration. In fact, patent owners are generally interested in even limiting the *inter partes* effect to as few jurisdictions as possible.¹⁷⁹
- 90 But also for the party attacking the validity of a patent it may not be of interest to end up with an arbitral award that has *erga omnes* effect. The reason is that normally, such attacks merely are a means to achieve other goals. Such other goals may be a defense against infringement claims of a patent owner, or it may be an attempt of a patent licensee trying to exit from a license contract on the basis that the underlying patent is no longer of value. In such a situation, the only interest of the party raising the nullity claims is to itself be protected from attacks from the patent owner, but not preventing the patent owner to attack third parties. In fact, it may be a competitive advantage for the party raising the nullity claim if the patent owner continues to enforce his patent against third parties if these third parties are competitors of the party attacking the patent. In such a situation, an arbitration may prove to be particularly attractive, as it provides the parties with more freedom to control the process. For instance, both parties may be interested in keeping the arbitration confidential, which may not be possible in a state court.
- 91 Another consideration that will have to be made in view of the potential third party effect of an award is the question of how the nullity defense has to be raised. In some countries such as Germany it is only possible to raise a nullity defense in a state court litigation by initiating a special and separate state court proceeding to deal with the alleged nullity of the patent.¹⁸⁰ Such a separate nullity proceeding will not only cause additional costs and prolong the proceeding, it can also have tactical implications¹⁸¹ and will inevitably have third party effects if successful. Hence, both parties may be interested in using the flexibility of an arbitration proceeding to permit a nullity defense without raising a claim for declaratory

¹⁷⁷ See paras. 84-85 above.

¹⁷⁸ See paras. 102-103 below.

¹⁷⁹ See para. 87 above [patent infringement disputes for one jurisdiction only].

¹⁸⁰ In Switzerland, this is not necessary; it is not even necessary to raise a counterclaim.

¹⁸¹ For instance, experience shows that it may be of advantage for a party alleging the nullity of a patent as part of a defense against an infringement claim to have it considered by the same court and at the same time as the alleged infringement, as in both cases similar questions have to be addressed.

relief or otherwise limiting the scope of the proceeding to better serve their purposes than with a state court proceeding.

2. *Third Party Effects by Means of Law*

Third party effects may be the result of law. This is the case in those jurisdictions that recognize awards of a private arbitral tribunal as having the same weight and effect as a the decision of a competent state authority with regard to the IP aspects at issue (e.g., the validity of a patent). If this is the case, the *erga omnes* effect is clear, although, of course, limited to such jurisdiction, given that IP rights are usually limited to the territory of the jurisdiction that protects it. Hence, if a patent is declared null and void by an arbitral tribunal, the patent office would typically delete it from the patent registry, with all positive and negative effects this may have on third parties.¹⁸² 92

As explained above, Switzerland is generally considered to be a jurisdiction in which recognized arbitral awards on IP rights do have *erga omnes* effect insofar they are both arbitrable and the effect derives from the Federal Institute of Intellectual Property changing or deleting an entry in its IP registries. Hence, if the party raising a nullity defense has no interest in achieving a third party defect,¹⁸³ it should either not pursue such defense on the basis of a separate counterclaim but rather raise the nullity as a mere defense plea to be considered by the arbitral tribunal as a preliminary question. If declaratory relief is nevertheless sought and awarded, the successful party may consider whether it will want to have it recognized and enforced with regard to the nullity. 93

Whether arbitral awards have *erga omnes* effect in Switzerland with regard to other arbitrable IP disputes is not clear, though. For IP rights not based on a registry, i.e., in particular copyrights, legal commentators consider this not to be the case.¹⁸⁴ The same is true with regard to awards that do *not* result in a change of a registry (e.g., if an award confirms the validity of a patent or denies a nullity claim or counterclaim).¹⁸⁵ Thus, they are not considered creating a public precedent. In these situations, the alternative approaches described in the following are to be considered if it is necessary to create a third party effect. 94

3. *Third Party Effects by the Parties*

A second way how an arbitration award can have third party effects is to require the parties to undertake the necessary steps to implement the decision of the arbitral tribunal in a corresponding manner. 95

In a dispute about the question of whether an IP right has been assigned or not, the assignee could ask the tribunal to order the opponent to again assign the IP right at issue, insofar they have not already been assigned. 96

With regard to IP rights that are dependent on public registries, the approach is less straightforward. In the classical example of a patent found to be null and void, the patent owner could be required to give up his patent and inform the patent office accordingly to have it removed from the patent registry, or the party could be ordered to no longer pay the fees to maintain the patent. Alternatively, the arbitral tribunal could itself, but in the name of the patent owner, issue a corresponding notice, where applicable rules permit this. At first sight, this appears to have the same effect as if the patent registry would directly accept a declaratory relief granted by an arbitral tribunal confirming the nullity of a patent. However, there are differences of practical and legal relevance that are to be considered. 97

For instance, a declaration of nullity usually has an *ex tunc* effect, i.e., the arbitral award or court order results in a situation as if the patent had never existed. In the case of a party no longer paying the fees to maintain the patent, the effect will usually be that the patent is no longer effective as of the non-payment 98

¹⁸² While third parties wishing to use the invention at issue may benefit from such a deletion by becoming free to use it, other parties, who, for instance, had a license to exploit the invention including granting sublicenses, may be negatively affected, as well, if the license has been a source of profit for them.

¹⁸³ See paras. 89-91 above.

¹⁸⁴ Bär, pp. 149-150.

¹⁸⁵ David, para. 147.

of fees. But even in the case of a party giving up a patent, depending on the local patent law, the effect of such waiver may only be *ex nunc*, i.e., only as of the date of the waiver going forward.¹⁸⁶ In the latter case, infringements that occurred prior to such date can still be pursued, and license fees that had to be paid insofar a patent has been valid can still be claimed up to such date.

- 99 From a practical point of view, it may be much more convenient and much less costly for a party to cause its opponent and patent owner to give up his patent and have it removed from the various registries instead of the party itself enforcing a declaration of nullity in the various jurisdictions in which the patent has been registered. This approach may also have the advantage that it will likely work also for jurisdictions in which local law would not permit the enforcement of a foreign arbitral award declaring a patent null and void for lack of arbitrability or violation of public policy.
- 100 The main issue of ordering a party to implement the decision of the arbitral tribunal instead of enforcing it directly is the legal basis to issue such an arbitral award or court order. In some cases, the basis is found in the IP agreements at issue. One such example are contractual relationships during which the parties create and assign IP rights. In such cases, it is not unusual for the parties to agree on a clause that obliges the parties to issue any instruments necessary to effect the assignment and allocation of IP rights as provided for by the contract. This can serve as a valid legal basis for a tribunal to specifically order a party to perform such assignment if it is in dispute whether it has occurred. As opposed to that, patent license agreements will normally not contain a clause that obliges the patent owner to give up his patent and notify the patent registry or stop paying the registration fees if an arbitral tribunal concludes that the patent is invalid. Without such an obligation in the contract, the arbitral tribunal will find it difficult to nevertheless order the patent owner to do so. It has been suggested that one may be able to rely on clauses found in the rules of various arbitration institutions that require the parties to carry out the award without delay.¹⁸⁷ In our opinion, however, these provisions are no sufficient legal basis for this purpose. It is not the intention of those provisions to create additional contractual obligations on the merits of the case; they become relevant only once an arbitral award has been rendered and requires the parties to implement what has been awarded. They may also deter a party from opposing the foreign recognition and enforcement of an arbitral award against it. The arbitral award itself, however, cannot be based on them.
- 101 Hence, the solution to the problem would be to include in the parties’ commercial contract or agreement to arbitrate a provision that creates an obligation on a party to undertake the steps reasonably requested by the other party to cause the status of the party’s IP right to in all respects reflect the status as declared by the arbitral tribunal in its final award. It is very unlikely, though, that an owner of an IP right will find such an obligation acceptable once he understands its potential implications.

4. Other Approaches to Extend Awards to Third Parties

- 102 Under specific circumstances, other approaches to extend the effect of an arbitral award to third parties may make sense, as well. Consider, for example, the following situation (based on a real dispute): Party A raises copyright infringement claims against party B for its use of a particular computer program and has sued B in a state court. However, A has entered into a contract with party C for the assignment of the very same copyrights, and since C is associated with B, C is willing to help B in its defense against the copyright infringement claims of A. C grants B a license to the very same copyrights it believes it has received under the contract with A. Since A disputes any such assignment of rights to C, and since the contract between A and C has an exclusive arbitration clause, C has to initiate an arbitration proceeding against A to clarify the situation. C asks the arbitral tribunal to declare that under the contract with A, the copyrights at issue have been validly transferred from A to C, and that A has no basis to sue the

¹⁸⁶ In Switzerland, the effect of a waiver is *ex tunc* (Art. 28a Patent Act/*Bundesgesetz über die Erfindungspatente*, SR 232.14), although the corresponding provision was introduced only in 2007.

¹⁸⁷ For instance, Art. 34(6) 2012 ICC Rules provides that “the parties undertake to carry out any award without delay”. Art. 28(6) 1998 ICC Rules and Art. 64(a) WIPO Rules contains a similarly worded provision.

licensees of C (one of which happens to be B). Although A disputes this, the arbitral tribunal comes to the conclusion that the assignment indeed took place.

What would be the effect of such an arbitral award? What is clear is that A cannot raise any copyright claims against C: The arbitral tribunal has decided that all copyrights concerning the software at issue are with C, and such decision is final and binding between A and C. However, the more interesting question is whether the arbitral award will have consequences for the ongoing copyright dispute between A and B, a dispute that was not within the jurisdiction of the arbitral tribunal, but is to be decided by a state court. Since B was not a party to the contract, it appears that B could not rely on the award for the purposes of its defense against the copyright infringement claims raised by A: A could take the position that the arbitral award only has an effect vis-à-vis C, but not vis-à-vis anybody else. 103

However, this is not the only possible outcome. In common law jurisdictions, for instance, it may be possible to overcome an *inter partes* limitation of an arbitral award in an IP dispute on the doctrine of non-mutual collateral estoppel, or issue preclusion. It prevents the re-litigation of an issue in a different cause of action but is involving a party to the first case where the same issue has also been litigated, provided the party against which the estoppel is asserted was afforded a full and fair hearing. While it is generally accepted that the doctrine can apply with regard to state court decisions,¹⁸⁸ it is not entirely clear whether and to what extent it can be applied to awards of arbitral tribunals. However, if the concept were indeed to apply in the sample case described above, it would again prevent A from arguing vis-à-vis B that it still owns the copyrights at issue once a judicial authority has bindingly and finally decided that the copyrights have been assigned to C. Legal commentators have suggested the same concept should also work for patent cases: The holder of an U.S. patent held to be invalid in an arbitral award may be stopped from asserting the patent in a later proceeding.¹⁸⁹ One way to reduce this risk appears to be requiring the arbitral tribunal issuing an award without a reasoned opinion, which may also have the advantage that it will be more difficult for an infringer to design around the patent.¹⁹⁰ 104

Another way to extend the effect of the arbitration in the above example would be to conclude that the arbitral award on the assignment of copyrights between A and C has an *erga omnes* effect (and thus could be relied on by B) on the grounds that a declaration of a duly competent arbitral tribunal can have the same effect as if A itself had made such a declaration. In the present case this would mean that if the arbitral tribunal declared that all copyrights at issue were assigned from A to C and that A no longer has any such rights, such a declaration could as a factual matter be treated as if such a declaration had been made by A itself. The consequence would be that such a matter of fact would arguably have to be considered also by a state court or another arbitral tribunal. 105

A third approach would be to consider the agreement to arbitrate not being limited to A and C, but rather to be interpreted so that it can also be relied on by third party beneficiaries. In such a setup, the court ruling on the copyright infringement claims could conclude that B, due to the license it has received for the copyrights at issue from C, has become a third party beneficiary to the arbitration agreement insofar it concerns the basis of its license, i.e., the validity of the assignment of the copyrights at issue. In fact, it would indeed be difficult to conclude, that on the one hand C is able to rely on an arbitral award determining that A has divested its copyrights, and on the other hand, cannot allow B as C's licensee to use such an award in defending itself against claims from A, alleging infringement of the very same copyrights. 106

Of course, the court in the litigation between A and B might be in a position to re-evaluate the assignment of copyrights from A to C as a preliminary issue (and may not be bound by the arbitral tribunal's decision). The court would do so on the basis that B pleads that A has no ownership in the copyrights at issue. However, apart from practical and confidentiality issues, this approach would not make much sense: If the issue would indeed have to be re-litigated, even if only as a preliminary issue, B would 107

¹⁸⁸ *San Remo Hotel v. San Francisco*, 545 U.S. 323 (2005), footnote 16.

¹⁸⁹ Plant, *J.Int.Arb.* 1993, p. 87.

¹⁹⁰ Plant, *J.Int.Arb.* 1993, p. 86.

eventually be forced to raise an indemnification claim against C (for its costs, damages, etc.) as its licensor, and C would, in turn, have to sue A for reclaiming the indemnification C had to pay to B, which, in turn, amounts to the damages claim originally awarded to A (plus costs incurred due to the various proceedings). Consequently, B should be allowed to rely on a favorable arbitration award for any license defense it may want to raise already in the first place.

- 108 Of course, the third party beneficiary approach depends on the whether law applicable to the arbitration clause supports the concept of third party beneficiaries and the agreement to arbitrate providing for third party beneficiaries. While an explicit reference to third party beneficiaries may not be necessary depending on the context of the agreement clause at issue, having an express agreement to that end is certainly helpful. A sample third party beneficiary clause (to be added after the arbitration clause) could read:

“The parties agree that insofar as an award rendered pursuant to the foregoing clause concerns the existence, status or ownership of a [copyright] of a party to the present contract, each party shall be bound by, and comply with, such award also with regard to third parties against which it attempts to enforce such [copyright] but which have been directly or indirectly granted the right by the other party to use such [copyright]. Such third parties may enforce this clause as third party beneficiaries.”

- 109 The sample clause does not attempt to create a binding agreement to arbitrate between the parties and the third party beneficiaries. Rather, it in a first step creates a contractual obligation that each party shall comply with the outcome of the award also with regard to third parties against which it wishes to enforce the rights (here: copyrights) that have been the subject of the award, and in a second step it expressly extends the right to pursue the enforcement of such obligation (beyond the contract parties) to these third parties (which themselves are not bound by the arbitration clause and, thus, could enforce such third party rights in the court in which the infringement claims are being raised against them). It should be noted, however, that since the outcome of the arbitration is merely “converted” into a contractual obligation, its enforcement may be more difficult and subject to a broader judicial review than in the case of the *inter partes* enforcement of an arbitral award. Also, owners and other licensors of IP rights will often not be willing to agree to extend the effect of an agreement to arbitrate to third parties and it may not even be in the interest of the licensee, either,¹⁹¹ unless the specific context of a license or another agreement requires the protection of third parties.
- 110 Finally, when assessing the issue of third party effects of an arbitral award, parties should not forget the aspect of confidentiality. Arbitration is not *per se* confidential, and sometimes it may be sufficient for an infringer of, say, a patent to obtain the reasoned arbitral award of an arbitral tribunal that concluded that the patent at issue should be considered invalid because of certain specific prior art. With this information in his hands, an infringer may find it very easy to effectively defend itself against infringement claims of the patent owner even if – legally – the award has no third party effect whatsoever. In such a situation, it will be essential for the patent owner to have ensured already in the first place that the counterparty in the arbitration is under an obligation to maintain the award and all other information relating to the arbitration strictly confidential.

E. Applicable Law

1. The Issue

- 111 A further, but in our experience often overlooked issue with the arbitration of IP disputes is the question of the law applicable to the merits of the case. As in most cases, the parties have chosen a particular law to apply, it is normally clear that the arbitral tribunal will apply that law to the dispute. However, in the case of an IP dispute, this may not be the right choice.

¹⁹¹ See para. 87 and paras. 89-91 above.

As a preliminary remark, it is important to distinguish between the “standard” conflict of law rules under Swiss law (assuming Swiss law is the *lex fori*) on the one hand, and the conflict of law rules that apply in an international arbitration with its seat in Switzerland on the other hand. They are not the same. Art. 187 PILS, which applies to international arbitration of arbitral tribunals with their seat in Switzerland,¹⁹² states as follows:

“The Arbitral Tribunal shall decide the case according to the rules of law chosen by the parties or, in the absence thereof, according to the rules of law with which the case has the closest connection.”

A similar approach is adopted by the 2004 and 2012 Swiss Rules in Art. 33(1), although different institutional rules may regulate this issue differently. For instance, Art. 21(1) 2012 ICC Rules¹⁹³ provides:

“The parties shall be free to agree upon the rules of law to be applied by the arbitral tribunal to the merits of the dispute. In the absence of any such agreement, the arbitral tribunal shall apply the rules of law which it determines to be appropriate.”

A similar provision is found in Art. 35(1) UNCITRAL Rules and Art. 59(a) WIPO Arbitration Rules. Under the 1998 and 2012 ICC Rules, the 2004 and 2012 Swiss Rules as well as the UNCITRAL Rules and the WIPO Arbitration Rules, the arbitral tribunal shall take into account relevant trade usages (Art. 17(2) 1998 ICC Rules/Art. 21(2) 2012 ICC Rules, Art. 33(3) 2004 and 2012 Swiss Rules, Art. 35(3) UNCITRAL Rules, Art. 59(a) WIPO Arbitration Rules).

In all the above cases, if the arbitral tribunal concludes that the parties’ choice of law does not extend to a certain issue to be decided, it will have to make a choice of its own. It will have to do so as provided for by the rules agreed by the parties (which, in the case of an ICC or WIPO arbitration or rules based on UNCITRAL, point to the “appropriate” law) or in the absence of any rules choose the law “with which the case has its closest connection” (Art. 187 PILS). A state court, on the other hand, would have to follow the standard conflict of law rules stipulated by the *lex fori*, i.e., in the case of Switzerland the PILS (excluding chapter 12, which deals with international arbitration). In other words, the fact that this dispute is to be settled by means of international arbitration and not before a state court results in more room for argumentation as regards the law applicable on the merits.

That being said, there are typically two kinds of issues in the case of an IP dispute for which this is relevant:

- There are issues of contract law, for instance, the interpretation of a particular provision of a contract or mandatory contract law (e.g., limitation of liability restrictions). These issues do not raise any special difficulties, and we may refer to the general discussion of applicable law in arbitration;
- There are issues of IP law. These issues have to be distinguished from contract law issues, as they relate to the question of whether a particular invention, creation or piece of information benefits from special protection by law the result of which is an intellectual property right in the jurisdiction at issue. As explained above, each jurisdiction itself may (within the boundaries of applicable international treaties) define what is required, for an invention to be protected through a patent or for an original work to be protected by copyright. Furthermore, the same law defines what a third party is allowed to do with such intellectual property without first having obtained authorization of the rights owner, and the law in each jurisdiction defines how intellectual property is created (e.g., automatically or following its registration) and how it can be assigned or even licensed, including the effects of such actions. The consequence of this is that issues of IP law may have to be assessed pursuant to several different laws (at least if the dispute relates to more than one jurisdiction), and the law applicable to such IP issues may not be the same than the law applicable to the issues of

¹⁹² Further provided that at the time of the conclusion of the arbitration agreement at least one of the parties had neither its domicile nor its habitual residence in Switzerland (Art. 176(1) PILS).

¹⁹³ Which is virtually identical with Art. 17(1) 1998 ICC Rules.

contract law. Hence, if the law applicable to the interpretation of the contract is clear, the presence of IP issues in a dispute inevitably raises the question of which law should apply to those issues.

117 In an IP dispute, the arbitral tribunal may be confronted with issues of IP law in many different forms, but quite often these situations boil down to one of the following two questions, namely: *First*, does a particular IP right really exist (e.g., does a particular work result fall within the scope of a contractual copyright clause or do the rules agreed for copyrighted works not apply)? *Second*, has a particular IP right has been validly assigned from one party to another? In these cases, there are basically two approaches to solve the question of the law applicable to these issues, as laid out in the following:

2. Assuming an Extensive Choice of Law (Option 1)

118 The first approach requires that the parties have, in principle, made a choice of law in the contract at issue, which is usually the case. However, it further presumes that such choice of law should be applied broadly, i.e., interpreted to cover not only contract issues (e.g., contract interpretation), but also IP issues (e.g., the formal requirements of copyright assignments).

119 Such an approach can generally be supported by the notion that in an international arbitration in Switzerland, the *lex arbitri* actually does give the parties much freedom to choose the rules of law applicable to their dispute. If the parties have stated in their contract that Swiss law shall apply, such choice of law should be followed for all issues (at least insofar they are arbitrable,¹⁹⁴ or have to be dealt with as preliminary issues), unless there is an indication that this does not reflect the parties’ intention or if this would violate public policy. This includes mandatory provisions of such law, including provisions related to IP rights. Not observing them would be considered a violation of the *lex arbitri*.¹⁹⁵ Whether and to which extent mandatory provisions of law from other laws than the law chosen by the parties (*lex contractus*) have to be observed when deciding on the merits of the dispute is somewhat controversial and academic.¹⁹⁶ It has been proposed to apply mandatory provisions of other laws insofar “international” public policy requires so.¹⁹⁷ However, since the provisions of IP law usually do not fulfill this prerequisite, the discussion appears to be of rather theoretical nature, and an arbitral tribunal will find it difficult under this “option 1” to justify the application of mandatory rules of law of laws other than the law chosen by the parties.

120 The advantage of applying a contractual choice of law universally would be that an IP dispute could be decided uniformly for all jurisdictions. If, for instance, a contract contains a clause stating that all work results of a particular contractual activity should be owned by one of the parties, then the question of how this is to be achieved (e.g., how the rights are to be assigned) can be decided under a single IP law. Before a state court in Switzerland, the process would be much more complicated: The effectiveness of the assignment would – pursuant to the pertinent Art. 110(1) PILS¹⁹⁸ – have to be decided separately for each jurisdiction in the world in which the copyrights were relevant, potentially ending up in dozens of applicable laws.¹⁹⁹ Hence, it can be highly efficient to resolve such kind of IP disputes by way of arbitration and presuming that the parties’ choice of law is meant to indicate also the applicable IP law for all jurisdictions (i.e., one law for all jurisdictions).

¹⁹⁴ On this topic, see Section V.B above.

¹⁹⁵ BGE 118 II 193 para. 5 aa.

¹⁹⁶ See, for instance, Briner, para. 18 at Art. 177; Karrer, paras. 135-138, 199-247, and 259-288 at Art. 187; Liniger, pp. 89-91.

¹⁹⁷ Karrer, para. 241 at Art. 187; Liniger, pp. 89-91; Briner, para. 18 at Art. 177.

¹⁹⁸ Which reads: “Intellectual property rights shall be governed by the law of the state in which protection of the intellectual property is sought.”

¹⁹⁹ This is not undisputed, though. One Swiss legal commentary has argued that even under the standard principles of Swiss private international law, the question of whether an assignment took place *among the parties* should be governed by the law applicable to the contract, not the law of the country whose copyrights are at issue (even absent an explicit agreement that the choice of law shall also govern the formalities of an assignment [Vischer/Huber/Oser, para. 599]).

This approach may also have downsides that should be considered. One such downside is the potential risk of non-recognition of an arbitral award abroad. For instance, should an arbitral tribunal in a dispute over the assignment of US copyrights decide to govern the assignment of such copyrights by Swiss law, as the parties have chosen that Swiss law shall apply to the contract, the arbitral award will likely be effective and binding *inter partes* from a Swiss perspective – even if the assignment of the US copyrights was invalid under US copyright law – and may, therefore, not be effective in relation to third parties (including US copyright authorities).²⁰⁰ There is also a risk that the recognition and enforcement of an international arbitral award will be refused if, as a consequence of IP issues having been decided in disregard of mandatory IP law in that country, either the dispute is considered not arbitrable in the country where such recognition and enforcement is sought or if it were contrary to the public policy of that country to recognize or enforce such an award. 121

3. No Choice of Law (Option 2)

As an alternative to a broad application of a choice of law clause in a contract is the conclusion that the parties did *not* chose a particular law with respect to IP issues governed by local mandatory law, but left it to the relevant conflict of law rules to determine the law applicable on a case-by-case basis. As a matter of fact, particular copyright assignment clauses sometimes contain language indicating that the parties did not intend their choice of law to apply to IP issues in dispute with regard to such assignments. 122

For example, copyright assignment clauses may contain limitations like making the transfer of a copyright “subject to applicable law” or requiring it to occur only “to the extent permitted by applicable law”. This in our experience shows that the parties understood that apart from the law applicable to the contract and its interpretation (which they usually will have agreed in the contract). IP rights may be subject to other applicable laws in the jurisdictions where they become relevant due to mandatory law in those jurisdictions. Hence, by making – say – a transfer of a copyright “subject to applicable law”, the parties agreed that apart from the contract law they have chosen by means of a generic choice of law provision, an arbitral tribunal should also apply the mandatory copyright law applicable to such transfers in the jurisdiction to which the transfer relates. This may also make sense with a view to any potential enforcement of an arbitral award in such jurisdictions: A foreign court will less likely refuse the recognition and enforcement of an award if the arbitral tribunal has also considered the mandatory IP law of the country of the court. This is particularly important if the arbitral award is to have some form of third party effect by way of recognition through foreign authorities. 123

Absent a contractual choice of law, the arbitral tribunal will have to follow the pertinent rules for determining the applicable law. In the case of an ICC or WIPO arbitration or an arbitration based on the UNCITRAL rules, the arbitral tribunal would have to decide which law is “appropriate” for the dispute at issue. Under the 2004 and 2012 Swiss Rules or where the applicable rules are silent (in the case of an international arbitration in Switzerland),²⁰¹ the law with the “closest connection” to the dispute is applicable. There are several ways an arbitral tribunal could make this decision: 124

- The arbitral tribunal can directly choose the applicable law without reference to any specific conflict of laws rule (so-called *voie directe*). To this end, the arbitral tribunal may indeed feel inclined to apply only one instead of many laws for the practical and efficiency reasons laid out above;
- Another way of determining the appropriate law would be to cumulatively apply several national rules of conflict of laws. As explained already above, those rules often refer to the law of the country whose IP rights are at issue (as does Art. 110(1) PILS). Consequently, if an arbitral tribunal looks to national conflict of laws rules for guidance, it will likely apply US law in the case of US copyrights and Swiss law insofar the copyrights for Switzerland are at issue. This approach is not efficient, but probably the most pragmatic one and will support the recognition and enforceability of the award best. Particularly with regard to issues related to the status and registration of IP rights, arbitral

²⁰⁰ On this topic, see paras. 86-110 above.

²⁰¹ In which case Art. 187(1) PILS would apply as a default.

tribunals will likely prefer to apply the laws of those jurisdictions where the IP rights are being granted and registered, as the case may be;

- Finally, although rather unusual in the case of IP disputes, the arbitral tribunal could choose to apply what often is referred to as *lex mercatoria*, i.e., general principles of law or transnational law. Such an application by arbitral tribunals does occur occasionally, especially if the case is one of particular “internationality” that transcends the particular national context. Typical sources from which such transnational rules are derived are international contract practices and usages²⁰² expressed in some formal manner (e.g., Incoterms), international uniform laws or codification efforts of international organizations (including, in particular, the UNIDROIT Principles of International Commercial Contracts),²⁰³ or published international arbitration decisions. In the case of IP disputes, those typical sources may not be very helpful (given the comparatively low number of published international arbitration decisions that involve IP issues), and an arbitral tribunal may be more willing to consider established usages in the software industry or other appropriate industries.

4. Relevance of Trade Usage

- 125 In any event, in addition to the parties’ choice of law and irrespective of the applicability of transnational law, the arbitral tribunal often is required by applicable rules – such as the ICC Rules, the Swiss Rules, the WIPO Arbitration Rules or procedures based on the UNCITRAL Rules – to “take account of the provisions of the contract, if any, between the parties and of any relevant trade usages.”²⁰⁴ This can play an important role, as there often are well-established practices in many industries in which IP rights play a key role (e.g., software industry, sports and entertainment markets, life sciences industry).
- 126 For example, it is a generally accepted practice in the software industry *not* to use written instruments to execute copyright transfers in connection with contracts that deal with the development of software, because copyrights are created on an ongoing basis and are usually assigned as they come into existence. Such a practice could become relevant if there were a dispute regarding whether particular rights created under a contract were indeed assigned absent an express declaration as to the assignment of such copyright in addition to a contract clause providing for such assignment. This may be necessary given that various national IP laws require copyright assignments to be in writing in order to be valid. Pursuant to Art. 17(2) 1998 ICC Rules/Art. 21(2) 2012 ICC Rules, Art. 33(3) 2004 and 2012 Swiss Rules, Art. 35(3) UNCITRAL Rules or Art. 59(a) WIPO Arbitration Rules, an arbitral tribunal could rely on such a trade usage without having to evaluate legal theories such as whether the parties have “waived” the requirement of having a written instrument in the foregoing example.²⁰⁵

F. Other Challenges

- 127 An issue that may cause certain challenges in particular to non-IP lawyers is *distinguishing the different types of IP rights* from one another and applying their different concepts side by side. Imagine, for instance, a case in which a party has provided its contract partner with proprietary, non-public documents and later finds out that such documents have been shared with a third party competitor of the former party. At first sight, this is a classical trade secret misappropriation case, assuming that the relevant contract contains a confidentiality undertaking to protect the know-how at issue. However, the same case can also be pursued as a copyright infringement case on the basis that the document at issue represents an original work of the party from which it originated. Whether the document indeed fulfills the prerequisites for copyright protection is an issue in of its own, but if we assume that it does fulfill the requirements, the use of such copyrighted work without authorization would generally result in a copyright infringement. The advantage of pursuing such case also on a copyright law basis is that it does not depend on whether

²⁰² See, for instance, paras. 170-171 below.

²⁰³ See <<http://www.unidroit.org/english/principles/contracts/main.htm>>.

²⁰⁴ Wording according to Art. 21(2) 2012 ICC Rules.

²⁰⁵ Such legal theories, may, however, become an issue in a recognition and enforcement proceeding in the country where such trade usage would conflict with mandatory local law.

the information contained in the documents at issue are publicly known or secret (whereas no trade secret claim would be possible if the originating party had made such documents public through some other means).

Hence, by broadening the legal basis of a claim across various types of IP, it may become less susceptible 128 to potential defenses and counterattacks. The downside of this approach is, however, that it may become much more complicated to “sell” the case to an arbitral tribunal (or state court). Since trade secret laws and contractual confidentiality obligations aim to preserve the secrecy of non-public information rather than to preserve control over the use of an original work, as is the case in copyright law. They are not fully overlapping. The consequence is that in such disputes, all parties will have to carefully distinguish the different legal foundations at issue.

For instance, depending on the circumstance, it may not be possible to use the identical prayers for relief 129 to cover both a copyright and a trade secret claim. If, in the above example the originating party were to ask an arbitral tribunal to prohibit the misappropriation of the documents at issue, the arbitral tribunal may not be willing to grant a general order to the respondent not to disclose any documents to a third party. The reason could be that only certain parts of the documents at issue may actually be confidential information, whereas copyright may protect only certain other parts of the same documents. Of course, some parts may be protected by both legal concepts, and it may well be that an arbitral tribunal, for the sake of simplicity, will indeed order that none of the documents may be disclosed to a third party. However, experience shows that in practice one of the difficulties in pursuing such cases is not the establishment of a general obligation to keep certain information confidential or to respect copyrights of the other party, but to precisely define which piece of information exchanged, which of the work results created and which of the inventions made are actually within the scope of these legal obligations.

This leads to another typical challenge in IP disputes which is that even *the existence of an IP right is* 130 *often not certain* until a court (or arbitral tribunal) has authoritatively decided on it. This is particularly true in copyright disputes: In some cases, it may be evident that a particular piece of work is copyright protected. In many other cases the opinions even of experts will very much differ when asked whether the work at issue fulfills the necessary prerequisites for benefiting from copyright protection. A similar situation may arise when assessing whether certain information is only general industry knowledge or indeed the proprietary know-how of a particular party. Fortunately, this is much easier in the case of patents, as they only come into existence if the underlying invention has been described in the patent application. However, patent law as well provides for certain terms that leave a tribunal or court much room for discretionary judgments. For instance, a patent can be declared null and void if it can be shown that, at the time of its application, the solution at issue was obvious to an expert in the field based on the then existing state of the art; however, what may be obvious to one expert may not be for another. The same may be true for other prerequisites for patenting inventions.

Of course, similar challenges arise when determining *whether a particular IP right has been infringed* and 131 what the consequence of such infringement is. This is particularly true if the IP has been used in a non-human-readable form such as computer software and can thus not be verified directly. In such situations, it is often unavoidable to involve technical experts, unless it is evident from the circumstances that a particular IP of one party must have been used in a product of the other party.

There are also a number of legal challenges that regularly surface in IP disputes. A classical topic and 132 area of dispute is the “*chain of rights*”. It concerns the question as to whether the party that claims the ownership of a particular IP right in a particular IP really is the owner. For instance, it may be clear that a particular original work must be copyright protected (because it obviously fulfills the legal prerequisites pursuant to applicable law). However, if the alleged owner is not the author of such work, he will have to demonstrate that he has received the rights from the original owner either directly or indirectly. In the latter case, the alleged owner will have to prove that there is a complete chain of valid assignment of the rights at issue that can be established back to the original owner.

- 133 If a particular work has been created by the employees of the alleged owner, the chain of rights will hardly ever be in dispute. But in other cases, for instance, where content is traded in the media and entertainment industry, the chain of rights can be a bigger issue. Where IP rights have to be registered in order to be valid (e.g., patents), assignments may at first sight appear to be less problematic, as the registries may also contain information on the current owner. However, it may be that such registered information is not up to date, as assignments of such IP may be legally effective even if not documented in the relevant register. The opposite situation may likewise occur: An assigned of an IP right may appear to have happened, but the assignment later on turns out to be invalid because, for instance, the underlying contract has been rescinded. If this happens with regard to one intermediary assignment in a whole chain of rights, it may cause all subsequent assignments to become invalid as well. This, in turn, may raise issues such as whether it is possible for two contract parties to validly agree that the copyrights in a particular work are owned by one of the contract parties even if neither of the two parties owns it and can, thus, dispose of the copyrights at issue. All these are classical legal issues in IP disputes. They are usually not very easy to answer, and are discussed quite controversially even among experts. The approaches to these problems may also greatly vary depending on the applicable IP law and the legal concepts on which they are built, which makes it even more difficult to decide such cases.
- 134 Another typical legal challenge in IP disputes is the *lack of contractual regulations* of pertinent questions. Although many activities within businesses today involve the creation and use of some form of IP, many business-to-business contracts still do not contain provisions that properly regulate the ownership and use of IP rights – or do not regulate them at all. This may create considerable uncertainties as to the interpretation of a contract with regard to all questions that may arise in connection with IP, and it may – depending on the applicable law – eventually even require an arbitral tribunal to create own rules. Such “gap filling” exercises with regard to IP can only be prevented if the parties discuss the ownership and right to use the various kinds of IP that may be generated or required in connection with their contractual relationship at an early point in time.

VI. Challenges in IT Disputes

A. Agreement to Arbitrate and Applicable Law

1. Introduction

- 135 With regard to establishing an arbitration agreement and determining applicable law, IT disputes usually do not provide for any challenges different from those that any other commercial agreement may raise. There are three noteworthy exceptions, however, relating to global or multi-entity agreements; certain forms of software license agreements; and mandatory provisions of law.

2. Global and Multi-entity Agreements

- 136 Large, international transactions and outsourcing arrangements often involve more than just two contract parties. Several legal entities may be involved in providing and receiving the services on both the customer and service provider side. There are different ways to regulate such situations, and each concept has its advantages and disadvantages (with regard to taxes, contract governance, credit risk, applicable law, enforcement of claims, etc.). The two most common approaches are the following:
- As indicated above,²⁰⁶ one way is to provide for a global Master Agreement in which the principal legal entities of each side agree on the terms and conditions of a service offering on a global basis, but (fully or partly) leave it to the local affiliates and subsidiaries to enter into Local Country Agreements for the actual provision of the services. The terms of the Master Agreement are incorporated into such Local Country Agreements and thus become part thereof. This results in several separate agreements, although these agreements share, at least partially, the same terms and conditions. Furthermore, the Master Agreements often contain provisions according to which each principal

²⁰⁶ See para. 16 above.

party warrants or shall ensure that its subsidiaries and affiliates will comply with the terms of their Local Country Agreements;

- The second concept is to enter into only one set of agreements between one customer entity and one provider entity, but to agree that the services may be provided or received, respectively, also by a defined list of entities on the provider and customer side. Formally, the only contract party on the customer side is the customer entity having signed the contract, but economically, the contract is entered into also on behalf of all affiliates covered by it as service recipients. Depending on how the contract has been negotiated, the non-signing service recipients may or may not be third party beneficiaries with a right to raise direct claims against the service provider. If not, all claims must be raised through the main customer entity. A similar setup may apply in the case of claims by subcontractors of the main provider entity. If claims do not have to be raised through the main customer entity, the second question will be whether the non-signing service recipients can rely on the arbitration agreement, as well, in order to arbitrate their claim instead of having to pursue it through state court litigation.

The approach chosen has, of course, consequences if a dispute arises. The first approach does not result in any particular challenges if both the Master Agreement and the relevant Local Country Agreement provide for the same arbitration clause. In practice, however, this is not always the case; the Local Country Agreement may refer disputes to a domestic dispute resolution clause for legal reasons,²⁰⁷ or to state courts. As a result, the same dispute may be governed by different jurisdictional clauses, eventually depending on whether the claims are raised against the principal party (having signed the Master Agreement) or its affiliate (having signed the Local Country Agreement that contains a jurisdictional clause derogating the agreement to arbitrate pursuant to the Master Agreement). 137

If the principal party has also signed an undertaking or provided a warranty that its affiliates will comply with their obligations under the Local Country Agreement, such situations can usually be resolved fairly easily by raising a claim against the principal party, even if it relates to the affiliate, and permitting the affiliate to join the arbitration. Agreeing on arbitration rules that expressly provide for such participation of third parties may be of advantage.²⁰⁸ 138

Whether it is also possible to file an arbitration based on the arbitration clause of the Master Agreement directly against the affiliate even though the Local Country Agreement provides for a different dispute resolution procedure is a different question. It will much depend on the nature of the dispute: If the dispute is related solely to the local affiliate, it will usually be difficult to argue that the parties agreed to have the arbitration clause of the Master Agreement apply in view of the existence of a local dispute resolution procedure expressly agreed. However, if the dispute involves several affiliates of a group of companies and potentially even the principal entity, the arbitration clause of the Master Agreement is more likely to prevail and apply (given that it is the least common denominator of all parties, since each Local Country Agreement incorporates it, even though each such agreements provides for a dispute resolution procedure that differs from the one in the Master Agreement). 139

The second approach described above – the conclusion of a single set of agreements between two legal entities only – does not, of course, raise these issues, since there are normally no competing jurisdictional clauses.²⁰⁹ However, the downside of the second approach is two-fold: First, the local affiliate of the claimant may not be able to rely on the arbitration clause, even if it were a third party beneficiary under the agreement. In such a situation, representatives of affiliates of the principal contracting parties are, of course, free to participate in an arbitration proceeding as representatives of the principal party 140

²⁰⁷ Depending on the applicable law, domestic arbitration may be governed differently than international arbitration. In the case of a Local Party Agreement, both parties will given the nature of the contract be located in the same country, which may, in turn, trigger the application of rules for domestic arbitration.

²⁰⁸ See, e.g., Art. 4(2) 2004/2012 Swiss Rules.

²⁰⁹ This may not be true in all cases. We have seen contracts that provided for both, arbitration and state court litigation, depending on the type of the dispute (and unrelated to interim relief). We believe, however, that this is usually not a practical approach and usually recommend arbitration, for the reasons mentioned in paras. 29-56 above.

or witnesses on behalf of the principal party. Second, the enforcement of an award may not be possible against local affiliates of the opposing party, since they are, as well, not party to the agreement and possibly not even to the agreement to arbitrate. This may become relevant in cases where interim relief is necessary to prevent the violation of IP rights or similar breaches of contract by local affiliates of the opposing party. In such situations, a party may have to seek claims on a tort law basis, where available, if a contractual claim raised against the local affiliate as a co-respondent in the arbitration is not possible for lack of jurisdiction.²¹⁰ Alternatively, main contract party may be required to exercise its control over the local affiliate to ensure its compliance with any interim relief granted formally against the main contract party opposing the claimant.

3. End User License Agreements, Open Source Licenses

- 141 Normally, businesses enter into IT contracts by signing them. However, there are situations in which contractual terms and conditions at least appear to apply without a party having validly signed them.
- 142 The most common form of such unsigned terms and conditions are the license terms that are contained in software packages provided to users and sometimes have to be confirmed by the user when installing or using such computer software (these terms are typically referred to as an “End User License Agreement” or EULA). Hence, these EULAs are not part of the agreement when purchasing such a package in a store or downloading such software from a website, but are rather imposed upon the user thereafter. Because the user is confronted with them only *after* the software has been acquired, they are usually not considered binding contracts under Swiss law and under many other European laws. As opposed to that, some courts in the US have found them to be binding agreements.²¹¹
- 143 Most “open source” software licenses work in a comparable manner: They permit the user to use the software for free, provided he accepts the terms and conditions of such license. However, there is no “declaration of will”²¹² or similar act necessary to use the software; the user can use the open source software without reading or accepting the license terms (the license terms are usually contained in a text file included in the electronic software package). Accordingly, while such licenses are considered legally binding upon the issuer in the sense that they permit the user to use the software *insofar* he complies with the conditions of the license, they do not give the licensor any right to raise claims against the user he did not already have before: If the user violates an open source license agreement while using the licensed software, the copyright owner can sue the user for copyright violation, but not for contract violation. This at least appears to be the prevalent opinion in Switzerland and Germany.²¹³
- 144 Arbitration clauses in EULAs and open source licenses are not wide-spread, but they do exist;²¹⁴ they have been used by software vendors as a tool to defend themselves against state court lawsuits of users.²¹⁵ In our view, these arbitration clauses cannot be enforced against the will of the user of such software due to the fact that the user has not validly consented to be bound by the arbitration clause. If the user, in order to use a certain software, is required to accept an arbitration clause, and if this happens only after he has made the purchase, such consent is no longer of a voluntary nature and, thus, not valid already for

²¹⁰ Which is not inevitable; a local affiliate, even if not a signatory to the global Master Agreement, may nevertheless be found to have subjected itself under the arbitration agreement contained in the Master Agreement depending on the circumstances (this may be warranted, for instance, if the local affiliate actively participates in the negotiation or performance of the Master Agreement; on this topic, see, e.g., Berger/Kellerhals, paras. 522-532).

²¹¹ For example, pro: *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir., 1996); and contra: *Step-Saver Data Systems, Inc. v. Wyse Technology*, 939 F.2d 91 (3rd Cir., 1991).

²¹² In German *Willenserklärung*.

²¹³ See, e.g., Decision of the District Court of Bochum, January 20, 2011 (I-8 O 293/09) involving the LGPL; Decision of the District Court of Munich I, May 19, 2004 (21 O 6123/04) and Decision of the District Court of Frankfurt, July 26, 2006 (2-6 O 224/06), both involving the GPL.

²¹⁴ See, e.g., <<http://www.princexml.com/license/>>, <<http://toolbar.cafemom.com/eula.php>>, <<http://www.hopsurf.com/license.jsp>>, <<http://www.reálnetworks.com/uploadedFiles/Support/helix-support/eula-Helix-MServer-ContProv.pdf>>.

²¹⁵ See para. 146 below.

this reason. The consent may also be invalid for other reasons depending on applicable law, for instance, if the user is not made sufficiently aware of the arbitration clause.

In the case of an open source license, there is usually no consent declaration at all, and the licensor will usually not be able to demonstrate that the user has read and accepted the license agreement. Accordingly, the user may initiate an arbitration based on such provisions and by doing so declare its consent to arbitrate also any counterclaims the other party may wish to raise. However, if the user does not wish to do so, he will neither be prevented from suing the licensor before state courts nor will he have to accept an arbitration initiated against him on the basis of such a license, even if the license has been displayed to and accepted by the user during installation or use but after the software has been purchased. 145

In the US, the question of the validity of a mandatory arbitration clause in EULAs or comparable end user agreements has not been subject of extensive dispute; however, some cases in which companies tried to use such arbitration clauses to defend against state court litigation initiated against them have been decided. In two cases, courts declined the validity of the arbitration clauses on the grounds of unconscionability of the arbitration clause and lack of a valid contract because the website did not prompt the user to review the terms and conditions, which were also not prominently displayed;²¹⁶ in a third case, an arbitration clause was held valid because it was included in the terms and conditions presented to the customer of an online shop *before* the order was submitted.²¹⁷ 146

4. Mandatory Provisions of Local Law, Compliance with Law Provisions

As with IP disputes, mandatory provisions of law can become a challenge if they deviate from the provisions of the law chosen by the parties. This aspect has already been discussed above in connection with mandatory provisions of IP law.²¹⁸ Other types of mandatory local law play a less prominent role in the context of IT disputes, but have to be considered in particular in connection with outsourcing and service agreements. 147

Three of the more important areas of mandatory local law to consider irrespective of applicable contract and IP law (and industry-specific regulations) are: 148

- *Data protection:* Many jurisdictions provide for mandatory data protection standards (i.e., the combination of “privacy” and “data security”) that require application as soon as there is a territorial link (i.e., the affected persons are residents or the data processing takes place in the country). The application of such data protection standards can normally not be avoided by means of a choice of governing law even in the case of an arbitration, at least insofar as third party rights are at issue. Hence, compliance with all relevant data protection standards can play a key role in multi-jurisdictional IT contracts that involve the processing of personal data. Since data protection standards become more and more a material cost driver for multi-jurisdictional IT outsourcing arrangements, they can trigger disputes of their own, for instance, if a customer believes that the data security measures of its outsourcing or service provider does not satisfy applicable data protection standards;
- *Employment law:* Local employment law is another topic in outsourcing agreements that typically cannot be avoided by agreeing to a particular governing law. This is particularly relevant in connection with the transfer of employees in connection with an outsourcing transaction,²¹⁹ and claims related to such transactions;
- *Antitrust law:* Competition or antitrust laws of the affected jurisdictions may apply irrespective of the choice of the law governing IT agreements and may trigger third party claims or government proceedings. On the one hand, local merger control laws may become relevant if an affected out-

²¹⁶ *Comb v. PayPal, Inc.*, 218 F. Supp. 2d 1165 (N.D. Cal. 2002); *Hines v. Overstock.com, Inc.*, 2009 WL 2876667 (E.D.N.Y. Sept. 8, 2009).

²¹⁷ *Hubbert v. Dell Corp.*, 359 Ill.App. 3d 976, 835 N.E.2d 113 (5th Dist. 2005).

²¹⁸ See paras. 80-81 above.

²¹⁹ See footnote 34 above.

sourcing volume meets the local thresholds, and on the other hand, even more important, many competition laws provide for tight restrictions for any kind of provisions in technology transfers and other contracts that may limit competition, such as provisions on exclusivity or restrictions beyond the termination of an agreement. Since non-compliance with antitrust laws can be heavily fined, the parties to a relevant agreement will have an interest in complying with such laws irrespective of their choice of law and the fact that the arbitral tribunal may not be required to take such antitrust laws into account.

- 149 On the face of it, an arbitral tribunal in Switzerland may not be required to consider laws other than the law chosen by the parties, as the “standard” conflict of law rules provided for by the PILS do not apply to international arbitration in Switzerland.²²⁰ However, in many cases, these provisions of mandatory law will nevertheless have to be respected by an arbitral tribunal given that they have to be considered as agreed by the parties. While most IT contracts today provide for an express choice of law, they also often provide separate provisions that, for specific legal areas, expressly require or at least imply the applicability of other laws.
- 150 Data protection is a typical example. Most data protection clauses in international IT contracts require that the parties comply with “applicable data protection laws”. At least under Swiss contract law, such a specific rule takes precedence over a general provision. Here, the “general provision” is the general choice of a law clause found in almost every contract. Hence, should the customer of an outsourcing provider in a contract governed by US law claim that the outsourcing provider has violated Swiss data protection law, the arbitral tribunal would have to take two steps: First, it would have to decide whether the processing of personal data at issue would indeed be assessed under Swiss data protection law if, for instance, a data subject were to raise a corresponding claim for violation of privacy against the customer. Second, if this is the case, it would have to test the claim against the outsourcing provider pursuant to Swiss data protection law, as well. The reason for this is that the purpose of the parties’ provision requiring the provider’s compliance with “applicable data protection laws” was to protect the customer from claims by third party data subjects due to a breach of such data protection laws by the provider. Hence, in such a case one would have to consider Swiss data protection law as one of many laws the parties have agreed to apply with regard to the data protection clause. Such a specific choice of law agreement is equally binding for the arbitral tribunal as is a generic choice of law stipulated in a contract.
- 151 The same may also apply for other clauses in a contract (including IP clauses that expressly or implicitly refer to applicable local IP law).²²¹ In fact, many contracts today even provide for a generic provision that requires each party to obey “all applicable laws and regulations” in the performance of its duties under the contract. These kinds of provisions usually represent an implicit choice of law by the parties that becomes relevant when considering the conduct of a party if such conduct amounts to a violation of local law that may cause damage or other harm to the other party. Hence, an arbitral tribunal will be bound by such choice of law. That being said, it is clear that the interpretation of such “compliance with law” clauses nevertheless has to follow the principles of the law applicable to the contract. Accordingly, it will be the law applicable to the contract that decides to which other laws such a clause is referring.²²²

B. Understanding and Judging the Facts

1. Introduction

- 152 The true challenge of most IT disputes is not the legal issues, but correctly understanding and judging the facts and, in the case of party counsel, presenting them accordingly. This does not only relate to purely technical matters. It also extends to trade usages and standard practices in the IT industry, as

²²⁰ See para. 112 above.

²²¹ See paras. 118-121 and para. 123 above.

²²² Under Swiss law, such a provision should typically be interpreted as referring to the one local law or several local laws that under the given factual circumstances can be applied to the conduct in a manner that may have a negative impact on the party protected by such a provision.

they can play an equally important, if not more important role in deciding an IT dispute. The following “challenges” address some of the typical issues party counsel and arbitrators may be confronted with in IT disputes.

2. Challenge: *The Contract is not the Project*

Where a company’s IT project is performed with the help of an outside provider, most members of the project team on both sides will not distinguish between the scope of the project and the scope of the contract under which the provider is performing its obligations. For them, the scope of a project is often identical with the scope of the contract. This, however, is common misperception and it regularly plays a role in IT disputes involving failed IT projects. In most of the cases, the scope of a contract is much narrower than the scope of the project. In fact, the deliverables under the contract are only one of usually several contributions to the success of a project. Even if a contract is performed correctly, the project may fail. Accordingly, when assessing a failed IT project, it is important to not only establish the cause of the project’s failure, but also whether such cause really was within the scope of the provider’s contract. 153

It is of course possible that a provider has contractually accepted a “turn key” responsibility for a particular project, in which case it may indeed be responsible if the project as such fails. However, such a turn key responsibility for an entire project is not a responsibility a reasonable provider will undertake unless such provider is given full control of the project execution and all its components. This may be the case when a provider is contracted to build and implement a system from scratch. In other cases, the customer may itself not be ready to give up control over the systems at issue for evident reasons. One such reason can be cost: The more work an IT department can do by using own staff, the less money it will have to spend for external providers. 154

Other typical reasons for which a customer will not enter into a “turn key” agreement include concerns regarding system security and stability. For instance, a mobile network operator may not want a software provider to install a new release of a particular software on its network without the operator’s own staff having tested and possibly even configured the software. The operator will also reserve the right to decide on whether, when and how such an upgrade will be installed and may even do so on its own. Although a customer will always want the supplier to provide its full support, it will in such situation not expect the supplier to take over a turn key responsibility for such an upgrade given that the customer stays in control. Accordingly, if the upgrade fails and causes problems and damage, it is crucial for determining the burden of proof and ultimately the case to understand whether the supplier had a turn key responsibility or merely a supporting role. Unfortunately, this in many cases is not as easy to establish as it may first appear. 155

3. Challenge: *The (Missing) Causal Link*

IT systems are often highly complex systems. In the case of problems, they usually do not break down completely, and if they do, such break-downs typically have multiple causes. Although it may appear logical that problems of an IT system, particularly if the system has business critical function, can cause serious damage to a company, it is in practice often more difficult than it may seem at first sight to actually prove the prerequisites for a successful damages claim in connection with the failure of an IT system. The reason is that at least under Swiss law the party claiming damages has to prove not only that damage has occurred, but also that the damage was actually caused by a breach of contract on the part of the other party, which is usually the provider. Likewise, for an arbitral tribunal to conclude that a certain amount of damages is owed under a contract requires more than the evidence of recoverable damage and a breach of contract – the causal link between the two elements has to be proven as well. 156

Sometimes, the situation may be obvious. For instance, if a single, clearly identified programming error causes an entire business transaction system to lose certain data or to shut down. These cases are, however, not very frequent. In most cases, it is a combination of problems that results in damage, some of which may be outside of the responsibility of the supplier. Of course, depending on the applicable law, such outside causes may be irrelevant if the supplier can be shown to be responsible for at least one cause 157

that happened to be a *conditio sine qua non*. Nevertheless, such proof usually requires an in-depth analysis of the system at issue, which often is not possible for practical and cost reasons.

- 158 For example, it may not be possible to reconstruct the exact conditions under which the problem occurred. These conditions are important, though, since the failure of a computer program may have been caused by outside events for which the supplier is not responsible. This could be a third party application, a “bug” in the operating system, defective middleware²²³ or simply a misconfiguration by the customer – all of which may depending on the circumstances are causes for which the supplier is usually not responsible (unless, of course, it has been his obligation to prevent such causes from causing a failure).
- 159 In such situations, the only possibility the parties have to prove their case is to submit witness statements, contemporaneous documents and assessments by experts. In most of the “warranty” or “malfunction” cases we have seen, e-mails, logs and reports exchanged at or shortly before the time that the problems occurred have played a crucial role in proving or disproving the supplier’s responsibility for a particular issue. However, we have never seen a case in which the source code of the software in use at the time the problem occurred has actually been reanalyzed in connection with a subsequent damages claim related to the problem. Such an exercise, even if possible, would normally be too costly and complex. It is usually more efficient to rely on the findings of the suppliers and other engineers at the time the problem occurred; these are the persons who have likely spent considerable time locating the cause of the problem (including analyzing the software’s source code) in order to fix it back then.
- 160 When looking beyond mistakes in software development, most experienced IT professionals will probably confirm that in many IT projects and IT service relationships, both sides – the customer and the supplier – make mistakes and do not fully comply with the procedures and other rules provided for by their contracts. In a legal dispute, the key challenge is to determine where such mistakes were so serious or had accumulated in a manner that it was no longer possible for the systems at issue to “digest” them, thus, resulting in the damage at issue. Normally, a project or the provision of services should be organized in a manner that even if mistakes happen, they can be detected and remedied in time and won’t endanger the overall project or provision of service. In a legal dispute, however, each such mistake will usually be presented to the arbitral tribunal. While such finger pointing exercises often cannot be avoided, an arbitral tribunal without IT industry experience of its own will usually find it challenging to objectively assess the potential impact of each such mistake of a particular party. Consequently, the outcome of such cases will largely depend on the parties’ ability and skills to present suitable arguments, evidence, experts and witness testimony convincing the arbitral tribunal of the severity or, as the case may be, the irrelevance of a particular mistake a party has made.

4. Challenge: Between the Lines of the Contract

- 161 If IT outsourcing and other IT service relationships turn sour, this is often not the consequence of isolated and clearly documented contract breaches. A general mismatch of attitude or culture between the customer and the client will cause the relationship between a supplier and its customer to run into problems much more often; although the contract may still be performed as per the agreed provisions, if it is implemented by the supplier in a manner that is not in line with the expectation of the customer, or vice-versa, dissatisfaction can grow on both sides. Having a provider or customer doing the minimum required under the contract or otherwise being driven by a different mindset than its counterparty may not be overly problematic in cases where the service at issue is of an auxiliary nature. However, if the same provider is responsible for running large parts of the IT operations of a company or has been delegated other core functions of a company, serious problems will be inevitable.
- 162 The same applies in IT projects, particularly if they require close cooperation of employees of both the customer and the supplier and potentially even third parties and further sub-contractors for an extended period of time. Lack of communication skills, professional and social incompetence or lack of other

²²³ The software used to interconnect various applications and system resources such as database management systems.

skills, or – once again – differences in mindset and motivation will at least make it very difficult for such a project to be completed successfully. This is particularly true if the responsible project manager is not able to cope with these difficulties and may him- or herself be part of the problem.

The foregoing problems cannot, however, be measured using parameters typically agreed in the Service Level Agreements and other contract documents. Hence, it is even more difficult if not impossible to assess and consider them in the context of a legal dispute involving such an outsourcing relationship. These differences in attitude and mindset; mutual dissatisfaction with the existing relationship; and the resulting atmospheric difficulties can effectively undermine such a service or project relationship. In such a situation, a customer usually only has the option of re-starting the relationship or terminating it. In the latter case, the customer will usually have to pay for the right to prematurely cancel the contract “for convenience”, unless it is able to find or create (measurable) reasons to terminate for breach; customer dissatisfaction normally is not sufficient to terminate for cause. At this point in time a legal dispute may be inevitable unless the parties manage to settle their differences before going apart. 163

While such disputes are difficult to decide for an arbitral tribunal applying the strict rules of law and while at the same time trying to achieve a reasonable and fair outcome under the circumstances, there is one way to resolve such cases that is unique to arbitration. Apart from the arbitral tribunal itself trying to settle a case if both parties wish so and cooperate, one approach the parties should consider is giving their arbitral tribunal the power to decide *ex aequo et bono*, if permitted by the applicable rules, which usually require the express authorization by each party.²²⁴ This gives the arbitral tribunal the power to disregard considerations of law and decide a case solely on what the arbitral tribunal considers to be fair and equitable under the given circumstances. The decision to follow this route should be taken rather early in a case, as it requires a completely different style of pleading. By the time an arbitral tribunal will usually know the case and concludes that deciding it on the grounds of what it considers to be fair and equitable may be more appropriate, it will in our experience usually be too late to convince the parties. Of course, the parties themselves should and can consider this option early on, preferably before the Statement of Claim and the Statement of Defence are submitted (typically in the Terms of Reference or comparable instrument). After all, the concept of deciding a case *ex aequo et bono* may also have the advantage that the parties may be able to limit their pleadings and, therefore, the cost and time required for the proceeding. The downside may be that the outcome the a case is usually more difficult to predict and in cases with difficulties to establish the facts this may favor the party who bears the burden of proof. 164

5. Challenge: The Lack of Documentation and Formality

IT contracts often impose many formal restrictions on both parties. They often contain numerous notice obligations imposed on both parties. Also, any deviation from the written contracts has to be agreed pursuant to a detailed change request procedure, and many activities may only be undertaken with, or have to be refrained from absent the “written prior consent” of the other party. The practical experience in IT projects and service relationships shows, however, that both suppliers and customers find it very difficult if not impossible to comply these kinds of formal requirements. The practical and usual consequence is that contractual procedures are not followed and many contract changes, factual developments and agreements among the parties are not documented properly. Moreover, what remains undocumented is forgotten over time and, therefore, lost. Other aspects may be documented only for a relatively short period of time (e.g., the attainment of service levels); once a dispute arises, the relevant records are often no longer available. 165

In an arbitration, the foregoing raises two challenges: 166

- First, all materials and pieces of information somehow documented during a contract relationship in the form of e-mails, meeting minutes, notes to file, presentations and otherwise can become highly relevant pieces of evidence, and by the time the parties start to arbitrate the dispute, they

²²⁴ See, e.g., Art. 17(3) 1998 ICC Rules/Art. 21(3) 2012 ICC Rules, Art. 33(2) 2004/2012 Swiss Rules.

may no longer be able to access and retain them for evidentiary purposes unless the parties have taken the necessary precautions to preserve such materials;

- Second, both counsel and arbitrators will have to cope with the fact that in many IT projects and IT service relationships formal requirements set forth in contracts are not complied with. Counsel and arbitrators will, therefore, have to determine in each individual case whether the parties have at least implicitly agreed to deviate from such contractual requirements. Under such circumstances the fact that a change to the specifications of a software under development has not been properly documented in a change request does not mean that the parties have not mutually agreed to such change; whether and to what extent either party may rely on the agreement (despite the formal requirements not being complied with) is a matter of the law applicable to the contract.

167 There is no standard approach for how to handle these challenges, except to be aware of their existence and to act accordingly. This might include counsel collecting and preserving documentary evidence and data as soon as possible in the case of an upcoming legal dispute; and reviewing not only formal notices and contract documents, but also e-mails sent and received by the relevant personnel, minutes of internal and external meetings and any reports available. In such cases, practices and tools used in connection with e-discovery, can be of significant help.²²⁵

6. Challenge: The Standard of Care

a. Introduction

168 Most IT contracts today have liability limitations; liability for loss of profit and other indirect and consequential losses is normally fully excluded, and direct damages are limited in their amount.²²⁶ In both cases, such limitations or exclusions of liability are subject to applicable law, and in various laws (including Swiss law), liability limitations or exclusions are void if the damage at issue has been caused by grossly negligent or even intentional conduct.²²⁷ Since most arbitrations involve a damages claim, an arbitral tribunal will therefore regularly face the question whether a party has acted in a grossly negligent manner.

169 In an IT dispute, determining whether a party – typically the provider or supplier – has acted in a grossly negligent manner²²⁸ is often a challenge because theory and what can reasonably be expected in reality often differs. This is particularly true in two areas to be discussed in more detail: The use of standardized methodologies in managing an IT service organization or an IT project, and the number of problems that can still be considered “normal” in connection with the use of a particular software or IT system.

b. Use of Standardized Methodologies

170 There are many standardized methodologies for how to manage an IT service organization or an IT project in a efficient manner.²²⁹ Many of these methodologies define management systems by categorizing

²²⁵ See, e.g., M. Hartmann et al. (ed.), *E-Discovery im internationalen Rechtsstreit und Datenschutz* (Berlin, 2011); D. Logan/W. Andrews/J. Bace, “MarketScope for E-Discovery Software Product Vendors”, in *Gartner Report*, December 21, 2009; V. Tero, “Corporate eDiscovery Technology Trends 2009: Doing More with Less While Facing In-creasing Complexity in eDiscovery”, in *IDC Information and Data sponsored by FTI Technology* (November 2009).

²²⁶ Typically to the volume of the contract or a percentage of it.

²²⁷ In Swiss law: Art. 100 CO.

²²⁸ Which under Swiss law, in very simple terms, is considered to be a significant deviation from the standards professional diligence one would reasonably expect under the particular circumstances.

²²⁹ For instance, there are various standards such as ISO 9001 specifying requirements for a quality management system for organizations, ISO/IEC 15504 (“SPICE”) for software process improvement and capability determination, ISO/IEC 12207, a common framework for software life cycle processes and ISO/IEC 15288, a common framework for describing the life cycle of systems, the Capability Maturity Model Integration (“CMMI”), which is a reference model for improving the process capabilities and quality of organizations active in the development and sale of products and for providing services. There are also other well-accepted methodologies that can be used as a reference model such as Six Sigma (particularly DMAIC: define, measure, analyze, improve, control), HERMES (widely spread in

the various different activities an IT organization must provide and setting out the steps or requirements that have to be addressed in software development or IT projects in general. Accordingly, it is in theory possible to evaluate the quality and efficiency in which a project is managed by comparing the actual management with the framework set forth by the standard methodology chosen. If there is a considerable difference, a party may feel inclined to use this to demonstrate the existence (or absence) of gross negligence in the management of such a project. However, depending on how one sets up the review, the result can easily show up a significant non-compliance (or the contrary, depending on the goal of the exercise).

While a party's apparent (or even true) non-compliance with such a standard in managing a project may at first sight indeed be interpreted as a sign of negligence, it in many cases would be unfair and incorrect to rely on such assessments. For instance, many of these "standards", although well documented and used by many companies, are fairly generic. Accordingly, in order to apply them in practice, one has to translate them into the particularities of a particular project, which, in turn, requires a number of assumptions, including with regard to the requirements and goals of a project. Many of these standards are simply tools to help assessing an organization or project in a structured manner; they cannot answer the question whether the organization or project is organized and managed in a suitable manner under the given circumstances. 171

For example, a standard methodology may require that a risk analysis be undertaken at the beginning of a project and that such risk analysis be updated over time. However, the question as to which risks exist in a particular situation, how realistic they are, what their impact is and how detailed and in which manner they must be evaluated, will and cannot be defined by the methodology; this is case specific and can be assessed only with the particular case in mind. Also the key question an arbitral tribunal will be looking for – namely whether the risk analysis actually was sufficient for the project at hand – is not answered by this methodology and has to be addressed by an expert. In fact, a company may have fully complied with the methodology with regard to risk analysis, but its risk analysis may be worthless because it was based on wrong assumptions. Conversely, an organization may not have complied with a particular methodology (or any standardized methodology), but nevertheless have done a risk analysis that was perfectly adequate. 172

In our experience, a better approach is to simply rely on common sense when assessing the management of an organization or project. If a supplier provides the customer with newly developed software without having done a certain level of factory testing, logic dictates that a number of errors that would have been caught during such factory testing will be found only once the customer will start using the software. Is this gross negligence? This depends on the expectation. Under normal circumstances, a customer would expect significant testing to have taken place prior to delivery, as some contracts even expressly require. However, there may well be situations in which prior testing may be skipped for good reason, such as a common understanding among the parties that in view of the lack of time, testing should rather take place in the customer's environment and not in the factory, as this, for instance, may have the advantage that the software can be tested under more realistic conditions (which will increase the likelihood to identify relevant errors). Changing the "standard" way of testing may also have other advantages such as saving time by performing parallel tests. Hence, rather than to assess whether a particular approach chosen by a party is in conformity with a particular methodology or standard, an arbitral tribunal should evaluate whether there were good reasons for this approach (and, if necessary, have an expert confirm that such reasons are valid and reasonable) and whether the approach was within the frame of what the parties had agreed. 173

Likewise, there is usually not much that can be derived in terms of a party's diligence from its choice of a particular methodology for structuring its project. While it is, of course, in principle important that a party at least roughly follow a certain methodology in pursuing its tasks (instead of acting purely ad-hoc 174

Switzerland) or PMBoK (Project Management Body of Knowledge). The selection depends on the focus one wishes to have. For instance, ISO 9001 is much broader than CMMI, but less specific.

without any structured approach), there is often no point in generally criticizing the methodology chosen by a party for the purposes of evaluating its diligence.

- 175 For example, the vast majority of software development projects are structured using the “waterfall” method, which provides for a sequential approach by first determining the requirements and creating a specification of the software to be developed, designing the software accordingly, implementing such design (coding, i.e., creating the actual software code), verifying the implementation (testing the code developed against certain “test cases”) and its maintenance (bug-fixing, etc.). Although this method can without doubt be referred to as the standard approach in software development, some proponents of other methodologies heavily criticize it, arguing that the waterfall approach has a much higher risk of project failure than the method they prefer.²³⁰ Given the widespread criticism towards the waterfall model,²³¹ one might actually be inclined to conclude that structuring a software development project accordingly is already in and of itself negligent. This, however, would not be fair; it is the standard approach in the industry and there reasons for building up on it in one way or the other. Does it have disadvantages? Certainly. That being said, if a project fails, this in our experience rarely happens simply because a particular methodology has been chosen; they all have their advantages and disadvantages. We have even seen projects fail because a party was too much focused on complying with a particular methodology: The project manager did not realize that there was a “disconnect” within the project team due to problems in communications and misunderstandings that may have been prevented had he spent less time on managing his documentation (which was in perfect shape) and more time in talking with the project members.

c. Number of Problems still Considered to be Normal

- 176 In many cases involving failures in connection with the development of software or implementation of an IT system, the number of problems that have been found in connection with such software or system play a prominent role in connection with the question of whether the supplier of such software or system has acted in a grossly negligent manner. However, what at first sight appears to be a reasonable approach will at the end in our experience often not be appropriate for assessing the supplier’s diligence.
- 177 The reason is a common misconception as to what is “normal” in terms of problems in connection with the use of a particular software or IT system. If we buy a consumer electronic device, we expect it to work without any error, and normally such devices do indeed work without errors. If we use a personal computer at work, we likewise expect it to work without an error, and normally, at least nowadays, it usually does. Sometimes applications may be slow in responding, and sometimes the capacity limits are reached, but in our daily experience, “bugs” are not very frequent.
- 178 The experience of an IT professional active in the operation and maintenance of an IT solution is often a completely different one. It is normal for software to have errors, even after intensive testing. Operating systems, business applications and other software (including software embedded in industrial devices) can have millions or even tens of millions lines of source code. Testing is standard in today’s software industry, but it is not possible to simulate every possible situation in which software might end up in order to see whether it works as expected. Also, testing has a considerable price tag attached to it that the customer must be willing to pay, but not always is. The standard approach to this problem is to use certain tools to automatically detect certain typical errors and to do a number of tests prior to introducing new software, but to also enter into a “maintenance” contract for every software, which, in its most basic form is essentially, a contract for having errors corrected.²³² Given the fact that software is always expected to have errors that may surface only over time, it is normally inconceivable for an IT manager

²³⁰ For instance, a purely sequential approach does not provide for the possibility to change the requirements during the design or to change the design during its implementation (e.g., once a working prototype exists). In practice, however, requirements often change before a software project is completed.

²³¹ See, e.g., McConnell. pp. 33-36.

²³² See para. 11 above.

of a company to purchase a business critical software without at the same time securing some form of maintenance for such software.

When, for instance, a midsized bank introduces a new version of its core banking solution, it is not unusual (and not alarming or even a sign of simple, let alone gross negligence) that in the weeks following the “cut-over” (i.e., the change from the old to the new version or system) several hundred “trouble tickets” may be opened by the bank, with each of them describing a problem (and potentially a software error) that has been experienced with the new version. Over time, the number of trouble tickets should decrease,²³³ but it may not be unusual and, again, no sign of gross negligence, if there are dozens or even over hundred trouble tickets that are open at any point in time. 179

Under such circumstances, it is, of course, difficult to assess the standard of care applied in developing particular software in a general and straightforward manner. In fact, even if the number of open trouble tickets were unusually high, it would be difficult to draw the conclusion that the development of the software at issue (or its testing) was done in a negligent manner. The problems that resulted in the trouble tickets could have had many reasons, including reasons for which the customer or other suppliers are responsible – even if in the end it is the software that is not working as expected.²³⁴ Similarly, the fact that the supplier of a software has provided a “fix” for its software (also often referred to a “patch”) in order to solve a problem does not necessarily mean that the software was defective.²³⁵ 180

Last but not least, it is necessary to carefully distinguish the severity of the various problems reported. Many problems may be of merely cosmetic nature or concern very rare and special circumstances that do not seriously affect the customer using the program. 181

Hence, while unusual high numbers of trouble tickets for a particular software or system may well indicate that problems exist with such software and system, this alone will normally not be sufficient for a claimant to meet the burden of proof it usually has in the case of a damages claim. Instead, the arbitral tribunal will have to assess the individual defects claimed to cause a particular damage and that the alleged lack of required standard of care led to these specific defects and ultimately the damage asserted. This, of course, can be a very burdensome exercise, and sometimes it may eventually not be feasible. 182

VII. Other Practical and Tactical Aspects to Consider

A. Pursuing the Arbitration

1. Selecting Arbitrators for IP and IT Disputes

a. Introduction

If an IP or IT dispute ends up in an arbitration proceeding, there is often the question whether a party, if it is able to nominate or appoint an arbitrator, should select an arbitrator who has a background in IP or IT, as the case may be. Although the obvious answer may be a clear “yes”, we believe that this is not necessarily the case. In our view, it is important to distinguish between IP and IT disputes, as we will 183

²³³ The reason is that a piece of software that is regularly maintained will mature over time as long as no new functionalities are introduced.

²³⁴ A reason can be, for example, that the software has not been configured correctly or that another application with which the software at issue is interacting has delivered an incorrect input. That said, it depending on the circumstances can be expected that a software has been programmed in a manner to operate correctly (or react in a controlled manner) even if it gets incorrect input or has been misconfigured (“fault tolerance”). Hence, a software malfunction can, but does not necessarily mean that the software has an error.

²³⁵ Sometimes it is easier to treat the symptom rather than the cause, i.e., to change a piece of software in order to resolve a problem even though the true reason for the problem is outside the software, for instance an unexpected behavior of a third party product. Unless one would have to conclude that the software developer should have foreseen such behavior and programmed his software accordingly to react properly in such a situation, the software would normally not be considered defective.

discuss in the following (we will not discuss generic aspects of choosing the “right” arbitrator and legal requirements such as the arbitrator’s independence and impartiality).

b. IP Disputes

- 184 If a case involves IP issues, having an arbitrator who is at least familiar with the concepts of IP law at issue is in our opinion of considerable benefit.²³⁶ IP rights involve special legal concepts that many lawyers even with a profound knowledge in business law are usually not familiar with. Thus, they may find it difficult to understand and apply these concepts in practice, particularly if they are confronted with different views on how this has to be done the case at hand.
- 185 In such a situation, an arbitrator with no IP know-how of his own and without access to specialist IP law knowledge in his own law firm will inevitably find himself in an uncomfortable situation, particularly if acting as a party appointed arbitrator and supposed to ensure that the position of the party that has appointed him is sufficiently and fairly taken into consideration. He will have to rely on his colleagues in the arbitral tribunal, legal experts presented by the parties or what he believes would be an equitable result. In our opinion, such situations should be avoided, particularly in those areas of IP law that are of very “technical” nature, such as patent law. In fact, because of its complexity and the need to thoroughly understand its concepts in order to reasonably assess the legal aspects of a patent dispute, many states have meanwhile created specialized courts that exclusively deal with patent disputes.²³⁷ Since we do not believe that the situation is different in arbitration, we believe that a party involved in a patent case, even if such case predominantly concerns issues of contract law, will usually rather want to nominate or appoint an arbitrator with a background in patent or at least IP law than an arbitrator without such know-how, irrespective of how experienced such arbitrator may be in other fields of law.²³⁸
- 186 In other, less complicated areas IP law such as copyright law, we have usually found it to be beneficial to nominate or appoint an arbitrator who is at least somewhat familiar with the relevant concepts of the IP law at issue and able to apply them to the case at hand. However, whether the arbitrator is actually generally considered a leading expert in his field is in our view normally not of importance; it may even have the disadvantage that a renowned expert with clear opinions may be less open minded when considering the legal arguments brought forward by the parties and instead stick to his own, personal way of approaching a case from legal point of view.
- 187 It also has been suggested in legal writing that arbitrators preferably should have technical expertise in order to better assess technical cases.²³⁹ As we will explain in the following in the context of IT disputes, we believe that this is not necessarily true.

c. IT Disputes

- 188 The fact that a case involves technical issues is, in our view, less relevant with regard to the selection of the arbitrator. Although IT disputes often involve – by their very nature – technical issues and heavily depend on trade usages, this does not mean that it is necessary or even advantageous for an arbitrator to have a profound knowledge of the factual topics or trade usages at issue. We believe that mainly counsel should have knowledge of the relevant technical issues.
- 189 The reason is that technical knowledge counts most during the assessment of a case *before* it is pleaded and when establishing a way to best present it to the arbitral tribunal, as this often will only be a very limited view on the full story. Also, parties know their cases much better, have much more information and, therefore, face much more challenges in digesting the facts and establishing a case. This is particularly true in IT disputes, but applies also to other highly technical cases: They rarely center around one

²³⁶ Same view: Liniger, pp. 85-86.

²³⁷ Beginning in 2012, this will also be the case in Switzerland; in the past, court decisions in patent dispute cases were often found to be somewhat arbitrary, depending on whether the local court at issue had a sufficient number of patent cases to decide in order to establish a corresponding practice.

²³⁸ Cf. Gurry, *ASA Special Series no. 6*, p. 112, who appears to prefer arbitrators with technical expertise.

²³⁹ Stieger, *sic! 2010*, p. 494.

particular, clearly defined instance of alleged misconduct by the respondent, but rather emerge when too many problems have accumulated.²⁴⁰ When a case is handed over to counsel, the situation is often not very clear, and a crucial task is focusing the dispute on the key issues in order to develop a case strategy. This may require considerable industry and technical know-how in order to even understand what the case is really about, and distinguish the important from the unimportant aspects. The relevancy of facts, however, is often determined on the basis of certain legal concepts, for which profound knowledge of the applicable contractual clauses and legal concepts is mandatory. When preparing briefs, good technical and industry knowledge is necessary in order to be able to present the facts in a manner that the arbitral tribunal will understand even without itself having such a technical or industry background. This is in our experience an important success factor in both arbitration and litigation, as there will hardly ever be a case in which all members of the arbitral tribunal (or court) will have the necessary knowledge to understand the case based on the evidence without being provided further background information, meaning that there will always be a need for educating the members of the tribunal.²⁴¹ A party should in our view not leave it to the tribunal experts (if any) or even the opposing party to take of that task but rather itself control the process.

Even if persons with IT specialist know-how are appointed as arbitrators, they usually are not true experts 190 in the specific matter at issue, but merely persons who have held or hold management positions in the industry at issue.²⁴² Furthermore, even within the IT industry, there can be considerable differences in trade usages and technical issues depending on the application or area at issue, and no expert will be able to cover all of them in one person.²⁴³ Hence, even if one were to choose an arbitrator with some technical knowledge, it will usually not be possible to avoid the use of experts for specific questions. In view of this, one of the most frequently cited reasons for having an arbitrator with specialist know-how – speeding up a proceeding by not requiring expert testimony – is an illusion. Moreover, diligent parties for the reasons cited already above will usually not want to give up the possibility to present expert opinions, even if one or two arbitrators do have a technical background in the area at issue.

There are also other potential downsides associated with appointing technical specialists as arbitrators. 191 Given that the chairman of an arbitral tribunal should in any case be a lawyer with sufficient experience in arbitration to properly and efficiently handle the case, a party who appoints a specialist non-lawyer also risks such person to be isolated by his co-arbitrators if both of them are lawyers.²⁴⁴ This is a risk most parties will not be willing to take, given that one of the tasks of a party-appointed arbitrator is to ensure that his party's case is adequately considered by the tribunal.²⁴⁵ Furthermore, there may be a lack of transparency and due process if one or two arbitrators are technical experts that contribute their expert opinion and knowledge to the factual findings of the arbitral tribunal, but do not permit the parties to comment thereupon.²⁴⁶ One way to address this issue that has been suggested in recent legal writing is to

²⁴⁰ See paras. 176-182 above.

²⁴¹ Such special know-how will be even more unlikely in the case of a sole arbitrator, as the primary goal will be to have an arbitrator who understands the law and has sufficient experience in arbitration, and only then other aspects such as industry knowledge may become relevant.

²⁴² Kaufmann-Kohler, p. 288; Stieger, *sic!* 2010, p. 494, with further references.

²⁴³ For instance, in the telecommunications industry, a mobile network operator will expect certain core operational systems for running a mobile phone network to provide an availability of 99.999% or even “six nines”. Hence, even short failures can result in a system not being fit for its purpose, even if the availability has not been warranted specifically. As opposed to that, the availability a Swiss bank may expect to see for its main banking application when outsourcing it to a third party provider would be somewhere around 99.8%. This means that an IT expert in the banking field will not be of much use for a case concerning the telecommunications industry, except that he may be familiar with concepts like Service Level Agreements or the management of IT projects in general.

²⁴⁴ Kaufmann-Kohler, p. 287.

²⁴⁵ This is also why the appointment of technical or industry specialists as arbitrators cannot be compared with the fact that many patent courts and certain commercial courts today also have judges with a certain know-how of the industry at issue.

²⁴⁶ Stieger, *sic!* 2010, p. 495; Kaufmann-Kohler, p. 293, however, believes that the parties have accepted this disadvantage by having accepted to conduct the arbitration under the rules that permit such expert arbitrators.

make available the expert contributions by members of the tribunal to the parties for their comment,²⁴⁷ but absent clear rules requiring such disclosures, this will typically not work in practice or the parties will not be able to rely on it happening at the time they have to appoint their arbitrator.²⁴⁸

- 192 Accordingly, even in highly technical cases, parties in international arbitration usually prefer a lawyer as their arbitrator over a person who is no lawyer but has IT specialist know-how. On the part of counsel, however, parties will see advantages in having lawyers with a technological background, even if not in the particular industry or sub-industry at issue. In an IT-related dispute, we believe counsel should have a general understanding of the concepts used in IT projects and IT systems, have good basic technological skills, and be willing and capable to get familiar with the technical and business particularities of the relevant industry. This includes the ability to communicate at par with engineers and the other specialists involved in a matter, as they will typically be the main source of information on the facts of an IT dispute. The faster and better counsel is able to understand the technical aspects of a case, the faster and better he will be able to develop a legal case. Without pre-existing technical knowledge, the learning curve will be much flatter and eventually never reach a level where counsel is in a position to itself identify the opportunities a party may have in presenting its case by simply looking at the facts and to actually present its case in a simple manner that even an IT layman will understand. This can be a very challenging task, but if it is done well, the chances of success can in our view be improved considerably.
- 193 In such cases, it may be even of advantage if the arbitral tribunal does not have a background in IT, provided, of course, it is generally open-minded and willing to listen to and learn from a party’s pleading on the technical aspects, the trade usages and the other facts. In fact, an arbitrator with own considerable experience in the IT industry may better understand the technical facts, but may likewise have his own views on trade usages in the industry, such as whether a particular conduct of a party should be considered acceptable or not. Depending on the personal experience of the arbitrator, this may result in bias in favor or to the detriment of a particular party. Hence, unless a party is able to assess the position of the arbitrator it intends to nominate or appoint, it may rather opt for an arbitrator with less industry-specific experience, but with business commonsense, an open mind and the willingness to get familiar with the subject matter (or the contrary, depending on the case).

2. Briefs and Evidence

a. IT Disputes

- 194 Drafting briefs and collecting evidence is usually the most time consuming work of every arbitration. This is no different in cases that involve IT disputes. In many respects, such disputes do not raise challenges that are different from any other commercial arbitration. However, there are three issues that may deserve special attention the case of an IT dispute. These issues are (i) the manner in which counsel should let the tribunal get an understanding of the technical facts, (ii) the importance of getting an understanding of what the parties really had agreed to do over time and (iii) the relevance of technical documents maintained on the supplier side.
- 195 Having a good *understanding of the technical facts* and being able to present them in an adequate manner to the arbitral tribunal is, of course, relevant for every technical case. In our experience, most arbitrators appreciate being educated in some detail about the technical aspects of a case, even if these aspects are not disputed. It can be of fundamental importance for the tribunal to understand the environment in which the dispute has evolved, for instance if a gross negligence argument is being made or if the division of responsibilities between various parties becomes an issue (both of which is regularly the case in IT disputes).

²⁴⁷ Stieger, *sic!* 2010, p. 495, who points out that Art. 183(3) ZPO provides for such a rule for state court litigation.

²⁴⁸ While it is, of course, possible to have such rules agreed upon by the parties in the Terms of Reference or to have the tribunal impose such rule in its procedural orders, this will always have to happen only after the appointment, and there is no guarantee it will happen.

Naturally, the goal of every such description is to simplify the facts so that the tribunal will be able to understand them even without being technical experts and without having a background in the IT industry. However, we do believe that maintaining a certain degree of complexity is mandatory for three reasons: *First*, the tribunal should not feel too comfortable with the facts such that it starts drawing its own conclusions as to the facts. If these conclusions are based on an oversimplified factual basis, the conclusions may eventually not be correct if the tribunal does not have an understanding of the complexity behind the oversimplified model of the reality that has been presented to it – and all the exceptions that apply to the general rules. *Second*, maintaining the notion of complexity may be important in order to explain to the tribunal why a party has not acted in a manner that – with the benefit of hindsight – appears appropriate. In a complicated case, there may be many options, and it may be difficult or even impossible to analyze the situation as thoroughly as necessary to identify the right actions to take at the time they have to be made. *Third*, oversimplifying a situation in a manner that fits the party’s needs always bears the considerable risk that the opposing party may find it much easier to launch a counterattack and to use the example or argument against the party who has introduced it. 196

Educating a tribunal accordingly may not be easy, and it may not be possible without the use of expert testimony. In any case, we believe that in a technical dispute it is worth spending some time (and some pages of a Statement of Claim or Statement of Defense) to set the stage appropriately to give the tribunal the necessary context and convey the necessary degree of complexity to better understand the case and the relevant circumstances. We have always had very positive feedback from tribunals to that end. 197

We have also had very positive experience in the use of visualization tools such as graphics, diagrams and charts, including flow-charts. Such visualizations may even be provided to the tribunal as separate enclosures (in addition to having them copied into the briefs) in order to allow the arbitrators to have them in front of them when studying witness statements and briefs, in the hearing or when drafting the award. One should note, though, that creating visuals is usually more demanding and takes considerable more time than providing descriptions in text. Since visualizations usually provide a further level of simplification, it can be very challenging to develop visualizations that are simple and intriguing, but still complete and correct in view of the complexity of a situation. In our experience, this is nevertheless a task that can’t be delegated to the client, but has to be done by counsel, because only counsel knows which aspects may be left away without harming the case. 198

Another challenging aspect of an IT dispute is getting *an understanding of what the parties really had agreed*. The reason that this is a challenge is that in particular in IT projects, parties often considerably deviate from what has been agreed in the underlying agreements. We have touched upon this phenomenon already above.²⁴⁹ As a result, in order to properly understand a case, it is necessary to do a thorough analysis of the parties’ interactions during the project or service relationship that led to the dispute at issue. These interactions may take place in e-mail-exchanges between the parties, but may also be documented in minutes of various types of meetings.²⁵⁰ Notably, the level of documentation and governance established by the parties or by counsel’s own client can vary significantly from one project to another project. Reviewing the relevant materials is often underestimated in practice. 199

Finally, *technical documents maintained on the supplier side* often play a key role in IT disputes. These documents include in particular the supplier’s internal reports on (i) all problems and defects in connection with the product supplied to the client and (ii) the testing undertaken by the supplier prior to delivering the product to the client. 200

Particularly the first group of documents can be of significance as it often is the only documentation that actually permits a tribunal to reconstruct problems encountered in connection with a particular IT 201

²⁴⁹ See paras. 165-167 above.

²⁵⁰ In IT projects, there are often various governance boards such as “steering committees” in which the parties jointly take key decisions as to how to proceed with the project in view of a particular problem; we have seen various cases in which these decisions in the end legally qualified as amendments of the underlying agreements of the parties and, thus, were of major relevance for the legal assessment of a case.

system and how they were solved or otherwise addressed. These documents include on the one hand “trouble tickets” and related information (i.e., the content of the database used by the supplier to handle problem reports and inquiries by the end-user of its products) and on the other hand the supplier’s database of known problems, internal communications involving the analysis of these problems and their solutions, if any (sometimes referred to as the “knowledgebase”). Usually, these databases have names which customers are aware of, so they can identify them for instance in connection with a document production request. In connection with the solution of a particular problem, there may be additional information, such as “release notes” that describe the solution and how the customer can make use of the solution.

- 202 Hence, when facing an IT dispute that involves (alleged) defects of a particular IT system, it may at one point in time become necessary to have such technical documents produced for review by the parties and the tribunal. These documents are usually under the control of the supplier and often not or at least not fully available to the customer. What the customer may have, however, are references to the trouble tickets that have been opened due to a complaint of the customer’s end-users,²⁵¹ and related e-mails or screen-shots of the relevant customer-viewable entries in the ticketing system (they are usually made available to the customers through an online-interface). These databases usually also contain (sometimes speculative) statements about the (potential) cause of a problem and its severity, as assessed by the supplier or the customer. Despite the limitations of the content of these databases, they in our experience can be a valuable source of information and evidence for establishing the cause of certain technical problems. At least, they give an insight in how a supplier has assessed and handled certain problems or defects back in time when they occurred.

b. IP Disputes

- 203 IP disputes can be equally “technical” as IT disputes often are, although the complexity of IP disputes usually relates to the complexity of technology underlying the IP rights at issue, and not the combination and interactions of various different problems that have been encountered with a particular technology. IT disputes are usually about (technical) deliverables or service performance being alleged to be pathological, whereas IP disputes most of the time either relate to the question of how a particular contractual provision has to be interpreted²⁵² or whether a particular IP right exists and has to be considered relevant for a particular activity of one of the contract parties. For instance, in a patent-related dispute, a key challenge for an arbitrator and counsel without a technological background may be understanding the patents at issue and whether they indeed apply to certain activities; in an IT dispute, the challenge will be to understand what, if anything, went wrong and why.
- 204 There are, of course, certain IP-specific hurdles to overcome when presenting a case in an IP dispute such as proving or disproving that a party holds valid title in an existing IP right, which may require, for instance, proving a sufficient chain-of-rights²⁵³ or, on the opposing side, proving the invalidity of a patent for which such party tries to avoid paying license fees. However, most the challenges in drafting briefs and collecting evidence to support an IP dispute are in many respects not unique to IP-related arbitrations.
- 205 When it comes to technical issues, IP disputes are much less driven by *historical* facts than are IT disputes (e.g., was an IT system defective, who caused the defect and was it remedied?). Instead, technical issues in IP disputes often have a narrower focus than the technical issues in IT disputes and they are much more “status-oriented”, i.e., they focus on whether a particular technology or activity in a particular (and often undisputed) status falls within the scope of a particular contractual provision. As a consequence, historical evidence is of less relevance, and document production requests (if any) will often not involve

²⁵¹ However, the customer will usually not know whether and which other customers have had the same experience; in order to find out about this, a more thorough review of a supplier’s trouble ticket system is necessary.

²⁵² E.g., the scope of a license.

²⁵³ See paras. 131-132 above.

technical documentation at all (as opposed to IT disputes)²⁵⁴ but be necessary only for other aspects of a case (e.g., calculation of damages, establishment of license fees, interpretation of contract). Yet, it will usually be rather important that the arbitrators actually understand the technical issues raised by the dispute, for instance, why a particular technical activity is or is not covered by the scope of a particular patent license. Given the generally narrow focus of technical issues in IP disputes, going into details also in the briefs is usually not only possible, but necessary.

3. Fact and Expert Witnesses

a. Witnesses of Fact

In IP and IT disputes, most witnesses will either testify (i) on contract negotiation or history in order to allow the tribunal to better understand what the parties' agreement really was and how the contract has to be interpreted, or (ii) on technical issues and problems in connection with the dispute. 206

The first set of witness topics is by no means special to IP or IT contracts. The only exception may be that the negotiation and drafting of IP contracts is typically driven more by lawyers than commercial or technical people, which has some consequences as to the witnesses that will have to testify in case there is a dispute as to what the parties intended to agree (notably, this topic may be of different importance depending on the law applicable to the contract and, thus, the rules of interpretation).²⁵⁵ 207

In the case of the second set of witness topics, the witnesses will in most cases be engineers or other persons with a technical background. This provides for some special challenges. It may be a common stereotype, but most engineers (in non-executive positions) we had to either prepare for their witness testimony or cross-examine during a hearing, have turned out to be honest and straightforward persons, who are willing to help a case and are willing to take their time to prepare themselves (much more than executives or lawyers). That being said, we also made the experience that without the necessary witness training they were not as precise as one would want them to be with regard to certain facts. 208

One reason is that they are *not familiar of the legal concepts* that drive a case and, thus, do not understand why certain distinctions are made with regard to certain factual elements. In the case of own witnesses, this may require extensive witness preparation, and in cross-examination this may allow the examiner to score the points more easily than when examining an executive or lawyer, who in our experience have a (professional) tendency to avoid providing the straightforward, "black and white" answers that technical persons may be more willing to offer. 209

For instance, consider a dispute concerning an IT project that did not provide for the intended result. The customer sues the supplier for damages. Under Swiss law and many other civil laws, this will raise the question of whether the contract was a "work contract" with the supplier being responsible for a particular result (the successful implementation of the project), or whether the contract merely required the supplier to provide certain materials and then assist the customer in implementing them (in which case the supplier's responsibility would be limited to providing materials in compliance with the contract and diligently assisting the customer; it would not include a "success" guarantee). Hence, in more simple terms, the question is whether the supplier had a "turn-key" responsibility or not. Often, the contract documents will not clearly answer this question, which is why it is necessary to determine the actual situation based on other documents and witness statements. Here comes the problem: Lawyers have been trained to clearly distinguish between the two legal concepts, and for them it is clear that always one or the other party has to take the legal responsibility and lead, but not both. 210

²⁵⁴ See paras. 200-202 above.

²⁵⁵ At least under Swiss law, the parties' true intention is of key importance, provided it can be proven (which often is not the case). Only if it cannot be proven, the tribunal will have to determine the "normative" consensus of the parties, using the traditional methods of interpretation of a contract under Swiss law. Here, the negotiation history may again be of relevance, for instance in connection with explaining the drafts of the contract at issue, should they still exist.

- 211 An IT professional has a different way of looking at the same situation: For him, a project can only be successful if both the customer and the supplier share the responsibility. This does not mean that an IT professional does not distinguish between one person being in the lead and another supporting him, but this distinction is not made with legal responsibilities in mind and it is not made at a macro level (i.e., looking at the project as a whole or certain main deliverables). For the IT professional, both on the customer and the supplier side, the target is to achieve the project’s goal, and this target is what is often also described in the technical contract documents, even if – from a legal perspective – the supplier’s performance only includes assistance, but no responsibility with regard to particular deliverables. The IT professional is, of course, absolutely correct in assuming that a project can only be successful if both parties fully cooperate. However, from a legal perspective, the relevant question is a different one: Who bears the legal responsibility if the project nevertheless is *not* successful? In an IT dispute, the contentious points is usually not the fact that a project failed or did not work out as intended. Maybe it is not even disputed why the project failed, since both parties may have either contributed actively to the failure, or could have prevented it, had they acted differently. What is usually controversial is who has to bear the legal responsibility for the failure, and who actually had a duty to act differently. For instance, was the supplier under an obligation to pull the “emergency brake” when he saw that the migration of a particular computer system may result in problems? Was it sufficient for him to point out to certain problems and leave the decision whether to take the risk and nevertheless pursue the migration to his customer, given that his customer was sufficiently experienced to understand the risks?
- 212 Hence, if an IT professional has to testify as a witness of fact on the parties’ roles and responsibilities in such a situation, it is essential that he precisely understands the legal concepts and questions at issues. The reason is that his audience will almost always be an audience of legal professionals, and almost always they will listen to him with their legal concepts in mind, not realizing that he as an IT professional may be looking at the problem from a different angle. They may not realize that if he refers to “responsibility” he may not be referring to a legal responsibility for ensuring that a particular deliverable meets its specification, but is rather be talking about acting in good faith and providing best efforts to make a project successful, even if only in a supporting role without bearing the legal responsibility in case of a failure. Hence, when working with a witness in preparing a case, the witness statements and cross-examination of a witness, this has to be borne in mind.
- 213 *Selecting the right witnesses of fact* is another challenge in technical disputes. Witnesses of fact should not only be chosen on their knowledge of the facts, but also on their ability to convey the story and their credibility and appearance. It is counsel, and not the client, who should make this decision and counsel should take the time to interview all candidates face-to-face. That being said, we do not believe that a person simply has to be excluded as a witness on technical if he is not very eloquent and outspoken; in fact, we have seen engineers who were unusually slow in responding to questions and always only said very few words, but they nevertheless made a terrific appearance on the witness stand because their answers were always to the point, very clear and – most importantly – very authentic and credible. They did not say much, but what they said convinced everybody and to a large portion contributed to the success in the cases at issue. However, in order to identify such persons, one needs to spend some time with them individually (so they do not get drown out by their colleagues). This is also the reason why we believe that selecting witnesses is not something an attorney should do on his or her own, but always together with other colleagues acting with him or her on the case. This will also make it easier to detect hidden agendas and “unguided missiles”, which exist in every organization.
- 214 Once the witnesses of fact have been identified, their *witness statements have to be drafted*. There are different approaches in doing so, and it very much depends on the willingness and ability of a witness to draft a statement. In our experience, IT professionals and engineers are usually not able to draft state-of-the-art witness statements on their own, as they are not used to such kind of documents. Hence, there are two options in such a situation: Either, counsel creates a first draft following a structured, in-depth interview with the witness, or counsel prepares an outline to be filled out by the witnesses. In the latter case, the document would already contain the usual standard text required as per the applicable rules,

the personal information known and titles for each chapter to be covered by the witness. In each chapter, the points to be addressed by the witness will be listed (e.g., “Describe how the defect XY manifested itself”, “Describe when and how you brought the defect to AB’s attention”, “Describe the reaction of AB”). It often is helpful to also explain to the witness orally the purpose of the various chapters and what you would expect to hear based on your previous interviews (e.g., you may actually provide guidance by pointing out that you would like to hear more on certain specific statements the witness has made). In our experience, witnesses should not be given too much time to provide their answers. Also, IT professionals and other engineers will typically not provide a lot of text and details, and counsel will have to expand the completed outlines considerably based on the information given on other occasions.

Whether the witness or counsel provides the first draft, counsel should use the first draft to identify those areas where the witnesses should provide for additional evidence. Also, counsel should *check the witness statements for inconsistencies*. While this may sound self-evident, it is a particularly difficult task in technical disputes. The underlying problem is that in our experience IT professionals and other engineers often are willing to accept inconsistencies in their statements. Although this may again be a stereotype, we made the experience that many technical witnesses surprisingly do not consider it very important to be precise when making a written witness statement about past activities and technical issues. They tend to underestimate the importance of precise statements and potential consequences of inconsistencies statements in cross-examination because they have never undergone such an exercise.²⁵⁶ They may not understand that witness statements are legal documents that can have a great impact on a case. Hence, they may not oppose when counsel drafts or redrafts their statement in a manner that he may believe is more helpful for the case, but that in the end cannot be supported by the witness, because it is either not correct or does not line up with other statements made. 215

The witness statements themselves should have a clear scope, but within the scope, they should provide a *full and detailed description of the facts* at issue. Particularly in technical disputes, it is important for the reader to understand the context of a particular testimony and why it is relevant, even if the core part of the testimony could be confined to one sentence. For instance, if one of the issues in dispute is the responsibility of testing a piece of software, the witness statement should not simply mention that it was the supplier’s responsibility to perform “unit tests” of the software. Rather, the statement should first set the stage by explaining why testing is necessary and how it is usually done, even if this may not be the typical testimony a witness of fact should provide. The statement should then lay out the various different types of tests that have been agreed and conducted in the particular case, including the responsibility for the “unit tests”. Finally, the statement may also explain why this allocation of responsibility had been chosen back then. Using witness statements for conveying the foregoing will greatly increase the likelihood that the tribunal will be familiar with the key facts of the matter during the hearing, even if some members of the tribunal have not carefully studied the briefs. 216

b. Party Appointed Expert Witnesses

The possibility to use party appointed experts is one of the big advantages of arbitration in a technical dispute.²⁵⁷ They usually serve two different purposes: 217

- First, they provide evidence for what is considered standard in the industry or market at issue, and provide the introduction necessary for the tribunal to understand the technical concepts at issue, and they do so with the focus and spin that the party who has appointed them believes is necessary. Often, the testimony covering this first point may not even be contested by the opposing side, but it nevertheless is important for building up a case, as without some background information and “feeling” for what is normal in a particular industry and what not, it is not possible to buy in to the

²⁵⁶ As part of witness preparation we, therefore, regularly cross-examine witnesses before they have been trained, so they will feel how easy it is to corner a person who provides inconsistent answers or has handed in an inconsistent witness statement. Such an exercise is usually very effective in motivating witnesses to invest more time in preparing themselves for their examination.

²⁵⁷ See Stieger, *sic! 2010*, pp. 502-504, with further references on the topic.

arguments that may follow later in this regard (e.g., if there is a dispute about gross negligence or the typical expectation of a client);

- Second, party appointed experts are the ideal method to provide a specific and systematic analysis of the technical issues that are relevant for the case (e.g., the various technical defects alleged). This is the classical task of an expert, even if not party appointed.
- 218 Dealing with party appointed experts is a process similar to dealing with witnesses of fact, but has some special aspects to consider.
- 219 The *selection of a technical expert* is often not very easy, too, albeit for a different reason. The reason is that on the one hand, the expert should have detailed knowledge of the relevant issues (and a corresponding CV) and on the other hand be able to convey these issues in a manner that the tribunal will understand and believe. The expert has to be flexible enough to deal with hypothetical questions without losing the big picture and becoming imprecise. Depending on the case, the expert must have substantial practical experience: His main role is not to educate the arbitral tribunal on theoretical aspects of topics like risk management, software testing or programming errors. There is usually sufficient literature on the market to cover those aspects with documentary evidence or in the introductory part of an expert report. What usually no textbook, no standard and no other literature describes in open and clear terms is to which extent a diligent provider will really implement a particular standard, what level of care is realistic to expect or how serious a particular defect really is, to name a few examples. Hence, if an expert is asked to assess a particular deficiency of a product, he should not only be able to describe it and put it into a proper context, but he should also be able to put it into proportion.
- 220 Experts who are able to credibly educate a tribunal on the reality of an industry, and not only on theoretical aspects, are not easy to find. Since most expert candidates in an IT dispute will usually have much more technical expertise than does counsel, selecting the right expert is even more challenging. Nevertheless, many IT disputes (and IP disputes) today concern highly specialized fields of technology that even among “IT experts” only few really understand the issues. While this may not represent an issue during the drafting of their expert report, the lack of specialization may haunt such experts in cross-examination.
- 221 For example, in a dispute concerning problems with a particular database management software, an expert had provided substantial comments on how such database management software works, how it has to be set up and tuned and what could have caused some of the problems. It turned out that the expert had no actual experience with such database management software, but rather relied on books and an internet research for his statements. While he undoubtedly was an IT expert, he was not expert in database management software, which is a very specific segment of the IT market. It was not only easy to seriously harm the expert’s credibility, but also to disqualify the specific statements of the expert made in this regard as pure speculation, though at a well educated level. Was this inevitable and does it mean that the party should have retained a separate expert for each specific technical area at issue? Not necessarily. For example, we have made very good experience with experts that were “generalists”, but never made a secret of this fact and actually used it as an advantage by focusing on the big picture and used their expert experience to put into context certain problems and testify on the practical relevance, even if they had no sufficient technical expertise to analyze those problems in all theoretical details. The tribunals were very thankful, and since these experts knew much more than the tribunal (and counsel of both sides) and made the impression of being credible and having a good overall judgment, their lack of specialization in particular fields was not regarded as a problem. They made up for such lack of specialization by themselves consulting with specialists in their particular fields and reporting on the outcome in their own expert reports. While this was not strong evidence in the sense that it was not possible for the opposing side to ask questions to those specialists, they were able to get across their points well and without providing the opportunity to be attacked as experts.
- 222 Party appointed experts usually are *retained very early in the process*, particularly if there are not many viable candidates. This will reduce the risk for the expert being hired by the opposing side. Once this

has been done, the expert will have to be asked to draft his report. In our experience, there are two approaches in doing so in technical cases:

- The expert is instructed only after counsel has understood his case and developed the story he wants to tell the tribunal. Accordingly, counsel will have to rely on his client’s own specialist to understand the case and find the right arguments to build a case. The role of the expert is to merely confirm and support what counsel has already developed, provided the expert agrees. This has the advantage that it usually costs less, and it prevents the expert from learning facts that would undermine his expert opinion. Since the expert can usually be asked to explain what information he has received from his client in forming his opinion, involving him only once the story has been developed and is ready to tell, reduces this risk;
- The expert is integrated in the exercise of developing the case since the beginning. Typically, counsel would arrange for workshops together with the specialists (and potential witnesses of fact) of the client to analyze the case and develop the arguments and key factual elements to be presented to the tribunal. The advantage of this approach is on the one hand that the expert can contribute his knowledge to finding the best arguments to be used, and on the other hand that the expert will find it more difficult not to support the “story” developed in this manner, and be it only because of the group dynamics that may occur in such situations. The disadvantage is that the expert does not only have a better understanding of the weak elements of his party’s case (which he should in any case have in order to be prepared for cross-examination), but he may also be negatively influenced by them, particularly if they surface very early in the process.

The *first draft of an expert report* should be drafted by the expert himself. However, in our experience, most technical experts are not “professional” court or arbitration experts and, therefore, have no experience at all in providing expert testimony, let alone drafting an expert report for the purposes of an arbitration. It is, therefore, mandatory that counsel provides detailed formal instructions on how to draft an expert report and closely supervises its creation. Of course, counsel will have to provide the expert with the specific questions the expert should answer, but in our experience it also helps to provide experts with a template they can use for drafting their expert report and to show them some examples of technical expert reports to get a feeling for the amount of text expected. In our experience, many technical experts without experience in providing expert opinions for courts have a very taciturn style in writing their conclusions, they do not explain the basis of their analysis and if they make allegations, they do not say on which basis they do. At least in IT matters, we hardly ever experienced an expert who did not require extensive coaching in developing his report. All “non-professional” experts usually seriously underestimated the time it requires to deliver a proper report, but at the same time they found the work to be very interesting and different from their usual work, which usually motivates them to spend the overtime necessary. 223

One important aspect is the expert’s *access to information*. On the one hand, it is counsel’s task to ensure that the expert is given the possibility to talk with any person he would like to talk to within the client’s organization and to access every document (in the case of confidential information, protective measures can be applied for with the tribunal, should the opposing side require the disclosure of such materials, which, however, rarely happens), and on the other hand the expert himself has to be instructed to obtain the necessary literature and other materials needed to support his statements. The former point is of particular importance: The tribunal will in our experience expect and rely on the expert having been able to assess and having assessed the facts at issue closely before providing his expert opinion, given that the tribunal is usually not in a position to do so on its own. 224

That being said, expert should be careful to avoid “competing” with the tribunal and *moving outside their field of expertise*. Common mistakes we have seen in many technical disputes are expert reports that provide for legal conclusions. Hence, a technical expert should never conclude that a particular behavior should be considered as “gross negligence” (or not) or should be considered a “breach of contract”. These are legal terms, and it is the task of the tribunal to assess whether the facts permit a conclusion of gross negligence. Also, technical experts usually do not have the necessary legal knowledge to discuss 225

concepts of gross negligence, turning them into easy prey in cross-examination. Rather, the expert should discuss the technical facts that are used for reaching the intended conclusion. Asking the right questions, however, is the counsel’s task. Hence, if gross negligence becomes an issue, the technical expert should not be asked whether he has seen any conduct that could be considered as gross negligence. Rather, the question should be whether the technical expert has seen any conduct that, in his view, gravely deviated from the standard professional and engineering practices in the industry one would expect a specialist in the field to comply with.

- 226 A further common mistake in connection with expert testimony is the *failure to verify and disclose the factual basis* on which the expert opinion has been based. It is a common technique in cross-examination to attack an expert’s testimony by questioning the factual basis on which the expert has built his opinion. This is easy if the factual basis is not solid, which surprisingly often happens. One reason is that experts, particularly those who have never testified in court or before a tribunal, tend to believe what their clients tell them without scrutinizing it. Even obvious inconsistencies are often accepted without even asking for an explanation. The other reason is that counsel, as well, fails to scrutinize the information provided by his own client. There are various explanations why such information may be wrong. However, once an expert opinion’s factual basis is destroyed in cross-examination, the opinion is most of the time worthless, as well. Hence, both counsel and expert should always double-check whether the information provided by the client or other source is correct and complete. If there are doubts, which may well be the case, these doubts should already be taken into account in the expert report. There are ways to deal with unclear information (such as working on the basis of scenarios), but this is possible only if the reliability (or unreliability) of the information used as a basis is known in the first place.

c. *Tribunal Appointed Experts*

- 227 What may be standard in state court litigation in many countries is not very common in arbitration: Tribunals rarely appoint experts on their own.²⁵⁸ The reason is that parties usually do not want them. They prefer working with party appointed experts as they can better control them, and it is much easier and less risky to attack an expert appointed by the other party in cross-examination than attacking a tribunal appointed expert, even if he turns out to be incompetent.
- 228 Nevertheless, in an IT or IP dispute, tribunal appointed experts can make sense under certain circumstances. This is in our experience usually not the case in the beginning of a dispute, although it has been suggested that experts could help, for instance, drafting the Terms of Reference.²⁵⁹ We do not believe that is of real advantage. The parties should in any case be given the opportunity to present their own experts. This is necessary already for the fact that only the parties really know their case, and expert reports are one way of actually presenting the relevant issues to the tribunal.
- 229 However, if the technical issues in a dispute start to overwhelm the tribunal because they are so numerous or so contentious that the tribunal may lose oversight, it may find it helpful to have a tribunal appointed expert for fitting the various “pieces” of the dispute again together and putting them in the right context.²⁶⁰ The tribunal could, of course, simply dismiss the case on the basis that the claimant has failed to live up with its burden of proof. This, however, is not the typical approach in arbitration. Arbitral tribunals will rather try to regain the control over the issues in dispute. In such a situation, tribunal appointed experts can have two different roles:

²⁵⁸ Stieger, *sic!* 2010, p. 496.

²⁵⁹ Stieger, *sic!* 2010, p. 496.

²⁶⁰ This situation is not uncommon in many IT disputes that concern failed projects: The project did not fail because of one key issue that can be easily confined, analyzed and sorted out. The failure – and thus the dispute – will typically involve many different technical problems that, in combination, caused the project to fail. If, for example, a planned launch of a new computer system has allegedly been aborted because there have been too many unresolved defects, it will be necessary to analyze each of those defects to determine the responsibility for each defect, the consequences and whether one or the other party or both have been at fault. In such situations, particularly if one or both party’s counsel have or has done a poor job in presenting their case, a tribunal can easily lose oversight of the matter.

- Tribunal appointed experts can be expert witnesses who present their opinion essentially “in competition” with the party appointed experts; these tribunal appointed experts are also subject to the same cross-examination as are party appointed experts;
- Tribunal appointed experts can also take the role of assistants or technical counsels to the tribunal. In this role, they rather serve the purpose of helping the tribunal to (i) sort out the issues and provide the tribunal the necessary context and big picture; (ii) to read and understand the parties’ submissions, evidence and testimony of witnesses; and (iii) to formulate the right questions to ask in a hearing or otherwise. Particularly, the last task can be a very helpful from the tribunal’s view. In fact, there even has been a decision by the Swiss Federal Supreme Court suggesting that an arbitral tribunal may be obliged to on its own seek help from an expert if it does not have the necessary know-how concerning the technical facts at issue.²⁶¹ We believe, though, that this is not correct unless at least one party asks the tribunal to do so, in which case the tribunal should consider the appointment of an independent expert; this has been discussed controversially.²⁶²

From the party’s and their counsel’s view, having a tribunal appointed expert is usually not interesting, no matter which of the two roles it has, and even if one leaves aside the often significant increase in direct costs caused by the appointment of such expert. Of course, a tribunal appointed expert may under certain circumstances increase efficiency, as has been postulated in legal writing.²⁶³ In our experience, however, having a further expert (in addition to party-appointed experts) may likewise have the opposite effect – causing the proceeding to become more costly and lengthy. This is particularly true with weak arbitrators that are afraid of taking decisions. For those arbitrators, an expert at their disposal makes it tempting to constantly come up with new questions causing proceedings to become never-ending stories. 230

Furthermore, there is particularly in very technical cases always a considerable risk of a tribunal appointed expert becoming a further arbitrator, without parties having agreed to such arbitrator and without any transparency, particularly if the expert is to join the tribunal in its deliberations or reviews its award prior to it being issued.²⁶⁴ Due process is in our view particularly at risk in cases that raise many important, but complex technical issues: In such case, the expert may ultimately be deciding the case, as the members of the tribunal will tend to trust his assessment of the case even if this goes beyond his mandate. The fact that an expert has to be independent and impartial as per the applicable rules²⁶⁵ does not cure this problem. While it is clear that many arbitrators will find it interesting and convenient to have an expert at their disposal when deciding a case,²⁶⁶ we do not believe that this argument should be relevant given that the arbitration should first above all serve the interests of the parties, not the arbitrators. 231

We, therefore, believe that tribunal appointed experts should be used only with caution and that parties in most cases will want to oppose the appointment of a tribunal appointed expert, particularly if the expert is to act as a technical counsel or assistant to the tribunal. While it is generally accepted that a tribunal may use an expert as a technical counsel or assistant with the parties’ permission,²⁶⁷ it is not clear whether it may do so if a party opposes. We believe that in such a situation, the role of a tribunal appointed expert must be limited to the role of an expert witness; most rules do permit the tribunal to appoint expert witnesses for such purpose even without the parties’ consent.²⁶⁸ In any case, if a party appointed expert is made use of, we believe that the tribunal should voluntarily comply with the requirement set forth in Art. 37(1) of the UK Arbitration Act 1996, even if the Act is not applicable in a particular case: It provides that even in the case of mere assessors to assist a tribunal on technical matters, 232

²⁶¹ Decision of May 11, 1992, reported in *ASA Bull.* 1992, pp. 381-401, 397, para. 5b.

²⁶² See Stieger, *sic! 2010*, p. 500, with further references.

²⁶³ Stieger, *sic! 2010*, p. 496; Kaufmann-Kohler, p. 289.

²⁶⁴ Similar: Stieger, *sic! 2010*, p. 496, with further references.

²⁶⁵ Art. 27(1) 2004/2012 Swiss Rules; Art. 55(a) WIPO Rules.

²⁶⁶ Stieger, *sic! 2010*, p. 496, with further references.

²⁶⁷ Kaufmann-Kohler, pp. 292-293; Stieger, *sic! 2010*, pp. 496-497, with further references.

²⁶⁸ See Stieger, *sic! 2010*, pp. 499-500.

the parties should be given a reasonable opportunity to comment on any information, opinion or advice offered by such persons.²⁶⁹ This is true also for experts acting as expert witnesses, and it has been in our view rightfully suggested that in such case the party’s should be given the right to comment an expert’s opinion before the expert issues his final opinion.²⁷⁰

4. Hearing

- 233 Once proceedings reach the stage of a hearing on the merits, a large portion of the work is usually done on the part of counsel. Apart from the question of post-hearing briefs, there are, however, three important tasks still to be taken care of: The own witnesses and experts have to be trained for cross-examination, scripts for cross examining of the opposing side’s witnesses and experts have to be written, and opening statements need to be prepared. This is not different for IP and IT disputes than it is for many other disputes. However, a few points are worth considering particularly in cases including technical issues.
- 234 First, *opening statements* play an important role in our experience, and they are often underestimated. Irrespective of whether the members of the tribunal have carefully studied the file beforehand, it is for a non-expert not having dealt with a case as closely as counsel has done usually very difficult to get the big picture of a very technical case. This is why a party should find ways to provide guidance to the tribunal by on the one hand providing the necessary context and on the other hand pointing out to the tribunal the most important documentary evidence. Using the opportunity of an opening statement to present not only the main legal arguments, but also for providing an introduction in the technical facts of a case can be a very effective tool for educating the tribunal with regard to the technical aspects the party’s case. It can also help laying the necessary factual foundation for the tribunal to better understand the points a party will try to make in the cross-examination of the opposing party’s witnesses and experts. The “technical” part of the opening statement should, therefore, cover the same themes that will later on be repeated during the cross-examination, and it should be used to present key documents to the tribunal.²⁷¹ This way, a party will be able to convey the key messages on the facts of the case much easier, and the tribunal will be thankful if at least one of the parties provides an overview of the case not only from legal point of view, but also with regard to the technical aspects. That being said, opening statements should, in our opinion, not be longer than 45 to 60 minutes. The optimum duration is usually 20 to 30 minutes. In order to make it more easy for the tribunal to follow, it can make sense to separate the actual pleading on the arguments (including legal arguments) from a technical introduction.
- 235 Of course, opening statements are not the only way of drawing the tribunal’s attention to specific technical facts and pieces of evidence. Another way to do so is to use the own witnesses to identify particular important pieces of documentary evidence during *direct examination* and thus make the tribunal aware of them. However, this (US style) approach is normally not permitted and very efficient in European arbitrations, given that witnesses usually will have already submitted extensive written statements in lieu of direct examination. A third technique is to have both parties present *skeleton arguments* prior to a hearing. The purpose of skeleton arguments is to provide (in writing) an overview of the issues in dispute, the main legal arguments that are brought forward with regard to this issue and the key facts in support of such arguments. While this can be helpful to better understand a case from a legal point of view and is most helpful for those who already have a certain understanding of the case, skeleton arguments usually do not permit the tribunal to better understand the factual basis of a case, i.e., the context of the facts and

²⁶⁹ Stieger, *sic!* 2010, p. 496.

²⁷⁰ Stieger, *sic!* 2010, p. 501, with further references.

²⁷¹ We usually use a Powerpoint presentation with excerpts of the documents already included; it is also easier for the tribunal to later on review the opening statement based on the slides than purely based on the transcript. A Powerpoint presentation also has the benefit to allow for the inclusion of graphics and other visuals that can help convey the key facts of a case. From an organizational point of view, a party intending to use a Powerpoint presentation should already before the hearing make sure that the hearing room will have a beamer, that the beamer is positioned in a suitable manner (i.e., so that the tribunal and both parties can see it) and that the court reporter has no issue if the person giving the speech may not be sitting at the desk.

how they relate to each other. Skeleton arguments do not educate on the technical aspects, they help structuring and better understand the pleading of a party.

Another, sometimes more contentious issue to be organized prior to a hearing is the *sequence of appearance* of the witnesses and experts. Although we have experienced hearings at which no witnesses and no experts appeared at all (merely counsel were pleading, exchanging arguments and answering questions of the tribunal), this is rather the exception. The traditional model of first having claimant's witnesses and experts appear and the respondent's witnesses and experts is not set in stone, but even in technical cases there often is no reason to deviate. What should be considered, though, is whether it may make sense to structure the hearing by different topics, rather than having all topics heard at the same time. For instance, if there are contractual issues as well as technical issues, it may make sense to first hear the witnesses on contract interpretation and later on turn to the other topics. 236

The most difficult question, however, is the question of the time required for the examination of witnesses. If witness statements are used as a direct examination, the actual direct examination during the hearing can either be skipped or limited to very few questions; usually, not more than 20 to 30 minutes are allowed. The cross-examination of a witness of fact in an average complex technical dispute may easily take one to two hours, particularly if the cross examiner avoids open ended questions and more than one fact per question in order to keep control of the witness. However, we have also seen cross-examinations lasting half a day or longer. Re-direct and re-cross usually do not take much time even in complex technical cases; 30 minutes is usually sufficient. Questions from the tribunal may take longer. A key point to consider when setting forth a tentative timetable for a hearing is that in a technical case, the examination of the first witnesses will normally take much longer than the examination of the last ones: In the beginning, the tribunal needs to get acquainted with the technical facts, it will ask more questions and will expect the witnesses to provide more explanations. Once the hearing proceeds, the tribunal gets more and more familiar with the matter and facts that have already been covered by previous witnesses may no longer need to be covered in subsequent examinations. Hence, while hearings in technical cases in the beginning tend to be very ponderous, they will become much more efficient with every new witnesses called upon. 237

A question that often arises when the parties plan the sequence of examination of their witnesses and experts is whether witnesses of fact or experts may *stay in the hearing room* during the examination of the other witnesses and experts. While this is normally permitted after they have made their testimony, it may make sense to consider having them listen to the entire examination and potentially even the opening statements. While this can give the party who's witnesses are being examined first a tactical disadvantage, having everybody listening in from the beginning may significantly contribute to the efficiency of the hearing particularly in technical cases. First, since all witnesses will usually already have handed in one or several witness statements by the time of the hearing, it is already more or less clear what they will be saying. Second, it may be easier for the tribunal and the parties to confront witnesses with the oral testimony of witnesses that have already appeared; the alternative would be for the arbitrator or counsel asking the question to repeat those statements. This, however, bears the danger that these statements are not repeated correctly, even if not intentionally, and that the examination gets delayed. If a witness has heard what an opposing witness has said before, he can respond to it much more precisely. The alternative would be to hold a *witness conferencing*, which can be a very effective tool, but is time consuming and often done only among expert witnesses, although it ensures that each witness can respond to allegations of the other witnesses (which may not be possible if witnesses are heard only sequentially). A special form of expert witness conferencing is to have the experts meet in advance of a hearing (so called "pre-trial expert conferencing"):²⁷² The parties' experts are ordered to create a joint report on the technical facts, for example on those facts that are not in dispute and those ones that are in dispute and why; it has been suggested that they may be even required to do so without involvement of the parties,²⁷³ which may be problematic, though. 238

²⁷² See Art.5(3) IBA Rules.

²⁷³ Stieger, *sic!* 2010, p. 504.

239 The *training and preparation of the cross-examination* of technical witnesses and experts is in our view particularly important. We will at this point not discuss techniques for best preparing cross-examination both with regard to a party’s own witnesses and the witnesses of the other side. These techniques are not specific to IP and IT disputes,²⁷⁴ except that in our experience counsel will find it difficult to achieve best results on cross-examination without having profound knowledge of the technical facts of a case. The training and preparation of the cross-examination is usually also the most time consuming task in connection with a hearing in a technical case. The reason is that witnesses of fact often also assume the role of expert witnesses. In hearings, they are often heard first and, therefore, have to explain to the tribunal the technical facts they are testifying on. Also, if fact witnesses have to explain why a party acted in the manner it did, they will inevitably have to discuss the technical concepts, theories and background facts at issue. For instance, if there is a dispute why a supplier designed an IT system in a particular manner, the answer can only be given if the tribunal understands the various choices the supplier had at its disposal. Accordingly, the witness of fact discussing the choice will have to elaborate on these choices. While from a formal point of view, such a testimony may still be a testimony on facts, it de facto has the same effect as an expert testimony. This is particularly true given that many of the witnesses of fact in a technical case will indeed be considered to be experts in their fields, with the only real caveat that they are employed by one of the parties and may have a conflict of interest. In our view, this is no disadvantage. Rather, counsel should not shy back from using not only the own, but also the opposing fact witnesses to convey technical concepts and issues to the tribunal. Tribunals normally appreciate this and will start asking questions of their own. This will help the tribunal to better understand the case, and at the same time help to demonstrate the knowledge and diligence of the party at issue, which may be key in a technical dispute. This, however, makes a sound preparation of the oral testimony of a parties’ own witnesses and cross-examination of the opposing witnesses even more important.

B. *Limiting the Arbitration*

- 240 A final word deserves the question of how to limit an arbitration concerning an IP or IT dispute, apart from other means of alternative dispute resolution (ADR) such as mediation or expert determination.²⁷⁵ While not much has been written on the topic of how to limit an arbitration once it has become inevitable, it is of considerable practical relevance.
- 241 Trying to *settle a dispute* even after an arbitration has been commenced is one such means. In our experience, most IP and IT disputes are settled before a final award is rendered or a court has issued its decision. For instance, 58% of all WIPO Arbitration proceedings initiated are settled prior to an award, according to figures of the WIPO Arbitration and Mediation Center.²⁷⁶ There are many reasons for settling a dispute in- or outside court or an arbitral proceeding. Settlements permit businesses to achieve legal certainty and return to “normal business” much faster, they can save considerable amounts of money and they may make it easier for parties involved in a dispute to continue work together. In technical disputes, the often inherent complexity of the cases and the difficulty to predict the outcome may make them particular interesting candidates for early settlements.
- 242 The reality, however, is often a bit different: Because of the complexity of a case, many companies find it difficult to assess their own risk of losing an arbitration or court case. The people directly involved in a

²⁷⁴ A good, general introduction in the technique of cross-examination is Pozner/Dodd.

²⁷⁵ Such other means of ADR should be considered, as well. See, for instance, WIPO Arbitration and Mediation Center, “Why Mediate/Arbitrate Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executive Society International* (March 2007), pp. 301-305; WIPO Arbitration and Mediation Center, “Update on the WIPO Arbitration and Mediation Center’s Experience in the Resolution of Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executive Society International* (March 2009), pp. 49-54; Dardel, *sic!* 2010, pp. 833-834; Schäfer, *The Trademark Reporter* 2004, pp. 698-702, describing, from an IP law practitioner’s perspective methods and techniques of mediation and hybrid dispute resolution procedures.

²⁷⁶ See <<http://www.wipo.int/amc/en/center/caseload.html>> (figure as of June 2011); see also WIPO Arbitration and Mediation Center, “Update on the WIPO Arbitration and Mediation Center’s Experience in the Resolution of Intellectual Property Disputes”, in *Les Nouvelles, Journal of the Licensing Executive Society International* (March 2009), p. 52.

dispute (e.g., the project manager of a failed project) often assess their position much better than it really is. Although these people will usually not decide on whether to legally pursue a case instead of settling it, they have considerable influence on the decision of their company. Once outside counsel (and outside experts) get involved, the decision to pursue a case (or end settlement discussions) has either already been taken or there is not sufficient time to properly assess a case before a company has to undertake the first steps to legally pursue a case. Of course, even once such steps have been taken, it is still possible to settle a case.

However, the window of opportunity can close quickly in technical cases. In our experience, the willingness of the parties to settle a case is usually almost nil once the claimant has filed its Statement of Claim. The reason is simple: Whereas the claimant at this point in time will usually be convinced of his position and willing to settle only at his terms, the respondent will want to first respond to claimant's allegations and arguments with a proper Statement of Defense before reopening the discussion on a potential settlement. While settlement discussions may well start (and make sense) after a first round of briefs, we have often experienced that parties at this point in time rather feel inclined to continue the arbitration given that they have already made significant investments in presenting their case, in view of its complexity. This is unfortunate, as many parties are often only at this point in time to realistically assess their chances of winning. It, therefore, may make sense to consider potential settlement discussions already in advance when agreeing on the procedural timetable of an arbitration. 243

For instance, it may make sense to provide for sufficient time following the exchange of briefs in order to allow for settlements discussions before the parties have to engage in hearing preparations, which again can be very costly. The parties should even consider involving the arbitral tribunal in such an exercise, for instance by giving the parties an indication of how they, without prejudice, see the case already before a hearing. Although some arbitrators may feel reluctant to do so, it can help the parties to find an amicable solution of their dispute. And even if it does not, it may help the parties to – together with the tribunal – streamline the hearing and hearing preparations: The parties will know on which issues to focus, and which issues need to be brought to the tribunal's attention better than has happened in the past. Of course, this will work only if both parties are willing to agree on such a procedure, and we have seen such arrangements become more and more common. 244

Another technique to limit an arbitration is the *bifurcation of the procedure*, i.e., splitting up the dispute in various pieces that are dealt with sequentially, if at all. Today, bifurcations are usually used in two situations: In cases, in which a party disputes the jurisdiction of an arbitral tribunal, the jurisdiction is often decided first. Although there is no legal need to do so, it is often considered more efficient. The other typical bifurcation of arbitration proceedings is to separate the question of liability from the question of quantum: Only if and once the tribunal has found that a party is, in principle, liable for a particular damage will it decide on the amount of damages owed. Such a bifurcation will not only allow to save costs in case there is no liability, but also provide for the opportunity to settle the case if liability is confirmed. 245

In technical cases, the question often arises whether it makes sense to bifurcate the question of a contractual liability limitation and other legal theories that may cut off a claim. Most IT contracts today have clauses that exclude or limit the liability of the supplier to a large extent. Hence, damages claims are possible either only within the liability limitation (which usually for both parties does not merit the burden of undergoing an arbitration) or if it can be shown that the liability limitation does not apply because mandatory provisions of applicable law do not permit the exclusion or limitation of liability in the case at hand (usually because the liable party has acted grossly negligent or with willful intent). Other legal theories to cut-off a claim include defect notification obligations and statutes of limitation, in particular in connection with warranty claims, where deadlines to file claims are usually short. 246

At first sight, it may make sense to deal with these issues beforehand: If a liability limitation applies, the damages cases will usually be resolved quickly because even if the claims are not barred entirely, the parties will want to settle them out of court in view of the small amounts that remain at issue. If notification obligations were not complied with or if a claim ends up being time barred, a bifurcation may help to end a case without the need to deal with the actual merits, thus saving time and money on all sides. 247

- 248 In reality, the potential for saving time and money is often less clear. This is particularly true in case of contractual liability limitations. Under Swiss law, if a liability limitation exists, the party claiming damages will have to prove that the liability limitation or exclusion that bars the damages claim is not valid because of gross negligence or willful intent on the part of the party that has allegedly caused the damage. Theoretically, it would be sufficient to convince the tribunal of gross negligence on the part of the damaging party that caused the damage at issue. Whether there was a breach of contract is, theoretically, not relevant, nor is it relevant to prove the damage. However, in practice, proving a grossly negligent behavior that caused the damage at issue will often require the party claiming damages to allege, prove and argue large parts of its case. Without doing so, it may risk that the tribunal will not be able to understand why a particular behavior should be qualified as grossly negligent; particular in IT disputes, gross negligence can often only be shown by providing the larger context of a particular system, its purpose and the project at issue.²⁷⁷ The party required to prove gross negligence will also not want to be selective presenting its case given that it does not know in advance which of the various potentially grossly negligent acts may ultimately convince the arbitral tribunal, if any. As a consequence, parties will experience that even though a procedural phase may be limited to the question of gross negligence, it will nevertheless require them to invest almost as much time and efforts in presenting their case, preparing the hearing and conducting the hearing than if the phase would cover all issues of liability and not only gross negligence.
- 249 Other questions such as the application of a statute of limitations may be more suitable to be decided in a separate procedural phase beforehand. Yet, in our experience, most parties will find it not worth dedicating an entire phase of a proceeding solely to the question of whether a claim is time barred. After all, a bifurcation that does not result in an early resolution of a case will have the contrary effect: It will usually cost more and take more time.

²⁷⁷ See paras. 168-182 above.