

Intellectual Property Mandatory Rules and Arbitrability in the U.S. and in Brazil

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“Go as far as you can see; when you get there, you’ll be able to see farther.”
Thomas Carlyle

I. Introduction

Intellectual Property concerns products of the human mind. In fact, it is beyond doubt that it is the foundation of many of the most dynamic world enterprises, due to the “historical transition from an industrial society founded on tangible assets to an information society based on intangible assets.”¹

Certainly the discussion involving the arbitration of intellectual property (IP) disputes has become significant as the number of transactions involving IP increased dramatically. Frequently IP issues tend to arise in license agreements, joint venture agreements, business acquisition agreements, and employment contracts.²

Despite a decade of efforts, it appears that the IP world remains hesitant to choose arbitration for the following two reasons: (1) that “the IP sector ... [prefers] litigation to arbitration of its disputes” and (2) that “the IP disputes ... [tend to be] fundamentally different from other disputes.” As a result, the IP sector would not be “well-served by the institutions of arbitration.”³

There have been many efforts made by institutions like the World Intellectual Property Organization (WIPO) and the United Nations Commission on International Trade Law

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¹ Bryan Niblett, *Arbitrating the Creative*, 50-JAN DISP. RESOL. J. 64 (January 1995), WL 50-JAN DRJ 64.

² Marc Blessing, *Arbitrability of Intellectual Property Disputes*, 1 ARBITRATION INTERNATIONAL 191, 197-198 (1996).

³ David D. Caron, *The World of Intellectual Property and the Decision to Arbitrate*, 19 ARBITRATION INTERNATIONAL 441, 441 (2003).

(UNCITRAL) to increase the appeal of arbitration to resolve IP controversies. For example, the creation of special arbitration rules⁴—where interim measures, confidentiality and expertise are so important—, the foregoing debate over the arbitrability of IP disputes, and the education through workshops and seminars.⁵

The overall hesitancy related to the arbitration of IP disputes could be linked to the “family jewels” view, which is the idea that the IP rights are *the* asset of the company; so that arbitration is not sufficiently aggressive and “litigation allows greater ‘flexibility’ in design of one’s strategy.” Also, there is the “venture capitalists-stock market” view, where “the attack on the ‘family jewels’ may not only take the jewels, but, in addition, the perception that the jewels could be taken may cause a loss of investor confidence.” Still, there are other explanations to that hesitancy, as the “*Zeitgeist* of the high technology world”, or even the “legal culture view.”⁶

One could also add other countervailing considerations. First, there are IP specialized courts in some countries, which offer greater predictability of decisions result than in arbitration and generating stronger deterrent effects through publicity.⁷ Second, arbitration is often viewed as too costly, and there are not arbitrators with as much expertise as other legal practitioners in the IP field.⁸ Third, it could be more strategic for a licensor— that has been licensed in several countries— to bring lawsuits in the markets of its choice, discouraging infringement in other markets by means of publicity. And finally, litigation could be the best choice, due to questions related to the arbitrability of IP matters, to the non-enforceability of arbitral awards against third parties, and to the availability of effective interim relief, which is vital do IP disputes.⁹

In contrast, Professor William Park argues that “the special nature of IP arbitration is not really all that special.”¹⁰ It is true that IP arbitration raises public policy concerns, but that is also the case of antitrust, securities regulation, and bankruptcy. The reluctance of endorsing arbitration by citing the need for litigation flexibility and merits appeal carries certain irony. After all, flexibility is the *raison d’être* of arbitration, and the absence of appeal can be one of the great advantages of arbitration.¹¹

In order to better understand the hesitancy toward arbitration in a particular jurisdiction, it is helpful to examine other countries’ perspectives. So, the present author opted for this method of analysis, where the American paradigm of arbitrating IP claims is useful to explain the issues that Brazilian arbitrators face.

⁴ See WIPO Arbitration Rules, available at http://www.wipo.int/freepublications/en/arbitration/446/wipo_pub_446.pdf, and UNCITRAL Working Group on Arbitration on the topic of interim measures, available at http://www.uncitral.org/english/workinggroups/wg_arb/index.htm

⁵ Caron, *supra* note 4, pp. 441-443.

⁶ *Id.* note 4, pp. 445-448.

⁷ Jochen Pagenberg, *The Arbitrability of Intellectual Property Disputes in Germany*, in WORLDWIDE FORUM ON THE ARBITRATION OF INTELLECTUAL PROPERTY DISPUTES March 3 - 4, 1994, Geneva, Switzerland, available at <http://arbitr.wipo.int/events/conferences/1994/pagenberg.html>

⁸ *Id.*

⁹ Robert H. Smit, *General Commentary on the WIPO Arbitration Rules, Recommended Clauses, General Provisions and the WIPO Expedited Arbitration Rules*, 9 AM. REV. INT’L ARB. 3 (1998), WL 9 AMRIARB 3, 6-8.

¹⁰ William W. Park, *Irony in Intellectual Property Arbitration*, 19 ARBITRATION INTERNATIONAL 451, 451 (2003).

¹¹ *Id.* note 11, pp. 452-453.

This article first examines *à vol d'oiseau* the concept of mandatory rules of private international law in the state courts, and then in international arbitration. Specifically, the author addresses the effect of mandatory rules on the arbitrability of IP disputes. Further, this article summarizes the historical framework and the *favor arbitrandum* developments regarding the arbitrability of IP issues in the U.S. and Brazil.

II. Mandatory Rules

II. 1. Mandatory Rules in the Courts

Savigny has not ignored the notion of mandatory rules. This great scholar of the conflicts of law methods described mandatory rules as “rules of a mandatory character, mandated by general interests”. In the early 1940’s two German scholars, Wengler and Zweigert, proposed the application of domestic and foreign mandatory rules on the basis of territoriality, irrespective of the *lex causae*.¹²

Specifically, the discussion involving mandatory rules in private international law has been first addressed by Professor Francescakis in the late 1950’s. Even before him, Professor Franz Kahn had already made a distinction between *Ausdehnungsnormen* and *Anwendungsnormen*. Professor Nussbaum distinguished choice of law rules from specially conditioned internal rules.¹³

Definitively, the concept of mandatory rules differs from the notion of the classic conflict of law rules of private international law. Traditionally, the European bilateral conflict of law rules operate by connecting legal relationships. The applicable law is determined—the *lex causae* or in case of a contract the *lex contractus*— through the application of connecting factors (place of residence, domicile, main place of business, place of agreement, place of enforcement, etc.).

¹² Pierre Mayer, *Les lois de police - Problèmes actuels de méthodes en Droit International Privé*, in TRAVAUX DU COMITÉ FRANÇAIS DE DROIT INTERNATIONAL PRIVÉ 105 (Éditions du Centre National de la Recherche Scientifique, Anatole 1988). “La notion de loi de police n’a pas été ignorée par Savigny. Le grand théoricien de la méthode du conflit de lois n’a pas manqué d’observer qu’elle ne convenait pas aux lois d’une nature positive regoureusement obligatoire, dictées par un motif d’intérêt général; il ne se référerait toutefois qu’aux lois du for, et n’énonçait pas à leur propôs une véritable méthode concurrente de celle du conflit de lois.” See also PH. FRANCESKAKIS, LA THÉORIE DU RENVOI ET LES CONFLITS DE SYSTÈMES EN DROIT INTERNATIONAL PRIVÉ 8 (Sirey, Paris 1958). “La règle de conflit se distingue des règles ordinaires du droit par cette particularité fonctionnelle qu’elle ne dédigne pas directement les conséquences juridiques des faits dont elle prévoit la réglementation mais qu’elle les désigne indirectement, en se bornant à prescrire l’application à ces faits d’une loi interne déterminée. Ainsi il n’est pas dans la fonction de la règle de conflit d’indiquer à quel âge une personne est capable de contracter. Elle désigne seulement la loi, indigène ou étrangère, à laquelle la réglementation de la majorité sera empruntée en l’espèce. Elle le fait en identifiant cette loi à travers un critère qu’elle fournit elle-même, la nationalité, le domicile de l’intéressé, le lieu de passation de l’acte...critère que l’on désigne couramment en France par l’expression ‘circonstance’ ou élément, ou encore ‘point’ de rattachement.”

¹³ FRANCESKAKIS, *supra* note 13, p. 15.

Professor Francescakis explains that the bilateral conflict of law rule is quite abstract¹⁴, that is it does not take into account the fact that international contract relationships also have a *macrofunction* as instruments that regulate international economic and political behavior.¹⁵ The overriding concern of the bilateral conflict of law rules relates to the legal relationship itself, or better, to the balancing of private interests, i.e. the *microfunction* of an international contract. As a result, a conflict of law rule indicates the applicable law to govern the relationship at stake.

On the other hand, the so-called "American Revolution" brought with it the focus on the purpose and intent of the rule; the center of consideration rests on the policy of substantive rules of the concerned states ("special connection approach" or "*Sonderanknüpfungstheorie*").¹⁶ This contrasts with the rigid method of bilateral conflict of law rules. Thereby, the mandatory rules method adopts a case-by-case approach, so that it is "the imperative nature per se of these rules that make them applicable."¹⁷ The mandatory rules are therefore material rules of private international law as they directly govern legal relationship, rather than merely indicating the law applicable to it.¹⁸

In the European Union, the Rome Convention gives explicit mention to mandatory rules under its Article 7(1) and (2).¹⁹ Indeed, it has always been undisputed that a court must apply mandatory rules of the forum even though the parties submitted their contract to a foreign law. The legislative history of Article 7(2), which provides the application of the mandatory rules of the forum, reflects this attitude.²⁰

Article 7(1) refers to directly applicable rules of other jurisdictions, irrespective of the law applicable to the contract. It is important to note that "whether a rule is conflicts mandatory or not has to be deducted from the rule itself", as it defines its own applicability. Nevertheless, "the will of the legislature is not enough to sustain the application of conflicts mandatory rules of third countries ... [because] in addition to the intent of having a rule

¹⁴ *Id.* note 13, p. 107. "La loi de police permet de tenir compte de la teneur concrète des règles, alors que la règle de conflit, étant abstraite, ne le peut pas. Un corollaire de cette observation est que, tandis que les règles de conflit traitent de catégories de rapports juridiques (ou de questions de droit), les lois de police voient leur compétence précisée de façon ponctuelle. On remarquera que la définition proposée est moins celle des lois de police qu'une définition de la méthode des lois de police, méthode dérogatoire à celle du conflit de lois."

¹⁵ Natalie Voser, *Current Development: Mandatory Rules as a Limitation on the Law Applicable in International Commercial Arbitration*, 7 AM. REV. INT'L ARB. 319 (1996), LEXIS at 323.

¹⁶ *Id.*, at 324.

¹⁷ Pierre Mayer, *Mandatory Rules of Law in International Arbitration*, 2 ARBITRATION INTERNATIONAL 274, 275 (1986).

¹⁸ ANTÓNIO MARQUES DOS SANTOS, DIREITO INTERNACIONAL PRIVADO 253 (Associação Acadêmica da Faculdade de Direito Lisboa, Lisboa 2000). "As normas de aplicação imediata são normas de direito material e não são regras de conflitos, como pretendem alguns autores conflitualistas ou neo-conflitualistas, que tendem a desvalorizar a radical especificidade que elas representam para o DIP dos nossos dias."

¹⁹ Convention on the Law Applicable to Contractual Obligations, Apr. 1, 1980, *Official Journal C 27 (Jan. 1, 1998)* (entered into force on April 1, 1991).

²⁰ Stefan Kröll, *Future perspectives of Conflicts Mandatory Rules in International Contracts*, in 15 PERSPECTIVES OF AIR LAW, SPACE LAW AND INTERNATIONAL BUSINESS LAW FOR THE NEXT CENTURY 89 (Carl Heymans Verlag, Köln 1996).

applied, a close connection between the contract and the country where the rule comes from is required.²¹

An important precedent for Article 7(1) Rome Convention was a Dutch decision in the *Alnati* case. This has widened the scope of applicability of conflicts mandatory rules of jurisdictions beyond the forum state with which the situation is closely connected.²² Yet, Member States' courts appear reluctant to consider directly applicable rules of other jurisdictions.²³ At level of the European Community (EC), Professor Radicati di Brozolo analyzes the European Court of Justice leading case *Eco Swiss China Time Ltd. v. Benetton*²⁴, affirming that arbitrators are to give due consideration to EC anti-trust law.²⁵

Another example of mandatory rules recognized by the legislature can be verified in Article 19(1) and (2) of the Private International Law of Switzerland.²⁶ In accordance with the practice developed under this provision, four conditions are prerequisite for its application:

(i) Clear evidence that the foreign legal provision is intended to be applied to the case mandatorily (so-called "*Anwendungswille*").

(ii) A close connection between the case and the foreign legal provision (so-called "*Zusammenhang*").

(iii) A preponderant interest of one of the parties that the foreign mandatory provision be taken into account ("*schützenwerte und offensichtlich überwiegende Interessen einer Partei*").

(iv) The relevant interests of the party deserve protection pursuant to the Swiss conception of law ("*Normzweck und Ergebniskontrolle*").²⁷

Thus, "[i]nternational contracts cannot be isolated within a conceptual vacuum. Though it may be convenient to apply a single law to their main part, the fact that such contracts have effects in other countries which may be vitally important for the parties or those countries themselves cannot be ignored in the name of sanctity of the applicable law."²⁸ In short, Stefan Kröll explains that:

The justification for the application of conflicts mandatory rules notwithstanding the *lex causae* stems from the double function of international contracts. Primarily they are the means by which the parties try to further their interest. ... However, contracts also

²¹ *Id.*, p. 96. "What constitutes such a close connection depends on the field of law the rule belongs to criteria often mentioned are the domicile of a party, the place of performance, and the effects in the country."

²² HR 13 May 1966, NJ 1967.

²³ H. L. E. Verhagen, *The Tension Between Party Autonomy and European Union Law: Some Observations on Ingmar Gb. Ltd. v. Eaton Leonard Technologies Inc.*, ICLQ 51.1(135) (January 2002), LEXIS at I (noting that Germany and the U.K. have opted out of article 7(1), but this does not mean that these courts cannot give effect to foreign mandatory rules).

²⁴ Case 126/97, *Swiss China Time Ltd. v. Benetton International CV*, 1999 E.C.R. I-3055 (1999).

²⁵ Luca G. Radicati di Brozolo, *Arbitrato, diritto della concorrenza, diritto comunitario e regole di procedura nazionali*, 9 REVISTA DELL'ARBITRATO 665, 666-669 (1999).

²⁶ Switzerland Federal Law on Private International Law (December, 18th 1987), SR 279.

²⁷ Marc Blessing, *Mandatory Rules of Law versus Party Autonomy in International Arbitration*, 14 JOURNAL OF INTERNATIONAL ARBITRATION 23, 28 No. 4 (December 1997).

²⁸ Kröll, *supra* note 21, p. 94.

have a second function in so far as they influence the structure of an economy and regulate the markets ... Given the overwhelming state interests, it is clear that the law applicable in these areas cannot be determined by the normal conflict of laws rules for contracts, the main objective of which is to promote private interests. In these fields of law, the decisive criterion for determining the applicable law is not the individual rightness of a contractual relation, but its economical rightness.²⁹

Moreover, one could say that mandatory rules “are justifiable if society wants to protect (1) parties within a contract, or (2) parties outside a contract.”³⁰ That is, it may be appropriate for the state to adopt a mandatory rule when the parties are unable to protect themselves when entering a contract (parentalism theory), or when third parties cannot protect themselves from the contract (externalities theory).³¹ The first case consists of situations where there is no equilibrium as to the bargaining power of the parties involved, e.g. consumer matters; the second case is appropriate where securities or competition matters are concerned.

As can be noticed, mandatory rules are—by definition—not subject to contractual variation, leaving nothing to contract out.³² So, given due consideration to the origins of mandatory rules in state courts, the following subchapter will address the treatment of mandatory rules in arbitration.

II. 2. Mandatory Rules in Arbitration

Nowadays one of the most difficult questions confronting arbitrators is that of the application of mandatory rules. This issue is prevalent in more than 50% of cases.³³ Indeed, “the extent to which an international tribunal must have regard to the mandatory rules of the law governing the parties’ relationship, the law of the forum, any supranational order and the law at the potential places of enforcement has been said to be one of the most difficult issues in international arbitration.”³⁴

Traditionally, arbitration doctrine and practice tended to refuse the application of rules that were not chosen by the parties. Nonetheless, it is clear that the states would only recognize this private justice, as long as it takes into account the general interests defended by the state.³⁵

²⁹ Kröll, *supra* note 21, p. 100.

³⁰ Christopher R. Drahozal, *Enforcing Vacated International Arbitration Awards: an Economic Approach*, 11 AM. REV. INT’L ARB. 451 (2000), LEXIS at 471 (citing Ian Ayres & Robert Gertner, *Filling Gaps in Incomplete Contracts: An Economic Theory of Default Rules*, 99 YALE L. J. 87, 88 (1989)).

³¹ *Id.*

³² Alan Scott Rau, *Arbitrability and Judicial Review: A Brief Rejoinder*, 13 WORLD ARB. & MEDIATION REP. 71 (March 2002), WL 13 WAMREP 71, 75.

³³ Blessing, *supra* note 28, p. 24.

³⁴ Sheppard, *supra* note 40, p. 231.

³⁵ Mayer, *supra* note 13, p. 114. “Comment l’Etat pourrait-il accepter de reconnaître une justice privée sans imposer en même temps à ceux qui la rendent de tenir compte des intérêts généraux – en tout cas de ceux qu’il défend lui-même?”

Nevertheless, Professor Pierre Mayer argues that considering the applicability of those rules in arbitration is delicate, since the arbitrators do not have a forum.³⁶ In fact, from the arbitrators' perspective, the rules can be seen as either part of the *lex contractus* or not.³⁷ Professor Goldman goes even beyond that, stating that an arbitral tribunal could be viewed as having a universal forum.³⁸

As far as the broad concept of public policy is concerned, Audley Sheppard explains that it embodies the following substantive categories of rules: "(1) mandatory rules/*lois de police*; (2) fundamental principles of law; (3) public order/good morals; (4) national interests/foreign relations."³⁹

Similarly, the notion of public policy or *ordre public*, according to Daniel Hochstrasser, includes both (1) foreign interventionist rules (*Eingriffsnormen*) and (2) mandatory rules of law. The first ones are provisions that interfere with private rights or relations for governmental or economic reasons. The second ones "mandatory rules" are imperative provisions that govern the international relationship, irrespective of the law that was supposed to govern it. These can include competition laws, currency control laws, environmental protection laws, measures of embargo, blockade or boycott, and laws designed to protect the weaker party in legal relationships.

Marc Blessing has classified mandatory rules into different categories. First, as to their origin, he explains that the interfering rules might pertain:

- (i) to the proper law of the contract (*lex causae*);
- (ii) to the law governing at the place of arbitration (*lex fori*)⁴⁰;
- (iii) to a legal order of a third country;
- (iv) to a supranational order, such as e.g. resolution of UN Security Council, EU competition laws, other norms pertaining to an international public policy; or

³⁶ Mayer, *supra* note 13, p. 113. "En un sens la position de l'arbitre est plus propice à l'application des lois de police que celle du juge. En effet, si aucune loi de police n'est pour lui celle du for, aucune n'est non plus étrangère."

³⁷ Pierre Mayer, *L'interférence des lois de police*, in SEMINAIRE DES 7 ET 8 AVRIL 1986 - L'ARBITRAGE COMMERCIAL INTERNATIONAL 46 (CCI Institut, Paris 1986). "L'arbitre n'y a pas pour lui de lois de police du for ou de lois de police étrangères mais simplement des lois de police extérieures à la *lex contractus*. Toute demi-mesure est donc exclue. La position de l'arbitre est aussi plus favorable à une pesée objective des intérêts qui s'attachent à l'application de la loi de police et de ceux qui s'attachent à l'application de la *lex contractus*; toutes les lois sont sur un pied d'égalité."

³⁸ Débats, *supra* note 13. "[C]omme vous l'avez dit très exactement, l'arbitre n'a pas de for, mais je voudrais compléter un peu votre formule en disant qu'il n'a pas de for national, mais qu'il a un for qui comme celui de romans de Balzac est l'univers. En d'autres termes, il a le for de l'ensemble de la collectivité internationale ..."

³⁹ Audley Sheppard, *Interim ILA Report on Public Policy as a Bar to Enforcement of International Arbitral Awards*, 19 ARBITRATION INTERNATIONAL 217, 228 (2003). See the same author for further explanations on substantive and procedural categories of public policy. Fraud/corrupt arbitrator, breach of natural justice/due process, lack of impartiality, lack of reasons, manifest disregard of the law, manifest disregard of the facts, *res judicata*, annulment at the place of arbitration are examples of procedural categories of public policy. pp. 230-243. See also *Resolution of the ILA on Public Policy as a Bar to Enforcement of International Arbitral Awards*, 19 ARBITRATION INTERNATIONAL 213, 213-215 (2003).

⁴⁰ Also called *lex arbitri*.

(v) to the legal order governing at the potential place where enforcement of the award might have to be sought.

Second, he classified the mandatory rules as to the policies and cultural values or social interests that aim to be protected:

(i) some are aimed solely at protecting certain monetary interests of the State, such as exchange control regulations or transfer restrictions;

(ii) some are of a merely policing nature;

(iii) others are aimed at safeguarding certain vital interests of a State and its people's welfare; and, in particular

(iv) others are aimed at protecting the free trade and the functioning of an effective market, such as competition laws.⁴¹

In fact, it is at the discretion of the arbitral tribunal to decide whether or not applying rules other than of the *lex contractus*. So, the arbitral tribunal "may find that the choice-of-law clause included by the parties in an agreement did not exclude the operation of mandatory rules of other legal systems."⁴² Hence, the arbitrators could apply mandatory rules as if they were facts like "*force majeure*" or "*immorality*". In addition, Professor Emmanuel Gaillard understands that the arbitrators would be under no duty to apply these rules.⁴³

Professor Pierre Mayer argued that mandatory rules should be applied if "the mandatory rule belongs to the *lex contractus*"; if "the parties have not expressly excluded its application"; and if "one of the parties has invoked it before the arbitrators."⁴⁴ But the fact is that there should be "no justification for assuming that the mandatory rules of the *lex contractus* have a special and paramount position and that therefore the interests of the state that provides the *lex contractus* have to be respected with less scrutiny than the interests of other."⁴⁵

So, the author of this paper agrees with Christophe Seraglini when arguing that the applicability of mandatory rules derived from the *lex contractus*, from the place of arbitration and from third states, should be given the same consideration, as long as one can verify an effective link between the mandatory provisions and the controversy at stake. In other words, mandatory rules are to be applied if their applicability seems to be legitimate.⁴⁶

⁴¹ Blessing, *supra* note 28, pp. 26-27.

⁴² Hochstrasser, *supra* note 44, pp. 68-69.

⁴³ Daniel Hochstrasser, *Choice of Law and "Foreign" Mandatory Rules in International Arbitration*, 11 JOURNAL OF INTERNATIONAL ARBITRATION 57, 58-59 No. 1 (March 1994). (quoting Emmanuel Gaillard, *Sentence arbitrale, Droit applicable au fond du litige*, DROIT INTERNATIONAL PRIVÉ FRANÇAIS (1991)). For more on the debate over direct or indirect application of mandatory rules in arbitration see Hochstrasser, *id.*, pp. 70-74.

⁴⁴ Mayer, *supra* note 18, p. 280.

⁴⁵ Voser, *supra* note 16, at 339-340.

⁴⁶ Christophe Seraglini further states that the legitimacy of the application of mandatory rules depends on the principles accepted by the international legal community of States. See CHRISTOPHE SERAGLINI, *LOIS DE POLICE ET JUSTICE ARBITRALE* 352-353 (Daloz, Paris 2001).

Hence, “just as freedom of contract . . . finds its limits at certain mandatory rules, the freedom of choice of law, which is nothing more than a different expression of the freedom of contract on the international level, finds its limits at the mandatory and applicable rules of the law affected by an international agreement.”⁴⁷ And, apart from this argument for the application of mandatory rules, there would be also the argument for the efficiency of the arbitral system. After all, one of the main concerns of international arbitration is a recognizable and enforceable rendering of arbitral awards; that is, arbitrators should think of the future of the award.

So, it is important to emphasize that the limits found in the mandatory rules applicable to certain international legal relationship may affect the arbitrability of this legal relationship. This is covered in the following chapter.

III. Arbitrability and Intellectual Property Mandatory Rules

Arbitrability means the capability of being subject to arbitration. This concept establishes the dividing line between where the exercise of contractual freedom ends and the public mission of adjudication begins.

Public policy in relation to arbitrability, even if it may still be a defense against enforcement, concerns the very beginning and basis of arbitration, namely the arbitration agreement or arbitration clause.⁴⁸ And, “[t]he question of whether international mandatory rules have an effect on arbitrability should be basically be treated similarly to the general question of whether mandatory rules have an influence on the choice of the applicable law.”⁴⁹

Professor Pieter Sanders explains that “[t]he domain of arbitration, i.e. the extent to which parties may submit disputes to arbitration, depends in the first place on the applicable arbitration law.” In addition, the domain of arbitration also relies on the legislator and on the courts “depending on the way they interpret the applicable law.”⁵⁰

National arbitration laws may adopt different formulas as to the domain of arbitration. For instance, they can determine that disputes in respect of which it is permitted to compromise, or which are at free disposition of the parties, etc., are arbitrable. But whatever general formula is used, an award rendered outside the domain of arbitration could be considered against the public policy of a given country.⁵¹

In essence, since it is a matter of national public policy, arbitrability can differ from one country to another.⁵² Indeed, national judges and arbitrators look at arbitrability issues

⁴⁷ Hochstrasser, *supra* note 44, p. 85.

⁴⁸ Robert Briner, *The Arbitrability of Intellectual Property Disputes with Particular Emphasis on the Situation in Switzerland*, in WORLDWIDE FORUM ON THE ARBITRATION OF INTELLECTUAL PROPERTY DISPUTES March 3 - 4, 1994, Geneva, Switzerland, available at <http://arbitrator.wipo.int/events/conferences/1994/briner.html>

⁴⁹ Voser, *supra* note 16, at 332.

⁵⁰ Pieter Sanders, *Arbitration*, in XVI INTERNATIONAL ENCYCLOPEDIA OF COMPARATIVE LAW 1, 63 Chapter 12 (J.C.B. Mohr & Martinus Nijhoff Publishers, 1996).

⁵¹ *Id.*, at 64.

from different angles. Therefore the freedom of the parties to opt for arbitration as an alternative to litigation may have different nuances.⁵³

To start, subjective and objective arbitrability should be distinguished. Subjective arbitrability (*ratione personae*) concerns whether a party, under the applicable law, may be permitted to agree on an arbitration clause. In contrast, objective arbitrability (*ratione materiae*) relates whether, under the applicable law, the parties may submit a certain dispute to arbitration.⁵⁴ So, this paper will address objective arbitrability only. That is, the effect of mandatory rules on the arbitrability of IP disputes.

Lack of arbitrability can be raised before the arbitral tribunal or before a national court even while the arbitral proceedings are pending. Still, the arbitral decision may be subject to judicial review, where a state court may take a “second look” at the arbitrability of the dispute either in a motion to set aside the arbitral award, or in a challenge of the final award at the recognition and enforcement stage.⁵⁵

Both the U.S. and Brazil are parties to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (hereinafter “New York Convention”).⁵⁶ As far as this convention is concerned, the issue of arbitrability can be raised at two different stages: first, on the level of the enforcement of the arbitration agreement; and second, on the level of the enforcement of the arbitral award.⁵⁷ In these circumstances, the mandatory rule of law governing the arbitrability plays an important role. Therefore, one must establish a criterion in order to determine it.

⁵² For further comments on the effects of public policy on arbitrability see JEAN-BAPTISTE RACINE, *L'ARBITRAGE COMMERCIALE INTERNATIONAL ET L'ORDRE PUBLIC* 25 et seq. (Librairie Générale de Droit et de Jurisprudence, Paris 1999).

⁵³ Patrick M. Baron & Stefan Liniger, *A Second Look at Arbitrability – Approaches to Arbitration in the United States, Switzerland and Germany*, 19 *ARBITRATION INTERNATIONAL* 27, 27-28 (2003).

⁵⁴ Albert Jan van den Berg, *New York Convention of 1958 – Consolidated Commentary – Cases Reported in Volumes XXII (1997) – XXVII (2002)*, in XXVIII *YEARBOOK COMMERCIAL ARBITRATION* 562, 628-629 (2003). See also Vesselina Shaleva, *The ‘Public Policy’ Exception to the Recognition and Enforcement of Arbitral Awards in the Theory and Jurisprudence of the Central and East European States and Russia*, 19 *ARBITRATION INTERNATIONAL* 67, 77-78 (2003).

⁵⁵ Baron, *supra* note 54, p. 27. See Shaleva, *supra* note 55, p. 78. “The question may be raised, as well, in proceedings before national courts at the time of recognition and enforcement of the arbitral award. Pursuant to article V(2)(a) of the New York Convention, arbitrability constitutes a separate ground for the refusal of enforcement of foreign arbitral awards. According to some authors, this text may be considered superfluous because arbitrability is part of public policy and is thus included in article V(2)(b).”

⁵⁶ Also Inter-American Convention on International Commercial Arbitration, made in Panama, January 30th, 1975, article 5(2)(b), ratified by 18 countries, including the U.S. and Brazil, available at <http://www.oas.org/juridico/english/treaties/b-35.htm>; and Inter-American Convention on Extraterritorial Validity of Foreign Judgments and Arbitral Awards, made in Montevideo, May 8th 1979, article 2(h), ratified 10 countries, including Brazil, but not the U.S., available at <http://www.oas.org/juridico/english/treaties/b-41.htm>

⁵⁶ New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958) (entered into force on June 7th, 1959), available at <http://www.uncitral.org/english/texts/arbitration/NY-conv.htm>

⁵⁷ Homayoon Arfazadeh, *Arbitrability under the New York Convention and Lex Fori Revisited*, 17 *ARBITRATION INTERNATIONAL* 73, 73 (2001). In the same way, Hon. Andrew Rogers QC, *Arbitrability*, 10 *ARBITRATION INTERNATIONAL* 263, 263 (1994).

At the stage of enforcement of the arbitration agreement (Article II(3) New York Convention), the law applicable to objective arbitrability is subject to considerable debate in the literature. Accordingly, Professor Albert van den Berg lists a wide range of solutions: (1) the law of the forum; (2) the law applicable to the arbitration agreement; (3) the law of the place of arbitration; (4) the law applicable to the merits; (5) the law of the country where enforcement of the award is sought; (6) the substantive rule of international law; and (7) a cumulative applicability of the foregoing. The vast majority of courts tend to apply the *lex fori* to determine objective arbitrability of disputes.⁵⁸

At the stage of enforcement of the arbitral award (Article V(2) New York Convention), the state court may take into account its own law when determining the domain of arbitration.⁵⁹

Notwithstanding the position described above by Professor Albert van den Berg, Homayoon Arfazadeh argues that the arbitrability issues should not be treated as a problem of *conflict of laws*, but rather of *conflict of jurisdiction*. Accordingly, he suggests the application of the *lex fori* to arbitrability matters since these issues derive from the *compulsory jurisdiction of national courts prompted by public policy*.⁶⁰

In contrast to the position of the two authors above mentioned, Marc Blessing concluded that “the issue of arbitrability should not be impaired by taking into account or applying any foreign mandatory rules of law; should not be impaired by the arbitrator’s concerns as to the enforceability of his award; but should be denied only if indeed the affirmation of arbitrability be regarded as a fundamental violation of public policy (as applicable in international affairs).”⁶¹

The author of the present paper believes that the position argued by Homayoon Arfazadeh regarding the application of the *lex fori* both to the challenge of an arbitral agreement and to the recognition and enforcement of an arbitral award might lead to certain “*lex forism*”, that is, an excessive application of the *lex fori*. Forum shopping must be minimized, even if it is true that its abolishment *in toto* is impracticable considering the plurality of jurisdictions and the multitude of interpretations that may arise out of a single provision of uniform law, e.g. European Union Conventions. So, the above interpretation of Articles II(3) and V(2) New York Convention by Professor Arthur van den Berg seems to be more appropriate.

Like all other property rights, IP rights are secured by the state. Hence, “a patent is secured by a patent grant, a trademark or service marks, by registration, and copyrights and trade secrets by operation of law, either statute or common law.”⁶²

⁵⁸ Van den Berg, *supra* note 55, p. 630.

⁵⁹ *Id.*, p. 666.

⁶⁰ Arfazadeh, note 58, pp. 74-76.

⁶¹ Blessing, *supra* note 28, p. 31.

⁶² George W. Coombe Jr., *The Resolution of Intellectual Property Disputes involving East Asian Parties*, 19 HASTINGS INT'L & COMP. L. REV. 707 (Summer 1996), WL 19 HSTICLR 707, 716.

⁶³ William Grantham, *The Arbitrability of International Intellectual Property Disputes*, 14 BERKELEY J. INT'L. 173 (1996), WL 14 BERKJIL 173, 220.

In so doing, some countries disfavor the arbitrability of IP rights "because the exclusionary property rights contained in registrations can be enforced against anyone." Inasmuch as an exclusionary property right confers rights on the holder against the rest of the world, the IP rights contain a per se implication of a virtually infinite number of parties.⁶³ Nonetheless, many countries permit the arbitration of IP rights, considering IP disputes capable of settlement and therefore arbitrable.⁶⁴

It is essential to clarify that there are two distinct sources of IP rights under the law. First, IP rights can be created by the act of a sovereign state, and usually these rights are recorded in a state register and limited to a time period, e.g. patent rights, certain copyrights, trade names, trade logos, insignias, and certain trademarks. So, it may be argued that the courts of a particular State would have exclusive jurisdiction to adjudicate issues related to these rights.⁶⁵

Second, there are IP rights that are created solely by the acts of the eventual holder of the right, e.g. trade secrets, certain copyrights, and common law trademarks. With these rights, there are much less plausible arguments that would go against their arbitrability.⁶⁶

Marc Blessing suggests a similar distinction based on whether the IP rights exist independently of registration. In general, the IP rights that do not depend on registration are copyright, trade secrets, and know-how related rights. Moreover, in many countries, for instance Germany, U.K., and Italy, all kinds of distinctive signs, such as trade names, emblems, signs, slogans, titles of books, magazines or newspapers, and the get-up of products can be protected as trademarks, even if they have not been registered by the owner. In addition, in the U.K. and in France unregistered design rights exist as well.⁶⁷

Regardless of whether the IP rights (1) were or not created by the holder, and (2) were or not registered, the IP rights are created against all third parties. In contrast, international commercial arbitration involves generally two parties to a contract so that in the arena of IP law certain limitations can be put on the so-called party autonomy.⁶⁸

For instance, controversies related to trade secrets, know-how, or confidential information are proper subject matter for arbitration in most countries. After all, being of private nature, these rights do not arise out of registration or examination. Yet, as far as injunctive relief is concerned, the public interest might be involved, and therefore it may affect both arbitrability and enforceability. Then it is suggested that the parties be aware of the policies in the place of arbitration and in forums of possible enforcement of the award.⁶⁹

⁶⁴ Sandra J. Franklin, *Arbitrating Technology Cases*, 80-JUL MICH. B.J. 30 (July 2001), WL 80-JUL MIBJ 30, 32.

⁶⁵ M. Scott Donahey, *Enforcement of Injunctive Relief and Arbitration Awards Concerning Title and Enforcement of Intellectual Property Rights in Asia and the Pacific Rim*, 19 HASTINGS INT'L & COMP. L. REV. 727 (Summer 1996), WL 19 HSTICLR 727, 728.

⁶⁶ *Id.* (noting that when creating an industrial or commercial secret and its subsequent defense, such as preservation of its confidentiality and the protection against its inadvertent disclosure the trade secret holder creates its own right; and that when the copyright holder notifies the public on each publication of the material that the material is copyrighted, he/she creates its right as well).

⁶⁷ Blessing, *supra* note 3, p. 201-202.

⁶⁸ Donahey, *supra* note 66, at 729.

⁶⁹ David W. Plant, *Myths and Misunderstanding Re Two Significant Aspects of ADR*, SB41 ALI-ABA 287 (Dec. 12, 1996), WL SB41 ALI-ABA 287, 296-297.

As for licensing or other contract rights, contractual disputes are typically arbitrable, as long as decision does not affect third parties. But a dispute as to the validity of a licensed patent may not be arbitrable in many countries. Here, injunctive relief may also affect arbitrability and enforceability.⁷⁰

It has been argued that the arbitrability of IP matters depends on the nature of the claim at stake. Matters related to ownership of intellectual property rights are far more controversial in terms of arbitrability, as they fall within the public interest because they relate to a grant or to a registration with a public authority.⁷¹

Infringement disputes raise polemic issues as well.⁷² The same happens with cases regarding the validity and enforceability of patents and trademarks, as the majority of countries do not permit arbitration over these issues.⁷³ Professor Pieter Sanders argues that the

⁷⁰ *Id.*, at 297.

⁷¹ *Id.*, at 297-298. (mentioning that “[c]ountries which appear to enforce arbitral awards regarding the ownership of registered intellectual property rights include Australia, Belgium, Canada, Czechoslovakia, China, Denmark, England, Germany, Italy, Mexico, Switzerland and the United States. The arbitrability of such rights appears to be improper, or at least in doubt, in Finland, France, Hungary, Ireland, Israel, Japan, Korea, the Netherlands, Spain and Sweden.”)

⁷² See Pagenberg, *supra* note 8 (stating that in Germany “[p]atent rights as such are assignable and can therefore be the subject of arbitration, and they can also be licensed (§ 15, Patent Act). It also goes without saying that a patentee can renounce his patent (§ 20, Patent Act). It is, therefore, the prevailing opinion that there are no limitations to the arbitrability of patent infringement matters. Limitations exist however with respect to nullity proceedings.”) See also Plant, *supra* note 70, at 298. (explaining that “Belgium, Canada, Switzerland and the United States permit the arbitration of disputes as to scope and infringement under most circumstances. Czechoslovakia, Denmark, England, Finland, Germany, Hong Kong, Ireland, Italy, Japan, the Netherlands, Spain and Sweden favor arbitration of scope and infringement disputes provided that the arbitral award does not affect third parties or the public. The arbitrability of scope and infringement disputes is not permitted in Hungary, Israel and Mexico and is in doubt in Brazil, Australia, France and Korea.”) Also Grantham, *supra* note 64, at 200-201 (commenting that in Argentina the copyright, trademark, patent and industrial model and design laws provide for penal sanction in the event of infringement, so that infringement issues relate to illegal acts, which are not arbitrable).

⁷³ Plant, *id.*, at 299. (commenting that in “[a] few countries, such as Belgium, Canada, Great Britain, Switzerland and the United States, appear to permit arbitration of validity questions regarding patents and trademarks.”) For an overview on the arbitrability of patent validity, see also Paul M. Janicke, “*Maybe we shouldn’t arbitrate*”: *Some Aspects of the Risk/Benefit Calculus of Agreeing to Binding Arbitration of Patent Disputes*, 39 Hous. L. Rev. 693 (2002), WL 39 HOULR 698-700. (explaining that “[t]he situation with respect to validity is more complex. Only a few countries—including Canada, Switzerland, and the United States—have explicitly embraced arbitrability of the question of patent validity of patents issued by them. Other countries, such as France and Italy, seem to follow a more restricted view, invoking the concept of *ordre public* to conclude that the question of validity is not arbitrable, but instead is subject to determination only by a public tribunal. In yet another group of countries the issue is subdivided. Private parties may arbitrate the validity question, but the result is binding only as between the parties and cannot bring about a general nullity as against other accused infringers. This situation appears to exist in Australia, Germany, the Netherlands, and the United Kingdom. For Japan, some commentators indicate that an arbitral determination of invalidity will not have general effect absent an invalidation decision from the Patent Office, but the lack of such decision would not seem to preclude the availability of invalidity as an affirmative defense in an arbitration. Additional complications for arbitrability are posed by the laws of some countries. In Argentina, a criminally illegal activity cannot be arbitrated, and unfortunately, patent infringement is such an activity. In China, the authority to conduct an arbitration that has international characteristics is vested exclusively in the China International Economic and Trade Arbitration Commission (CIETAC) so it does not appear possible for the parties to determine by contract how such arbitrations will be conducted. Brazil apparently follows the *ordre public* concept mentioned earlier, so that the question of patent validity is regarded as inarbitrable. In Canada, despite the general approbation of arbitrability of patent disputes, the whole question remains unclear because the Canadian courts have not squarely addressed the arbitrability of patent cases.”) Also, Briner, *supra* note 49.

non-arbitrability of the validity of patents or trademarks is quite expected, as “*a fortiori* an arbitrator cannot grant these rights.”⁷⁴

Hence, “[w]here intellectual property affords the owner the right to exclude the public from unauthorized use of the property, the intellectual property is manifestly imbued with the public interest” so that “there is troublesome uncertainty about the arbitrability of disputes where intellectual property rights are at issue—specially when different rights granted by different authorities are concerned.”⁷⁵ Now, this paper turns to the analysis of the question of arbitrability of IP disputes in the U.S. and in Brazil.

III. 1. American Approach

Historically, the U.S. courts tended to consider that extrajudicial resolution of disputes would oust their jurisdiction. This was based on the English Common-Law view that agreements to arbitrate were inherently revocable and therefore contrary to public policy.⁷⁶

Due to the expansion of world trade after the World War I and the treaties on arbitration in 1923 and 1927, the trading countries of the West increasingly enacted arbitration statutes.⁷⁷ The New York Arbitration Act of 1920 was the first modern arbitration statute in the U.S. that supported both institutional and *ad hoc* arbitration.⁷⁸

Considering the flooding of the courts, and the lobbying efforts of several business organizations, including a proposal made by the American Bar Association, the Federal Arbitration Act (FAA) was enacted in 1925.⁷⁹ It was “designed to reverse centuries of judicial hostility toward arbitration agreements and heralded the beginning of clear congressional support for a national policy honoring those agreements.”⁸⁰ In 1926 the American Arbitration Association was formed, establishing an organized system of arbitrating commercial disputes.⁸¹ Since then, the U.S. has expressed its commitment to

⁷⁴ Sanders, *supra* note 51, p. 66.

⁷⁵ Plant, *supra* note 70, at 296. See also Niblett, *supra* note 2, at 67.

⁷⁶ Michael R. Voorhess, *International Commercial Arbitration and the Arbitrability of Antitrust Claims: Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth*, 14 N. Ky. L. Rev. 65 (1987), WL 14 NKYLR 65, 66; John J. Kerr, Jr., *Arbitrability of Securities Law Claims in Common Law Nations*, 12 ARBITRATION INTERNATIONAL 171, 171 (1996). Nonetheless, Professor Derek Roebuck argues that it is quite controversial the assumption of judge's jealousy of arbitration influenced the earlier development of common law, because one cannot find enough evidences to support this assumption, see Derek Roebuck, *The Myth of Judicial Jealousy*, 10 ARBITRATION INTERNATIONAL 395, 406 (1994).

⁷⁷ *Id.*, at 67 & 90 (noting that the Geneva Treaties of 1923 and 1927 were superseded by the New York Convention of 1958, which was adopted by the U.S. with the enactment of the Federal Arbitration Act of 1970)

⁷⁸ N.Y. Civ. Prac. Law 7501-7514 (Consol. 1981).

⁷⁹ Jeffrey W. Stempel, *Pitfalls of Public Policy: the Case of Arbitration Agreements*, 22 St. MARY'S L.J. 259 (1990), WL 22 STMLJ 259, 277. For the Federal Arbitration Act, see Pub. L. No. 68-401, 43 Stat. 883 (1925) (current version at 9 U.S.C. §§ 1-14 (1982)).

⁸⁰ Jill A. Pietrowski, *Enforcing International Commercial Arbitration Agreements—Post Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 36 Am. U. L. Rev. 57 (Fall 1986), WL 36 AMULR 57, 61-62.

⁸¹ Stempel, *supra* note 80, at 275-276

international arbitration by becoming a party to several international treaties that govern arbitration, such as the New York Convention.⁸²

These developments converged with the U.S. Supreme Court's elaboration of a federal doctrine on international commercial litigation and arbitration.⁸³ Accordingly, agreements to arbitrate and arbitral awards had to be enforced. Enforcement was crucial because predictability in international commerce and the furthering of U.S. economic interests were extremely necessary.⁸⁴

In addition, the U.S. Congress has been active in passing legislation favoring arbitration. For example, in the early 1970s, several acts reflected the legislature's new determination to include arbitration explicitly in the statutory text, as in the Trans-Alaska Pipeline Authorization Act of 1973⁸⁵, and in the Commodity Futures Trading Commission Act of 1974.⁸⁶ Also, the same can be noticed under § 513 of the Americans with Disabilities Act (ADA)⁸⁷, and § 118 of the Civil Rights Act of 1991⁸⁸, which affects other statutes, such as the ADA, Title VII of the Civil Right Act of 1964, the Civil Rights Act of 1866 and the Age Discrimination of Employment Act of 1967.⁸⁹

⁸² Pietrowski, *supra* note 81, at 63. (the Federal Arbitration Act of 1970 enacted the New York Convention in the U.S.)

⁸³ See *Sherk v. Alberto-Culver Co.*, 417 U.S. 506, 510 & n.4 (1974) (recognizing that passage of the Act was specifically designed to eliminate judicial hostility toward arbitration). As for the U.S. Supreme Court's role in promoting arbitration, see Diane P. Wood, *The Brave New World of Arbitration*, 31 CAP. U. L. REV. 383 (2003), WL 31 CAPULR 383, 384-390 & 411 (citing: *Hardware Dealers' Mut. Fire Ins. Co. v. Glidden Co.*, 284 U.S. 151 (1931); *Prima Paint Corp. v. Flood & Conklin, Mfg.*, 388 U.S. 395 (1967); *Southland Corp. v. Keating*, 465 U.S. 1 (1985); and further cases that eliminated any doubt about the arbitrability of public law, statutory claims: *Mitsubishi case* (antitrust claims were held arbitrable); *Shearson/American Express Inc. v. McMahon*, 482 U.S. 220 (1987) (domestic Exchange Act cases under Rule 10b-5 and RICO claims were held arbitrable); *Rodriguez de Quijas v. Shearson/American Express, Inc.*, 490 U.S. 477 (1989) (securities claims were held arbitrable—*Wilko* was overruled); *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20 (1991) (labor claims were held arbitrable, being subject to a case-by-case analysis); *Allied-Bruce Terminix Companies, Inc. v. Dobson*, 513 U.S. 265, 281 (1995) and *Doctor's Associates, Inc. v. Casarotto*, 517 U.S. 681, 688 (1996) (states were held not authorized to adopt specific statutes invalidating arbitration clauses); *Circuit City Stores, Inc. v. Adams*, 532 U.S. 105 (2001) (labor claims were held arbitrable, as the exception concerning the arbitration of "contracts of employment of seamen, railroad employees, or any other class of workers engaged in foreign or interstate commerce" of the Federal Arbitration Act was construed narrowly)). For further comments on the U.S. Supreme Court's role, see also Hon., *supra* note 58, at 264-269; Joseph T. McLaughlin, *Arbitrability: Current Trends in the United States*, 12 ARBITRATION INTERNATIONAL 113, 114-116 (1996).

⁸⁴ *Id.*, at 516-517 & 629. For further comments, see RUSSELL J. WEINTRAUB, INTERNATIONAL LITIGATION AND ARBITRATION 100-101 (4th ed. 2003) (stating that, under the influence of *Mitsubishi*, lower courts have favored enforcement of international arbitration agreements even when public law claims are made (*Mitsubishi Motors v. Soler Chrysler-Plymouth*, 473 U.S. 614, 628-632 (1985))).

⁸⁵ Pub. L. No. 93-153, tit. II, 87 Stat. 576, 584 (codified at 43 U.S.C. §§ 1651-1655 (1988 & Supp. IV 1992)). For further comments, see Douglas E. Abrams, *Arbitrability in Recent Federal Civil Rights Legislation: the Need for Amendment*, 26 CONN. L. REV. 521 (Winter 1994), WL 26 CTLR 521, 533.

⁸⁶ Pub. L. No. 93-463, 88 Stat. 1389 (1974) (codified in scattered sections of 7 U.S.C.). For further comments, see Abrams, *supra* note 86, at 534.

⁸⁷ 42 U.S.C. § 12212 (1995).

⁸⁸ Pub. L. No. 102-166, 105 Stat. 1071.

⁸⁹ McLaughlin, *supra* note 84, p. 122-123.

As for IP arbitration, beginning in 1982 the U.S. Congress enacted a series of legislative acts providing for voluntary arbitration of patent disputes. First, there was the 35 U.S.C. § 294 of 1982.⁹⁰ It is important to notice that its “legislative history shows that Congress wished to make it clear that, notwithstanding some of contrary court decisions, arbitration could be used to decide disputes concerning patent validity and infringement.”⁹¹

Second, the Patent Law Amendments Act of 1984 replaced subsection (a) of 35 U.S.C. § 135, which broadened what constitutes patent interferences under § 135(d).⁹²

Finally, there was the enactment of the Semiconductor Chip Protection Act of 1984, which “sanctions litigation of disputes over royalties payable for innocent infringement chip-product rights unless they are resolved by voluntary negotiation, binding arbitration, or mediation.”⁹³

⁹⁰ Pub. L. No. 97-247, 96 Stat. 317 (1982) (codified as amended at 35 U.S.C. § 294 (1988)); effective on Feb. 27, 1983). Section 194 provides:

(a) A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, United States Code, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.

(c) An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. The parties to an arbitration may agree that in the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Commissioner. There shall be separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Commissioner. The Commissioner shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Commissioner, any party to the proceeding may provide such notice to the Commissioner.

(e) The award shall be unenforceable until the notice required by subsection

(d) is received by the Commissioner.

⁹¹ Robert B. von Mehren, *New Areas for International Commercial Arbitration*, 477 PLI/COMM 159 (Oct. 6, 1998), WL 477 PLI/Comm 159, 169.

⁹² Patent interferences are disputes created by two or more applications claiming a patent on the same subject matter. See Karl P. Kilb, *Arbitration of Patent Disputes: an Important Option in the Age of Information Technology*, 4 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 599 (Autumn 1993), WL 4 FDMIPMELJ 599, 605. See 35 U.S.C. § 135(d) (1988) (as amended by the Patent Law Amendments Act of 1984, Pub. L. No. 98-622, §§ 105, 203, 98 Stat. 3385, 3386 (1984)).

⁹³ Kilb, *supra* note 93, at 606. See Publ. L. No. 98-620, tit. III, § 302, 98 Stat. 3347-55 (1984) (codified as amended at 17 U.S.C. §§ 901-914 (1988 & Supp. IV 1992)). For further comments, see Abrams, *supra* note 86, at 535.

At this point, the author commences the analysis on arbitrability regarding specific areas of patent rights, copyrights, trademarks, and trade secrets.

a. Patents

Soon after the enactment of FAA of 1925, the patent exception to arbitrability was first recognized in 1930 in *Zip Manufacturing Co. v. Pep Manufacturing Co.*⁹⁴ Nonetheless, in 1982 the U.S. Congress made some amendments to the patent laws, but still took no position on whether the *Zip* line of cases had correctly interpreted the FAA.⁹⁵ In fact, the U.S. Congress legislatively overruled the patent version of the public policy exception. After all, the FAA was also considered to represent a "public policy" choice, as long as the arbitration system enhances the patent system and encourages innovation, that is to say that it would be less costly both to the parties and to the public.⁹⁶

The Court of Appeals for the Federal Circuit seems to favor arbitration. For instance, in *In re Medical Engineering Corporation*, the court of appeals upheld a district court order staying a patent infringement action in favor of arbitration.⁹⁷ Moreover, in *Rhone-Poulenc Specialities Chimiques v. SCM Corp.*, the court of appeals broadly construed the scope of an arbitration clause, in order to include issues regarding infringement and the scope of the licensed patent claims.⁹⁸

As for the statutory change of 1982, arbitral awards are binding inter partes only, and the parties may agree that the arbitral award will be modified where a court later makes a final decision on the validity or enforceability of the patent. Besides that, the enforcement of the arbitral award depends on whether the patentee gives the required notice of the award to the Commissioner of Patents and Trademarks (CPT).⁹⁹

Moreover, as far as the statutory change of 1984 is concerned, there has been some doubt as to the value of arbitration in the area of patent interferences, since the U.S.

⁹⁴ *Zip Manufacturing Co. v. Pep Manufacturing Co.*, 44 F.2d 184 (D. Del. 1930). See also *Beckman Instruments, Inc. v. Technical Develop. Corp.*, 433 F.2d 55, 63 (7th Cir. 1970) In the latter case it was held that due to the great public interest in challenging invalid patents, this issue was said to be nonarbitrable. In contrast, the ruling over disputes related to royalties pursuant to license agreements could be subject to binding arbitration. In this way, see David W. Plant, *Intellectual Property: Arbitrating Disputes in the United States*, 50-SEP DISP. RESOL. J. 9 (Jul./Sept. 1995), WL 50-SEP DRJ 9 & 16. Also, Rupak Nag, *Copyright Disputes: The Case for Writing Voluntary Arbitration into the Copyright Act*, 51-OCT DISP. RESOL. J. 8 (October 1996), WL 51-OCT DRJ 8, 10 & 16 (citing *N.V. Maatschappij Voor Industriële Waarden v. A.O. Smith Corp.*, 532 F.2d 874, 876 (2nd Cir. 1976); *Diematic Mfg. Corp. v. Packaging Indus.*, 381 F.Supp. 1057 (S.D.N.Y. 1974), appeal dismissed, 516 F.2d 975 (2nd Cir.), cert. denied, 423 U.S. 913 (1975); *Foster Wheeler Corp. v. Babcock & Wilcox Co.*, 440 F.Supp. 897, 901 (S.D.N.Y. 1970)). Also *Pietrovski*, *supra* note 81, at 70 & 92 (citing *Hanes Corp. v. Millard*, 531 F.2d 585, 593 (D.C. Cir. 1976) (determining that questions of patent validity were outside expertise and competence of arbitrators)).

⁹⁵ 35 U.S.C. § 294 (effective February 27, 1983)

⁹⁶ Michael A. Lindsay, 'Public' Rights and Private Forum: Pre-dispute Arbitration Agreements and Securities Litigation, 20 Loy. L.A. L. Rev. 643 (April 1987), WL 20 LYLALR 643, 682-683.

⁹⁷ *In re Medical Engineering Corporation*, 976 F.2d 746 (Fed. Cir. 1992).

⁹⁸ *Rhone-Poulenc Specialities Chimiques v. SCM Corp.*, 769 F.2d 1569 (Fed. Cir. 1985).

⁹⁹ See *supra* note 91, and *Grantham*, *supra* note 64, at 215.

Patent and Trademark Office (PTO) is not considered bound to any patentability determinations. In *Utter v. Hiraga*, the language of the 35 U.S.C. § 135(d) was understood not to preclude an arbitrator to make a patentability determination, although this is subject to the CPT's review.¹⁰⁰

The Court of Appeals for the Federal Circuit, however, in *Farrel Corp. v. U.S. International Trade Commission*, refused "to permit arbitration to supersede the jurisdiction of the U.S. International Trade Commission (ITC) over IP issues arising in a 19 U.S.C. § 13337(a) proceeding."¹⁰¹ The ITC complaint was on the grounds of misappropriation of trade secrets, trademark infringement, and false representations as to source. The Court of Appeals understood that there was a legal constraint that foreclosed arbitration, based on the *Mitsubishi Motors v. Soler Chrysler-Plymouth* holding that:

[a] party to an international transaction will be required to honor its agreement to arbitrate disputes involving statutory claims under U.S. law when the arbitration agreement reaches the statutory issues and when there are no legal constraints external to the agreement which foreclose arbitration of such claims.¹⁰²

Indeed, the Court of Appeals found that the *Mitsubishi* rationale was confined to judicial proceedings and not applicable to administrative proceedings, as in those of the ITC. The court also mentioned the case *Gilmer v. Interstate/Johnson Lane Corp.*, where an arbitration agreement was regarded as a waiver of access only to a judicial forum, but not to an administrative forum.¹⁰³ In short, the *Farrel* decision concerns the impact of an arbitration agreement after an ITC investigation has commenced.¹⁰⁴

b. Copyright

Unlike a patent dispute, disputes concerning copyright usually do not involve a contractual relationship, which could entail an arbitration agreement. Hence, this may be considered a reason for the lower amount of cases involving the arbitrability of copyright issues, since the parties tend to litigate their disputes.¹⁰⁵

Even though the U.S. Congress did not expressly authorize arbitration for copyright disputes in the Copyright Act of 1976 (Copyright Act)¹⁰⁶ or under Title 37 of the Code of

¹⁰⁰ *Utter v. Hiraga*, 845 F.2d 993 (Fed. Cir. 1988). For further comments on that, see Richard H. Kreindler, *Arbitration: A Creative Alternative to Intellectual Property Litigation in Light of Two Recent U.S. Supreme Court Decisions*, 9 WORLD ARB. & MEDIATION REP. 13 (January 1998), WL 9 WAMREP 13, 14-15. With this, the decision according to which the arbitrators do not have independent power to invalidate patents was not overlooked: *Ballard Medical Products v. Wright*, 823 F.2d 527, 531 (Fed. Cir. 1987).

¹⁰¹ *Farrel Corp. v. U.S. Int'l Trade Commission*, 949 F.2d 1147, 1150-51 (Fed. Cir. 1991). See Plant, *supra* note 95, at 9 & 16.

¹⁰² *Mitsubishi*, *supra* note 85, at 628.

¹⁰³ *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 111 S.Ct. 1647, 1653 (1991).

¹⁰⁴ Plant, *supra* note 95, at 10.

¹⁰⁵ Julia A. Martin, Note, *Arbitrating in the Alps rather than Litigating in Los Angeles: The Advantages of International Intellectual Property-Specific Alternative Dispute Resolution*, 49 STAN. L. REV. 917 (April 1997), WL 49 STNLR 917, 939.

¹⁰⁶ 17 U.S.C. §§ 1-810 (1988).

Federal Regulations¹⁰⁷, copyright license agreements may provide for arbitration. In *Kamakazi Music Corp. v. Robbins Music Corp.*, the Court of Appeals endorsed the arbitrability of copyright infringement claims where copyright matters other than validity were at stake.¹⁰⁸ In so doing, the court held that in “the circumstances of . . . [this] case, the arbitrator had jurisdiction to make an award under the Copyright Act,” and that “the arbitration clause was broad enough to encompass Copyright Act claims which required interpretation of the contract”.¹⁰⁹ Moreover, the court found that public policy grounds could not prevent the submission of copyright infringement issues to arbitration, since what falls within the public policy scope is the limited monopoly created by a valid copyright.¹¹⁰ As can be noticed from this decision, the validity of a copyright was not at issue.

In contrast, there are examples where all copyright claims were held arbitrable, including validity.¹¹¹ In *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, the Court of Appeals for the Seventh Circuit determined that “an arbitrator may determine the validity of a copyright when the issue arises in a copyright license lawsuit.”¹¹² Furthermore, the court stated that since antitrust issues involving an economic monopoly, and since patent validity issues could be subject to arbitration, there was no reason to prohibit arbitration of much less dangerous monopolies; that is, copyright monopolies are less dangerous than patent ones.¹¹³ However, the court made clear that any arbitral decision concerning validity would only be binding on the parties and could not be established against all potential infringers.¹¹⁴

Besides this Seventh Circuit decision, the Forth and the Second Circuit made explicit the growing trend favoring arbitration.¹¹⁵ Still, the arbitrability of copyrights is not quite settled. After all, one could argue that “an infringement or validity claim arising out of a copyright license dispute regarding, for instance, royalties, is probably arbitrable after *Saturday Evening Post*; yet, if the claim is based on federally registered copyright and relies directly on the Copyright Act, the claim is not arbitrable.”¹¹⁶

¹⁰⁷ 37 C.F.R. §§ 201.1-211.6 (1992).

¹⁰⁸ *Kamakazi Music Corp. v. Robbins Music Corp.*, 684 F.2d 228 (2nd Cir. 1982).

¹⁰⁹ *Id.* at 230-231.

¹¹⁰ See *Kamakazi*, at 231.

¹¹¹ *American Concept v. Irsay*, No. 84 C 10026 (N.D. Ill. Oct. 4, 1985). *Lindsay*, *supra* note 97, at 685 & 703.

¹¹² *Plant*, *supra* note 95, at 12. See *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1198-99 (7th Cir. 1987).

¹¹³ *Id.* See also *Summer Rain v. Donning Company/Publishers, Inc.*, 964 F.2d 1455, 1460-61 (4th Cir. 1992).

¹¹⁴ *Saturday Evening*, *supra* note 113, at 1198. See *Nag*, *supra* note 95, at 12 (citing *Lorber Industries of CA v. Los Angeles Printworks Corp.*, 803 F.2d 523 (9th Cir. 1986) (holding that the defendant could not be compelled to arbitration, as it was not a party to the copyright licensing agreement)).

¹¹⁵ *Summer Rain v. Donning Company/Publishers, Inc.*, 964 F.2d 1455, 1460-61 (4th Cir. 1992); See *Martin* *supra* note 106, at 940-941 & 970 (citing *McMahan Sec. Co. v. Forum Capital Markets*, 35 F.3d 82 (2nd Cir. 1994) (ruling that the presence of complex copyright issues did not preclude arbitration of the dispute); and *Folkways Music Publishers, Inc. v. Weiss*, 989 F.2d 108 (2nd Cir. 1993) (affirming arbitrators' resolution of an issue as to the ownership of copyrights)).

¹¹⁶ *Nag*, *supra* note 95, at 16.

c. Trademarks

The area of trademarks is not as developed as that of patent law, due the lack of contractual relationships between the parties. As a result, there is not sufficient incentive to pursue arbitration. Like copyrights, no federal or state authority has provisions regarding binding arbitration to trademark disputes.¹¹⁷

David Plant explains that "in contrast to patent rights and copyrights, rights in a trademark in the U.S. arise primarily under the common law as the result of appropriate use of the mark. Such rights may be augmented by registration pursuant to the Federal Trademark (Lanham) Act of 1946, or by registration to one or more state trademarks acts, or both." So, as for trademark matters, validity appears to be arbitrable where the issues arise out of a license agreement, rather than a federal trademark statute.¹¹⁸

But this was not what was decided in *Wyatt Earp Enterprises v. Sackman, Inc.*, in which Wyatt Earp claimed trademark infringement after the expiration of the license agreement. In this case the court held that, because the claim was a tort cause of action rather than a contract dispute, it was not covered by the arbitration clause.¹¹⁹

Three years later the same court, in *Saucy Susan Products, Inc. v. Allied Old English, Inc.*, decided that disputes over trademarks and trade names were arbitrable, considering decisions of the U.S. Court of Appeals for the Second Circuit favoring arbitration.¹²⁰

In *Homewood Industries, Inc. v. Caldwell*, however, a district court in Illinois found that trademark infringement claims were not arbitrable, holding that the jurisdiction of the district court over a cause of action arising under the federal trademark (and patent) laws was exclusive pursuant to 28 U.S.C. § 1338. But this party's assumption that the Congress' intent not to allow arbitration had grounds on the absence of a provision regarding arbitration in the Trademark Law.¹²²

Moreover, in *U.S. Diversified Industries, Inc. v. Barrier Coatings Corporation*, a district court understood that the trademark infringement issue was within the scope of the broad arbitration agreement.¹²³ This decision reveals the need of care when drafting

¹¹⁷ Martin, *supra* note 106, at 941.

¹¹⁸ See *Necchi Sewing Mach. Sales Corp. v. Necchi S.p.A.*, 369 F.2d 579 (2nd Cir. 1966) (holding that a claim for unauthorized use of trademark was arbitrable pursuant to the parties's arbitration agreement); *Givenchy S.A. v. William Stuart Indus. (Far East)*, No. 85 civ. 9911 (S.D.N.Y. Mar. 10, 1986) (stating that trademark infringement claims are generally arbitrable under the Second Circuit law); *Saucy Susan Prods., Inc. v. Allied Old English, Inc.*, 200 F. Supp. 724, 728 (S.D.N.Y. 1961); *Hilkers Indus. v. William Stuart Indus.*, 640 F. Supp. 175, 177 (S.D.N.Y. 1986). Lindsay, *supra* note 97, at 685 & 703; Plant, *supra* note 95, at 12; and Martin, *supra* note 106, at 941 & 970.

¹¹⁹ *Wyatt Earp Enterprises v. Sackman, Inc.*, 157 F.Supp. 621 (S.D.N.Y. 1958).

¹²⁰ *Saucy Susan Products, Inc. v. Allied Old English, Inc.*, 200 F.Supp. 621 (S.D.N.Y. 1958).

¹²¹ *Homewood Industries, Inc. v. Caldwell*, 360 F.Supp. 1201 (N.D. Ill. 1973).

¹²² *Alexander Binzel Corp. v. Nu-Tecsys Corp.*, No. 91-C2092, 1992 WL 26932 (N.D. Ill. Feb. 11, 1992).

¹²³ *U.S. Diversified Industries, Inc. v. Barrier Coatings Corporation*, Civil No. 83-2124-T (D.Mass. October 18th, 1982). In the same way, see *B.V.D. Licensing Corp. v. Maro Hosiery Corp.*, 688 F. Supp. 961 (S.D.N.Y. 1988).

arbitration clauses in the IP arena.¹²⁴ Or, even better, it means that arbitrability of these issues remains somewhat unsettled.

d. Trade Secrets

Similar to copyright and trademark matters, neither federal nor state legislation provides for arbitration of trade secret misappropriation issues. Prior to the leading cases on the arbitrability of antitrust disputes, there was some hesitancy as to the arbitration of trade secrets due to competition law concerns.¹²⁵

For instance, in *A. & E. Plastik Pak Co. v. Monsanto Co.*, the Ninth Circuit held that, due to these concerns, a trade secret dispute could not be arbitrable.¹²⁶ So, after the U.S. Supreme Court's last rulings on the arbitrability of antitrust cases¹²⁷, in *Aerojet-General Corp. v. Machine Tool Works*, the Court of Appeals for the Federal Circuit affirmed the district court's order to arbitrate claims related to trade secret misappropriation.¹²⁸

In addition, the legal treatment of trade secrets is more local, as it is made by state courts, and therefore it is different from that of patent, copyright, and trademark infringement, which are bound up in federal law and so implicate certain public policy and exclusive jurisdiction issues. Hence, courts are likely to hold that trade secret claims are arbitrable.¹²⁹

III. 2. Brazilian Approach

In Brazil, arbitration can be traced back to Imperial times.¹³⁰ Until 1866, the Commercial Code of 1850 provided for mandatory arbitration for certain issues. Arbitration was uniformly regulated in the country with the enactment of the Civil Procedure Code of 1939, which was replaced by the Civil Procedure Code of 1973 (CPC).¹³¹

The *Lei de Arbitragem*, or Brazilian Law on Arbitration No. 9.307 of 1996 (Arbitration Law)¹³², derogates the CPC of 1973¹³³ provisions that relate to arbitration. The Arbitration Law in Brazil was inspired by many international arbitration instruments, such as the UNCITRAL Model Law¹³⁴, the

¹²⁴ Plant, *supra* note 95, at 13. See also Plant, *supra* note 70, at 299-300, where he suggests a model of IP arbitration clause, which could be more likely to assure the enforcement of an arbitral award on the above-discussed controversial areas of IP.

¹²⁵ Martin, *supra* note 106, at 942.

¹²⁶ *A. & E. Plastik Pak Co. v. Monsanto Co.*, 396 F.2d 710 (9th Cir 1968).

¹²⁷ See, e.g., *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth*, 473 U.S. 614 (1985).

¹²⁸ *Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736, 738 (Fed. Cir. 1990).

¹²⁹ Martin, *supra* note 106, at 943.

¹³⁰ Brazil was a Portuguese colony till September, 7th 1822, when Brazil got independent. With its Independence, Brazil became a Kingdom, governed by the successors of the Portuguese monarchy. Only on November 15th, 1889 Brazil became a Federal Republic.

¹³¹ NÁDIA DE ARAÚJO, DIREITO INTERNACIONAL PRIVADO, TEORIA E PRÁTICA BRASILEIRA 415-416 (Editora Renovar 2003).

¹³² Lei No. 9.307, de 23 de setembro de 1996, D.O.U. de 24.09.1996.

¹³³ C.P.C., or Lei No. 5.869, de 11 de janeiro de 1973, D.O.U. de 17.11.1973.

¹³⁴ UNCITRAL Model Law on International Commercial Arbitration, U.N. Doc. A/40/17, Annex I (as adopted on June 21, 1985), *available* at <http://www.uncitral.org/english/texts/arbitration/ml-arb.htm>

old Spanish Arbitration Act of 1988¹³⁵, the New York Convention¹³⁶, and the Inter-American Convention on International Commercial Arbitration (Panama Convention)¹³⁷.

Indeed, only after the enactment of the Arbitration Law of 1996 did arbitration receive enhanced credibility in Brazil. Before, arbitration agreements were not capable of specific performance, so that the party refusing to arbitrate could simply pay damages for breach of the arbitration clause instead of being actually bound by the arbitration clause. Furthermore, for the recognition of foreign arbitral awards by the *Supremo Tribunal Federal*, or Brazilian Federal Supreme Court (STF), the so-called "*processo de homologação de sentença arbitral estrangeira*", or recognition of foreign judgments procedure¹³⁸, required both the *homologação* or recognition in the country where the arbitral award was made and in Brazil in order to enforce it in Brazil.

Thus, at the international level, Brazil did not have a good reputation concerning international arbitration. Today, before foreign arbitral awards are referred to a state court for execution, the STF's recognition procedure still covers issues related to the compliance with service requirements and public policy interests.¹³⁹

In contrast to its U.S. counterpart, the Brazilian law on objective arbitrability is based upon express provisions of law. According to Article I of the Brazilian Arbitration Law, property rights that involve rights at free disposal of the parties may be subject to arbitration (*direitos patrimoniais disponíveis*).¹⁴⁰ In so doing, contractually accessible rights differ from statutory rights in the sense that the latter are political commands, enacted in the name of the common good, which are for or against certain types of conduct or groups in society. In this case, non-arbitrability would arise where private autonomy ceases and collective interests take hold.¹⁴¹

¹³⁵ Ley de Arbitraje (Dec. 5, 1988, 36/1988). Last December this Act was replaced by the new Spanish Arbitration Act of 2003, Ley de Arbitraje (Dec. 23, 2003, 60/2003) (entered into force on March 26th, 2004).

¹³⁶ See *supra* note 57.

¹³⁷ See *supra* note 56.

¹³⁸ The Brazilian process of recognition of foreign judgments applies to the recognition of foreign arbitral awards, and it is regulated by articles 483 and 484 C.P.C., article 15 of the "*Lei de Introdução ao Código Civil*" (LICC) or Civil Code Introductory Law (Decreto-Lei No. 4.657, de 4 de setembro de 1942, D.O.U. 18.09.1942), and articles 215-224 of the "*Regimento Interno do Supremo Tribunal Federal*", or Internal Rules of the STF, dated as of October, 15th 1980, available at <http://www.stf.gov.br/institucional/regimento/>

¹³⁹ Brazil has a centralized process of recognition and enforcement of foreign judgments, which includes foreign arbitral awards. In so doing, every single judgment or award decided abroad has to go through the *homologação* process by the STF.

¹⁴⁰ See *supra* note 133, Brazilian Arbitration Law, article 1: "*As pessoas capazes de contratar poderão valer-se da arbitragem para dirimir litígios relativos a direitos patrimoniais disponíveis.*" For further comments on that, see JOEL DIAS FIGUEIRA JR., *ARBITRAGEM, JURISDIÇÃO E EXECUÇÃO* 177-178 (Editora Revista dos Tribunais 2nd ed. 1999); BEAT WALTER RECHSTEINER, *ARBITRAGEM PRIVADA INTERNACIONAL NO BRASIL* 56 (Editora Revista dos Tribunais 2nd ed. 2001).

¹⁴¹ As for the Mercosul countries, Brazil is the only one that links the idea of arbitrability to that of freely disposable rights. Argentina, Uruguay and Paraguay all link it to the notion of *transacción* or settlement. For Argentina, articles 737 and 738 of the *Cód. Proc. Civ. y Com.*, bk. VI, tit. I.; for Uruguay, article 472, § *único* of the *Cód. General Proc.*, tit. VIII, ch. I, for Paraguay, article 774, *caput* of the *Cód. Proc. Civ. Proc. Arb.*, tit. I, ch. I. For further comments on these provisions, see Alex Kalinski Bayer, *Arbitragem e Jurisdição*, 19 *REVISTA DE DIREITO BANCÁRIO, FINANCEIRO, DO MERCADO DE CAPITAIS E DA ARBITRAGEM* 296, 297 (Jan./Mar. 2003); LEE, *supra* note 143, pp. 60-61.

In order to exemplify what freely disposable rights are, it is crucial first to give an overview of the Brazilian objective arbitrability. As can be inferred from the above-mentioned Article I, not all property rights relate to personal rights over which individuals have basic authority and discretion.¹⁴² Freely disposable rights are therefore those that can be transferable, assigned, relinquished and negotiated.¹⁴³

According to Article 92, II of the CPC and Article 3, §1^o of the *Lei dos Juizados Especiais Cíveis e Criminais*, or Law on the Courts of Small Claims No. 9.099 of 1995, freely disposable rights do not include rights that are held so by legal provisions, such as rights concerning the status and capacity of people, or those that are related to maintenance and support of children, insolvency and tax law, labor accidents, and waste disposal.¹⁴⁴ Furthermore, freely disposable rights do not cover rights that are the basis for causes of action that require the intervention of the *Ministério Público* or Public Prosecutor.¹⁴⁵ Moreover, individuals have no basic authority or discretion over antitrust¹⁴⁶, family¹⁴⁷, and wills and states issues.¹⁴⁸ Therefore, these issues are non-arbitrable in Brazil. Still, there are controversies as to consumer arbitration, specifically when a one-sided arbitration clause is at stake.¹⁴⁹

On the other hand, corporate law issues may be subject to arbitration. For instance, under Article 129, § 2^o of the *Lei das S/A*, or Law on the Business Corporations No. 6.404 of 1976¹⁵⁰, arbitration agreements may be included in bylaws of Brazilian corporations.

¹⁴² JOÃO BOSCO LEE, *ARBITRAGEM COMERCIAL INTERNACIONAL NOS PAÍSES DO MERCOSUL* 62 (Editora Juruá 2003).

¹⁴³ Antonio José de Mattos Neto, *Direitos Patrimoniais Disponíveis e Indisponíveis à luz da Lei da Arbitragem*, 361 *REVISTA FORENSE* 293, 296 (May/Jun. 2002).

¹⁴⁴ See C.P.C. article 92: "Compete, porém, exclusivamente ao juiz de direito processar e julgar: I. o processo de insolvência; II. as ações concernentes ao estado e à capacidade da pessoa." See also Lei No. 9.099, article 3, § 2: "Ficam excluídas da competência do Juizado Especial as causas de natureza alimentar, falimentar, fiscal e de interesse da Fazenda Pública, e também as relativas a acidentes de trabalho, a resíduos e ao estado e capacidade das pessoas, ainda que de cunho patrimonial." (Lei No. 9.099, de 26 de setembro de 1995, D.O.U. de 27.09.1995).

¹⁴⁵ José Maria Rossani Garcez, *Arbitrabilidade no Direito Brasileiro e Internacional*, 12 *REVISTA DE DIREITO BANCÁRIO, FINANCEIRO E DO MERCADO DE CAPITAIS* 337, 339 (Apr./Jun. 2001).

¹⁴⁶ João Bosco Lee, *O Conceito de Arbitrabilidade nos Países do Mercosul*, 8 *REVISTA DE DIREITO BANCÁRIO, FINANCEIRO E DO MERCADO DE CAPITAIS* 346, 354-357 (Apr./Jun. 2000). See also Mattos Neto, *supra* note 144, p. 302.

¹⁴⁷ Marcos Paulo de Almeida Salles, *Da Arbitrabilidade*, 10 *REVISTA DE DIREITO BANCÁRIO, FINANCEIRO E DO MERCADO DE CAPITAIS* 360, 363 (Oct./Dec. 2000). See also Mattos Neto, *supra* note 144, p. 300.

¹⁴⁸ Mattos Neto, *supra* note 144, p. 300.

¹⁴⁹ Selma Lemes argues consumer disputes are arbitrable, even if one-sided contracts are considered, on the grounds of article 4, §2^o of the Arbitration Law or *Lei de Arbitragem* No. 9.307/96. Selma M. Ferreira Lemes, *Arbitragem e Direito de Consumo*, 0 *REVISTA BRASILEIRA DE ARBITRAGEM* 188 (Jul./Oct. 2003) But, Professor Cláudia Lima Marques (a Brazilian consumer law expert) does not agree on that, considering impractical the use of arbitration where weaker parties are involved, on the grounds of article 51, VII of the *Código de Defesa do Consumidor* or Consumers Law No. 8.078/90. Arguing against consumer arbitration see Mattos Neto, *supra* note 144, p. 30.

¹⁵⁰ Lei das S/A No. 6.404, de 15 de dezembro de 1976, D.O.U. de 17.12.1977 (suplemento).

Moreover, either in case a Labor Union is involved in a labor dispute or in case arbitration is foreseen under a statutory provision, arbitration involving labor law may take place.¹⁵¹

Still, there is much uncertainty regarding arbitrability of disputes in Brazil¹⁵², and that applies to IP matters as well.

In Brazil IP disputes are considered potentially arbitrable, since property rights are considered generally arbitrable. But the controversial question is where to draw a line between freely and non-disposable rights. In this sense, one has to look for limits arising out of public policy concerns.

For instance, Article 75, § 3 of the *Lei de Propriedade Industrial*, or Law on Industrial Property No. 9.279 of 1996 (LIP)¹⁵³ requires special governmental authorization for the grant of patents that relate to the national security. Definitively, matters related to this kind of situation are not arbitrable. After all, the Brazilian public policy would be at issue.

A similar rationale would apply for the arbitrability over the validity matters. Article 57 of the LIP mandates that causes of actions concerning the nullity of patents, industrial design, and trademarks must fall within the exclusive jurisdiction of Brazilian federal courts, where the INPI—in case it is not the claimant—is to intervene obligatorily.¹⁵⁴ Of course, this does not mean that an arbitrator could not even consider the validity of an IP right in rendering an award, but rather, that he/she cannot declare the nullity of an IP right and intend it to be effective *erga omnes*.

Under Article 18 LIP, major concerns, such as morals, security, public health, and public policy are noted, so that the IP disputes involving these issues would not be arbitrable.¹⁵⁵ Furthermore, issues related to compulsory licenses and to IP crimes are not arbitrable as well.¹⁵⁶

¹⁵¹ Garcez, *supra* note 146, p. 346 (citing the article 114, §§ 1 and 2 of the C.F.) In other circumstance, even without the participation of a Labor Union, arbitration is foreseen under article 7 of the Law on Strikes No. 7.783 (Lei No. 7.783, de 28 de junho de 1989, D.O.U. de 29.06.1989); article 23, § 1 of the Law on Ports No. 8.630 (Lei No. 8.630, de 25 de fevereiro de 1993, D.O.U. de 26.02.1993); and article 4, II of the Law the Share of Profits by Employees No. 10.101 (Lei No. 10.101, de 19 de dezembro de 2000, D.O.U. de 20.12.2000). Also, GEORGENOR DE SOUZA FRANCO FILHO, A NOVA LEI DA ARBITRAGEM E O DIREITO DO TRABALHO 20 (Editora LTr 1997).

¹⁵² LEE, *supra* note 143, p. 60.

¹⁵³ See article 75: “O pedido de patente originário do Brasil cujo objeto interesse à defesa nacional será processado em caráter sigiloso e não estará sujeito às publicações previstas nesta lei. § 1. O INPI encaminhará o pedido, de imediato, ao órgão competente do Poder Executivo para, no prazo de 60 (sessenta) dias, manifestar-se sobre o caráter sigiloso. Decorrido o prazo sem a manifestação do órgão competente, o pedido será processado normalmente. § 2. É vedado o depósito no exterior de pedido de patente cujo objeto tenha sido considerado de interesse da defesa nacional, bem como qualquer divulgação do mesmo, salvo expressa autorização do órgão competente. § 3. A exploração e a cessão do pedido ou da patente de interesse da defesa nacional estão condicionadas à prévia autorização do órgão competente, assegurada indenização sempre que houver restrição dos direitos do depositante ou do titular. (Lei No. 9.279, de 14 de maio de 1996, D.O.U. de 15.05.1996).

¹⁵⁴ See *supra* note 154, article 57: “A ação de nulidade de patente será ajuizada no foro da Justiça Federal e o INPI, quando não for autor, intervirá no feito. § 1. O prazo para resposta do réu titular da patente será de 60 (sessenta) dias. § 2. Transitada em julgado a decisão da ação de nulidade, o INPI publicará anotação, para ciência de terceiros.”

¹⁵⁵ See LIP article 18, I: “Não são patenteáveis: I - o que for contrário à moral, aos bons costumes e à segurança, à ordem e à saúde públicas.” See also Luiz Guilherme de A. Vieira Loureiro, *Arbitragem e Propriedade Industrial*, 5 REVISTA DE DIREITO PRIVADO 149, 156 (Jan./Mar. 2001).

¹⁵⁶ *Id.*, pp. 156-157. See also LIP articles 68-74, regarding mandatory licensing; and articles 183-195, covering IP crimes, including the ones related to antitrust issues.

Finally, it is important to stress that the *Instituto Nacional de Propriedade Intelectual*, or National Institute for Intellectual Property (INPI), recognized the possibility of including arbitration clauses in licensing and know-how contracts.¹⁵⁷ Thus, it appears that IP disputes that are arbitrable include those capable of settlement such as patent licenses, trademark assignments, publishing contracts and franchising agreements. Nonetheless, given the previous considerations, questions that raise public policy issues probably render disputes arising thereof non-arbitrable.

Either way, in Brazil “experimentation” will have to be the word of the day, as for now there have not been many judicial decisions on this topic.¹⁵⁸

IV. Conclusion

An English judge in 1984 envisioned public policy as: “a very unruly horse, and when once you get astride it you never know where it will carry you. It may lead you from sound law. It is never argued at all, except when other points fail.”¹⁵⁹ Hence, the truth is that both uncertainty and inconsistencies concerning the interpretation and application of public policy by State courts encourage the losing party in arbitration to rely on public policy to resist, or at least delay, enforcement. Perhaps to keep that “unruly horse” over control there could be a harmonization of the notion of public policy around the world.¹⁶⁰

But it is true that much has to be done in order to get to this distant and perhaps even idyllic goal. The modern world’s growing exploitation of IP collides with the principle of territoriality of IP rights.¹⁶¹ And, in order to tackle with this endeavor, state courts, arbitral tribunals, legislative and executive bodies, and legal scholars need to join efforts.

As for arbitration, it would be quite unsound if it were indifferent to the general interests identified by the law, even if arbitrators are reluctant to see the ship founder¹⁶², in case they had to declare the non-arbitrability of a dispute. The present author agrees with Marc Blessing that the arbitrators are neither the guardians of the interests of States, nor the obedient servants of the parties.¹⁶³ Hence, there must be a balance, where arbitrators keep an eye on the limits of arbitrable matters, in order to promote the so-called efficiency of the arbitration system.

¹⁵⁷ Selma Maria Ferreira Lemes, *Arbitragem em Propriedade Intelectual—Instituições Arbitrais*, 74 REVISTA DE DIREITO CIVIL, IMOBILIÁRIO, AGRÁRIO E EMPRESARIAL 120, 126-127 (Oct./Dec. 1995). See also Ato Normativo No. 120 (Dec. 17, 1993).

¹⁵⁸ For an example of enforcement of an arbitration agreement in a know-how contract, see TJRJ, Apelação Cível No. 2001.001.28808, Relator: Desembargador Gilberto Rego, 30.04.2002 (Evadin Ind. Amazônia Ltda. v. Mitsubishi Electric Corporation (MELCO)).

¹⁵⁹ Richardson v. Mellish, (1824) 2 Bing. 228; [1824-34] All ER Rep. 258.

¹⁶⁰ Sheppard, *supra* note 40, pp. 247-248.

¹⁶¹ Patrick Nutzi, Article, *Intellectual Property Arbitration*, E.I.P.R. 1997, 19(4), 192-197 (1997), WL EIPR 1997, 19(4), 192.

¹⁶² Pierre Mayer, *Reflections on the International Arbitrator's duty to apply the Law*, 17 ARBITRATION INTERNATIONAL 235, 244 (2001).

¹⁶³ Blessing, *supra* note 28, p. 40.

It is also true that the expansion of arbitrability, which can be noticed in the U.S. and probably soon will be noticed in Brazil, imposes certain standards on the conduct of arbitrations. In this regard, Professor Robert von Mehren adds that arbitrators should be both competent and neutral.¹⁶⁴

In conclusion, there is a great deal of policy and ideas that need to be developed concerning arbitration in Brazil. The U.S. has been considering arbitration longer than Brazil. First of all, the debate on arbitrability of IP disputes in the U.S began decades ago. Second, the expansion of arbitrability was dealt from the very enactment of the FAA in 1925 as a matter of public policy, in order to further the American economic development at the domestic and international level. Third, American law places a greater emphasis on the contractual nature of arbitration, which would better allow parties to adapt this dispute resolution method to their commercial needs.¹⁶⁵ Finally, the arbitration is much more institutionalized in the U.S., which enhances the social trust on arbitration. On the other hand, in Brazil, an intense debate on arbitrability began only with the enactment of the Arbitration Law in 1996. Only until recently the constitutionality of this statute was affirmed; in December 2002 the STF decided on the constitutionality of binding arbitration agreements.¹⁶⁶

Nonetheless, the arbitrability of IP disputes in Brazil is pretty similar to that of other countries, as Germany and France. So, the fact is that Brazil is not so conservative; however this assertion depends on your point of reference. Of course, in the U.S. the arbitrability of IP disputes is far more liberal than in Brazil, and this is not surprising considering the historical developments of each of these countries.

Thus, the duty now is to make arbitration as fair, accountable, and cost-effective as possible. The hope is that the Brazilian society, as a whole, could envision the myriad of benefits that arbitration can bring. Time will tell.

¹⁶⁴ Von Mehren, *supra* note 92, at 169.

¹⁶⁵ Professor Rau compares the contractual nature of the American model of arbitration to the European trend which "is to consider the essence of arbitration as the exercise of quasi-judicial power, and thus for arbitral procedure to follow that of State Courts." See Alan Scott Rau & Catherine Pédamon, *La Contractualisation de L'arbitrage: le Modèle Américain*, 3 REVUE DE L'ARBITRAGE 451, 451-452 (2001).

¹⁶⁶ STF, SE No. 5206 (AgRg), Relator: Ministro Mauricio Corrêa, 12.12.2001, D.J. 30.04.04.