

Settling Licensing Disputes

Get the agreement right and avoid problems; where there is trouble you may have to consider arbitration or court to resolve it

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The quickest way to settle any dispute is to give in at once. It is very effective and has a good success record in ending anything, including your job. So that is rarely on.

In real life, you negotiate or you go to arbitration or the courts. To do the job thoroughly you have to regard the arbitration or the litigation as part of the negotiation process and be prepared to seize the chance to settle reasonably should it arise.

Von Clausewitz, whose principles are reckoned to have created the German army, said that most battles are lost or won before they start. So let's start with what decides the battlefield and the weapons. They will give you a reasonable chance or they will cripple you.

There are two things to decide:

- Define the applicable law if the agreement is between parties in different countries.
- Decide between arbitration and going to the courts.

If you don't define the law in an international agreement, you can be in a mess. Here is an example:

An English company had an agreement with a German company. The agreement did not specify the applicable law. One could argue that it was governed by English law, but a lot of the action under the agreement was in Germany. The basic rule is that the proper law is the system with which the transaction has the closest and most real connection. That really doesn't help much, particularly in a license agreement where the action is pretty evenly divided. So the English party couldn't decide really where it stood. It didn't know which law applied and it couldn't decide which rules to use to imply some important terms.

About a year after the date of this agreement, there were discussions between the parties. These were followed by a new fuller document signed by the English party. It specified English law. But the German party never acknowledged it. It did appear, however, to have extended its operation in accordance with the new

terms. So where did the contract now stand?

If English law applied, the English party could use the rule in *Brogden v Metropolitan Rail Co.* (1877 2 App. Cas. 666). In that case one party had sent a signed agreement to the other who did not sign it but put it in his desk and did nothing more about the document. The parties then acted on those terms. The House of Lords (note that it had to go that far) decided that the conduct was enough to establish that the contract was binding.

Protracted Negotiation

In the present case it was not clear that use of the rule could even be attempted. Consequently, the dispute was resolved by protracted negotiation.

It is in my view absolutely essential to choose one, and only one, law. Care is needed because situations can arise in which the law is not actually chosen, although at first sight there may seem to be no problem. For example, the following clause does not clearly specify the law:

All disputes, controversies, or differences which may arise between the parties hereto out of or in relation to or in connection with this license agreement or for the breach thereof shall be finally settled by arbitration pursuant to the British-Japanese Arbitration Agreement of May 8, 1973, by which each party hereto is bound. Such arbitration shall be held in Osaka if initiated by the English party and shall be held in London if initiated by the Japanese party. The award rendered by the arbitrators shall be final and binding upon both parties hereto.

This license agreement shall be governed by and construed in accordance with the laws of the United Kingdom if an arbitration takes place in London and shall be governed by and construed in accordance with the laws of Japan if an arbitration takes place in Osaka.

Until somebody starts an arbitration, we don't know which law applies. So we can't seek legal advice on a contractual point, because we don't know whether to ask a Japanese lawyer or an English lawyer. Incidentally, I assume that we all know that there is no such thing as United Kingdom law. There is English law and Scottish law, which is not the same as English law.

Then suppose the English party started arbitration in Japan, and won, but the Japanese party knew that it would win under English law. There is nothing to stop the Japanese party starting arbitration in England. Deadlock.

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This matter of stating the applicable law is absolutely vital in international agreements. If you don't, you can have a dispute on that before you can get started on the real dispute.

There are two other points about applicable law. In *Whitworth Street Estates v James Miller* (1969 1 W.L.R. 377) there was a tangle. Whitworth, (an English company) owned land in Scotland. Miller (a Scottish company) contracted to do work on it in Scotland. In the arbitration (in Scotland) the arbitrator refused to state the award in the form of a special case, that is to state a question of law for decision by a court (it can be used as a delaying tactic). Under Scottish law, the arbitrator could not be forced to state a special case. Under English law he could. The court decided on appeal that *English* law applied to the contract but the arbitration proceedings were governed by *Scottish* law.

Moral: State which law applies in the arbitration proceedings if they are likely to be in a country outside the country whose law applies to the contract.

The other point is this. If you don't state the applicable law, but do say that arbitration will be held in a country X, you'll find that the law of that country governs the whole of the contract. An illustration of this is a 1968 case *Tzortzis and Sykias v. Monark Line A/B* (1968 Lloyd's Rep. 337) between a Swedish and a Greek party. Neither was subject to English law, but they had chosen arbitration in London. Held: English law governed the whole of the contract.

Still sticking to the preliminaries which decide the battlefield and the weapons, you can choose arbitration or litigation in the courts.

One can argue about which to choose. Arbitration is not public. The courts are. Arbitration used to be quicker than the courts but it got slower in the past few years, mainly because of the use of the special-case procedure which got free rein in 1973. The new act, Arbitration Act 1979, abolishes the special-case procedure, so awards are final and binding when they are made. Parties can still appeal with leave of the court. There is no time to go into the complications of the new act, but I can say that the act should speed up arbitrations and make them more attractive to business people.

One attraction of arbitration is that the parties can choose the kind of person they want to settle a dispute. You can choose engineers, chemists, professional men, trade associations and so on. Whoever is best for the technical area in which the dispute will most probably arise. Bear in mind that you can't force a particular individual to be an arbitrator. This can be an awkward point if you don't ask the person or body before setting out the arbitration provisions.

Choosing Arbitrator

For license agreements, I think that it is best, if you decide to have an arbitration clause in the agreement, to choose a recognized organization. I don't have any major preferences. The International Chamber of Commerce, the London Court of Arbitration, the American Arbitration Association, the Japanese Commercial Arbitration Association are all excellent.

There is a tricky technical point to keep a wary eye on. The English Courts will not accept a term in an

agreement which states that the parties will never go to a court. They call this "ousting the jurisdiction of the court." They will hold the term void as against public policy.

The leading case is *Czarnikow v Roth, Schmidt & Co* (1922 2 K.B. 478) decided by a strong Court of Appeal in 1922. (Bankes, Scrutton and Atkin LJJ). This was a contract for sale of sugar. It said that disputes would be settled by the council of the Refined Sugar Association in London and went on to say "they shall not apply to the court to require any arbitrators to state in the form of a Special Case for the opinion of the court any question of law. . . but such question of law shall be determined by arbitration". Bankes L.J. said this in a passage highly relevant to our present day social conditions:

The ground of objection to the rule is that as an agreement it ousts the jurisdiction of courts of law and is consequently against public policy and void. The importance of maintaining in its integrity the rule of law in reference to public policy is in my opinion a matter of considerable importance at the present time. Powerful trade organizations are encouraging if not compelling their members and persons who enter into contracts with their members, to agree, as far as they lawfully can do so, to abstain from submitting their disputes to the decision of a court of law. The present case is a case in point. There have been others before the courts. Among commercial men what are called commercial arbitrations are undoubtedly and deservedly popular. That they will continue their present popularity I entertain no doubt, so long as the law retains sufficient hold over them to prevent and redress any injustice on the part of the arbitrator and to secure that the law that is administered by the arbitrator is in substance the law of the land and not some homemade law of the particular arbitrator or the particular association. To release real and effective control over commercial arbitration is to allow the arbitrator or the arbitration tribunal to be a law unto himself or themselves, to give him or them a free hand to decide according to law, or not according to law as he or they think fit; in other words to be outside the law. At present no individual or association is, as far as I am aware, outside the law except a trade union. To put such associations as the Refined Sugar Association in a similar position would in my opinion be against public policy. Unlimited power does not conduce to reasonableness of view or conduct.

The Arbitration Act 1979, in abolishing the special-case procedure, partly overrules *Czarnikow*. It still allows appeal to the courts, but this is now fairly rigidly controlled. The flagrant use of special cases to delay arbitrations is, one hopes, ended. It also allows the parties to agree not to appeal to the courts but an arbitrator's misconduct is subject to court action.

Curiously, Scottish law has always allowed agreements to oust the jurisdiction of the courts. It permitted what has been contrary to public policy in England for over a century.

Watch it, though. It is possible for an English Court to hold the entire agreement void, not just a provision which ousts the jurisdiction of the courts. If you agree that the rights of the parties will be decided in fairness or on principles of abstract justice by the arbitrator you need to recall the warning in the *Orion* case in 1962 (1962 2 Lloyd's Rep. 257), "If the parties choose to provide in their contract that their rights and obligations shall not be decided in accordance with law, there is no contract as the parties do not intend that their legal relations shall be affected."

Arbitration is fine but it can drag on. The advantage

of the courts is that they will set time limits. But, of course, it is public and this can be embarrassing if you have been a bit stupid. It can also publish some trade secrets which can help your competitors. On balance I tend to favor arbitration for licenses, and the courts for cases concerned with buying and selling.

I should mention the recent Bremer Vulkan case, just reported (1980 1 ALL ER 420). I understand it's certainly going to the Lords. One problem in arbitrations before the 1979 Act is that there is really no way to push a case on if the other party goes slack. In the court of 1st instance Donaldson J. decided that an arbitrator could dismiss an arbitration for want of prosecution. The Court of Appeal said that he could not but that the court could. I will quote some passages from Lord Denning's judgment:

LORD DENNING MR. When I was young, a sandwichman wearing a top hat used to parade outside these courts with his boards back and front proclaiming "Arbitrate, don't litigate." It was very good advice so long as arbitrations were conducted speedily: as many still are in the City of London. But it is not so good when arbitrations drag on for ever.

Many actions are started as "try-ons." The plaintiff's claim is weak, but it is hoped that the defendants will pay up or settle. Where the try-on is unsuccessful, and the defendants resist it, the plaintiff or his advisers lose heart. Sooner or later they let things slide. Other actions are much more genuine. The claim is well founded, but the plaintiff's advisers become busy with other things. They put this case on one side until they have more time to deal with it. Before long they forget about it altogether. This may be their own fault; or it may be the fault of the plaintiff himself for not reminding them; or for not doing what the advisers ask of him. But whatever it is, the time may come when the delay is so inordinate and so inexcusable that a fair trial is impossible. During the lapse of time, witnesses will have died, memories will have faded, documents will have been lost, all of which might have served him to defend himself against the plaintiff. It is not fair to the defendant to make him fight a case with his hands tied behind his back.

In this situation I am afraid we must recognize that arbitrators are impotent. They can make all sorts of orders for pleadings, discovery and the like: but they are exhortatory only. Either party can cock a snook at the arbitrator. Either can disobey with impunity. It is only the court that can bring a party to book.

I am of opinion that this court has an inherent jurisdiction to restrain arbitration proceedings where it would be right and just to do so; and it may be right and just when the claimant has been guilty of such inexcusable and inordinate delay that a fair hearing is impossible. In other words, the court can dismiss the claim for want of prosecution, just as it can an action.

Under the 1979 Act this rule still applies, I think. Only the court can make the necessary order, but the new act provides that the arbitrator can set a deadline and can get power from the courts to use court powers.

I'm also quite relaxed about where the arbitration will be. In some deals I've been quite happy to use a third-country law and have arbitration there. For example, English party, French party. Swiss law, Swiss arbitration.

If you have an agreement with a U.S. corporation you may have to accept the law of the U.S. state. That is perfectly satisfactory but it is best to make certain that you will be subject only to jurisdiction of Federal courts, i.e. the district courts, not the local county court.

Being a licensee can be an advantage if you have power to grant sublicenses under a patent. You can

argue infringement without having to really defend the patent. It deters an infringer if he knows that he would have to attack a powerful patentee to remove the patent, and you can deflect arguments on validity because it is not your patent.

Licensee

But being a licensee can be a real disadvantage if only the patentee can enforce the patent. In practice, how do you really make him do it. He'll argue. So you have in effect to build the case for infringement. Then when you get him started, he runs the case and you may believe that you could do it better. If you've got a nonexclusive license, he may simply grant another license. It's not easy to find a formula which deals fully with this. Of course the problem only really arises in bare patent licenses. You can reduce royalties but this is not much help in the early years because the payments are not very great. Similarly, it is difficult to get the right for you to enforce his patent. In particular, a nonexclusive licensee can hardly be allowed to risk someone else's patent.

If you get real know-how you may have some advantage over competition, but nobody likes starting an infringement action because it risks the patent.

In the first stages of a dispute, it seems to be common to adopt a hard line, even when the parties know each other well and are basically friendly. Possibly this is because, by the time a dispute has arisen, both parties have either talked themselves dry, or one party has not appreciated the effect of what it is doing to the other.

Most arguments in licenses are not clear-cut. It is usually a question of performance. A matter difficult to get set out clearly. Did they really give us all the know-how? Should we go on accepting late payments? Are we really happy about the way they use our trade mark? It can be quite difficult to crystallize the real issues in a license dispute.

All in all, my advice on litigation and arbitration is don't go to law without thinking very hard first. It is too risky for normal use. Try to settle. You know Mr. Punch's advice to those proposing to get married. His advice was 'DON'T'. It's like that in disputes too.

Using arbitration or litigation to help reach a settlement is, however, a good way to deal with some serious problems. It helps to make clear that you are really serious. The difficult thing is to make the approach to settle. If you get it wrong, it can hold things up.

Direct Contact

If you know the other side well it may be possible to keep a direct line open, but this is not always a good idea. Solicitors get very upset about it because they fear, often correctly, that their client will make some stupid admission that ditches the case. You have to be terribly careful if you want to keep some sort of direct contact with the other party.

Stupid admissions are killers, so try not to make suicide inevitable. I refer to the human habit of writing comments on documents. Come the nightmare of discovery of documents, and you can be dead because of such a comment. Although many documents are privi-

leged, the privilege covers in essence only legal advice. Incidentally, I think that there is no privilege for employed lawyers outside U.K. (and possibly Ireland). Advice from U.K. patent agents has some privilege in U.K. patent proceedings. But I never want to receive written advice that we infringe anybody's patent. It might be discovered.

Somewhere down the road, in legal proceedings you can sometimes reach settlement by a sort of chicken game. Here's an example, the numbers being fictitious. You offer to settle by paying £20,000 cash. Offer remains open for 10 days. If not accepted you will pay £17,500 into court and fight the action. The point is that if the court awards £17,500 or less to the other party, he has to pay both parties' costs from the date you pay into court. So he now has to weigh up risks and

costs. You can run bills up to £4000 a day (that is the very top figure, I think) in court, and double if you have to pay both sides' costs. It can be a good way to bring things to a decision.

Overall, in my view, particularly in license agreements, the aim should be to reach a fair *settlement*. The other side is human, and sometimes reasonable.

Unconditional surrender is not something to go for.

Use arbitration and litigation only if you have to; and primarily as a means for reaching a settlement.

But behind it all, and dominating everything, is the agreement itself that started everything. Try to get that right. If you do, you may prevent disputes arising; and if you have to part, you may part as friends and not as enemies.