Drafting Dispute Resolution Clauses: Options And Common Pitfalls

By Kevin Nachtrab

1. Introduction

So you and your negotiating partners have agreed on the use of mediation/arbitration as the mechanism to resolve disputes that may arise under your IP agreement. That is all well and good but the hard part of the task is now at hand: properly formulating the actual wording of the mediation/arbitration clauses. The goal being to insure that you get the procedure you want while avoiding pitfalls which can be result in unintended effects or, even, in the entire agreement to arbitrate/mediate to be ruled invalid and unenforceable.

The purpose of this note is to discuss various clauses and language relating to mediation and arbitration in order to obtain guidance as to ways to formulate such clauses in order to avoid common pitfalls so as to insure that your agreement to mediate/arbitrate is not only valid but that the decisions and awards made by the arbitrators will be enforceable.

In doing so, we will first identify what would be desirable to include in a basic "barebones" clause, including what are perhaps the most common options which parties wish to have/should have addressed in such an arbitration clause. This will include an examination and comparison of the model clause propositions of the World Intellectual Property Organization ("WIPO"), the International Chamber of Commerce ("ICC") and the United Nations Commission on International Trade Law ("UNCITRAL") and the London Court of International Arbitration ("LCIA") model clauses approach these issues.

We will then discuss what are perhaps the most common "traps" that parties can fall into when choosing arbitration and examining language that may be incorporated into the "barebones" clause in order to avoid these traps.

It is noted here that this discussion will be limited to clauses intended for use in contracts to resolve future disputes that may arise under the agreement. It will not directly address the crafting of clauses and agreements intended for use in pre-existing disputes, which are beyond the scope of this note.

2. Requirements for a Valid and Enforceable Arbitration Clause

Generally speaking, if you wish to have an arbitration clause to be held valid and enforceable in the largest number of countries, then the arbitration clause should:[1]

1. make it clear that the dispute in question is arbitrable;

2. be self-enforcing (i.e., it does not require a court to order it to occur);

3. provide for a complete set of rules and regulations governing how the arbitration is to occur (the procedural aspects of the arbitration);

4. provide for the appointment of impartial and neutral arbitrator(s);

5. identify where the arbitration proceedings will take place (locale);

6. provide for administrative conferences, so that and actions can be duly heard and considered and so that evidence can be taken in such a manner that each party is given a fair opportunity to be heard;

7. provide for preliminary hearings to so that objections to proceedings can be heard and duly considered and resolved prior to the case in issue being heard;

8. provide for mediation;

9. assure that the matter is promptly disposed of without undue delay;

10. provide for means and procedures whereby the arbitrators are insulated from the parties so that they can remain as neutral as possible in order to render an impartial judgment;

11. provide a procedure whereby notices may be served upon a party at the outset of the proceeding and throughout the entire arbitration process;

12. give the arbitrator power to decide matters equitably and to fashion appropriate relief;

13. provide for ex parte hearings; and

14. provide means for enforcing its awards and judgments.

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1. These requirements are very clearly set out in "Drafting Dispute Resolution Clauses: A Practical Guide," American Arbitration Association. See *http://www.lectlaw.com/files/adr16.htm*.

These requirements can be achieved by either being specified in:

- the arbitration clause itself; and/or
- the rules designated by the arbitration clause to govern the arbitration.

Thus, you can devise a clause that provides for all of the above or you can simply designate that the parties agree to resolve the dispute in question by arbitration under the auspices, and according to the rules and procedures, of a particular organization that meets all of the aforementioned requirements.

The requirements for a mediation clause to be valid and enforceable are normally not as strict as those for an arbitration clause. The reasoning for this is that, in mediation, the parties come to a mutually agreed binding agreement that is not imposed upon them while, contrary thereto, arbitration is a process whereby a neutral party makes determinations, issues awards and fashion remedies with which one of the parties may not agree. Thus, clauses that "pass the muster" so to speak for use in arbitration would likely also achieve the same purpose as a mediation clause.

3. The "Basic" Arbitration Clause

While courts have traditionally been reluctant to pass their decision-making authority to private tribunals, such as arbitration panels, one tangible effect of the various international conventions on arbitration, such as the New York Convention of 1958[2], has been to make the judiciary see alternative dispute resolution procedures, such as mediation and arbitration, as being acceptable ways to proceed to settle disputes.[3]

At its most basic, in order to be considered as valid and enforceable, a mediation/arbitration clause needs to specify:

1. the subject matter which the parties agree to be submitted to arbitration;

2. the rules/procedures under which the parties agree that mediation/arbitration will take place; and,

3. in the event that the arbitration is not to be an ad hoc one, the organization under whose auspices the procedure(s) will take place.

Many organizations have extensive and sometimes different types of rules and procedures (rules for expedited arbitration being one) that address the requirements specified above for an arbitration agreement to be valid and enforceable.[4] Thus, designating that the arbitration will take place under the auspices of, and according to, that organization and its rules is sufficient.

A. Recommended Options to Specify in Arbitration Clause

However, experience has shown that, in addition to the above, most parties arbitrating disputes will also want to specify in their arbitration clause the venue of the arbitration, the number of arbiters to be used, the language of the arbitration proceedings and the governing law.

1. Venue of the Arbitration[5]

If a venue is not chosen, then the agency administering the proceeding will fix the venue[6] with the likely place being that of the headquarters or the facilities of the organizations whose arbitration procedure is being used. For the ICC, this normally means Paris or a local ICC Office. For WIPO, this normally means Geneva. Further, the choice of venue can have a particularly strong impact on the procedural and lex arbitri of the proceedings, as will be discussed below. Finally, the importance of choosing a venue where the legal environment is such that the arbitral awards will be enforceable in countries that are members of the New York Convention is well-known and documented.

2. Number of Arbiters

Most rules provide for 3 arbiters by default. If you want to use a number of arbitrators that is different than the default amount that is specified by the rules, then you will need to specify this. Since each arbitrator has to be paid, if you use three arbitrators instead of one, you will have tripled your costs in this regard.[7]

2. The Convention on the Recognition and Execution of Foreign Arbitral Awards of 1958. The text of the Convention can be accessed at *http://www.uncitral.org/pdf/english/texts/arbitration/NY-conv/XXII_1_e.pdf*.

3. This sentiment has become so strong that even arbitration clauses contained within agreements that are themselves invalid *ab initio* have been considered by United States courts as being enforceable. See *Buckeye Check Cashing, Inc. v. Cardegna*, 163 L. Ed. 2d 1038 (Feb. 21, 2006).

4. See, for example, the rules of WIPO Arbitration at *http://www.wipo.int/amc/en/arbitration/rules/* (WIPO Publication No. 446), the rules of ICC Arbitration at *http://www.iccwbo.org/court/english/arbitration/rules.asp* ICC publication No. 808 (online publication date: October 2004)and the UNCITRAL Rules of Arbitration at *http://www.uncitral.org/pdf/english/texts/arbitration/arb-rules/arb-rules.pdf*.

5. According to the *ICC International Court of Arbitration, Statistical Reports,* (Volume 12, No. 1, Spring, 2001) in 82% of the cases registered in 2000, the parties had elected to designate for themselves the venue for the arbitration.

6. See, for example, Article 14 of the ICC Rules of Arbitration.

7. In view of the average per diem of Arbiters is more than $900/day [(the United States Federal Mediation & Conciliation Service's average arbitrator per diem, see *http://fmcs.gov/assets/files/Arbitration/FY%202006%20Statistics/FY2006AverageArbitratorPerDiems.doc*], the difference in costs between using one and three arbiters can be quite significant.

This is particularly noteworthy in view of the fact that cost is often one of the reasons why parties choose arbitration over judicial proceedings.

3. Language of the Proceedings

Most applicable arbitration rules provide for the proceeding to be conducted in the language of the venue and/or the governing law. If you wish to designate a different language or a specific language, then the clause should state this. In this regard, one should always remember that conducting an arbitration in a language other than one's own language will likely imply what can be substantial translation costs.

4. Governing Law (substantive, procedural and lex arbitri[8]) of the Arbitration

If the arbitration does not specify the appropriate governing law, then the courts will likely apply those rules that are normally applied for determining this according to private international law. In the case of substantive law, this generally means that conflicts rules will apply. In the case of procedural law, it is typically the place of arbitration.[9] In the case of *lex arbitri*, is usually considered to be the law of the country where the arbitration proceedings are held. If you wish to have a different governing law for any or all of these aspects of the case, you should specify this in the arbitration clause.

B. Model Clauses

Most organizations that offer arbitration services also propose "model" clauses for use in contracts to insure that the arbitration process is conducted under their organization's auspices and according to its rules and procedures.

1. The Model ICC Clause

Of the model clauses proposed by the ICC, UNCITRAL and WIPO, the ICC proffers what is perhaps the most "barebones" clause, suggesting the following language be used:[10]

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

The ICC further counsels that, "Parties are reminded that it may be desirable for them to stipulate in the arbitration clause itself the law governing the contract, the number of arbitrators and the place and language of the arbitration. The parties' free choice of the law governing the contract and of the place and language of the arbitration is not limited by the ICC Rules of Arbitration."[11]

In this regard, it is noted the arbitral subject matter is designated as being "All disputes arising out of or in connection with the present contract," the significance of which will be discussed at greater length below.

While the barebones Model ICC Clause suffices for the agreement to arbitrate to be considered valid and enforceable in most jurisdictions,[12] as its warning notes, it nonetheless does not address those common options that parties traditionally are the most concerned with when deciding to choose arbitration. Thus, if the arbitration clause does not, specify these points, then the applicable arbitration rules will govern what applies and what does not. This may mean taht one or both of the parties end up with choices that they did not want or intend.

Accordingly, if you have the desire to designate a venue, governing law, language or number of arbiters that is different from the default option in the rules you have specified, then you should clearly specify this. Examples of ways that this can be done can be found by reference to the UNCITRAL and WIPO Model Clauses.

2. The Model UNCITRAL Clause

UNCITRAL suggests use of the following clause:[13]

"Any dispute, controversy or claim arising out of or relating to this contract, or the breach, termination or invalidity thereof, shall be settled by arbitration in

8. The law used to determine the validity and effect of the arbitration clause.

9. See, for example, *Italian Claimant v. Belgian Respondent*, ICC Case No. 2272 of 1975, Collection of ICC arbitral Awards 1974-1985 at 11-12 (Kluwer 1990).

10. See *http://www.iccwbo.org/court/english/arbitration/word_documents/model_clause/mc_arb_english.txt.*

11. See *http://www.iccwbo.org/court/english/arbitration/rules.asp#standard_clause.*

12. As has been pointed out, even a clause reading, "disputes arising under the agreement shall be settled by arbitration" may be enough of an indication for a court of the parties desire to arbitrate disputes to permit it to enforce the clause but the clause is nonetheless seriously deficient from the point of view that it leaves a myriad of issues, such as venue, rules to use, etc., unresolved which sometimes can only be resolved by judicial intervention. See *Drafting Dispute Resolution Clauses: A Practical Guide* at *http://www.lectlaw.com/files/adr16.htm.*

13. See Article 1 of the UNCITRAL Arbitration Rules, General Assembly Resolution 31/98 (1976). For a text of the UNCITRAL Arbitration Rules see *http://www.uncitral.org/pdf/english/texts/arbitration/arb-rules/arb-rules.pdf*.

As an interesting aside, it is noted that the LCIA offers their own proposed model clause for "Arbitration under the UNCITRAL Rules", which model clause differs from that proposed by UNCITRAL itself. See *http://www.lcia-arbitration.com/.*

accordance with the UNCITRAL Arbitration Rules as presently in force."

The UNCITRAL model clause goes on to state that, the Parties may wish to consider adding the following:[14]

"(a) The appointing authority shall be _____ (name of institution or person); (b) The number of arbitrators shall be _____ (one or three); (c) The place of arbitration shall be _____ (town or country); (d) The language(s) to be used in the arbitral proceedings shall be _____."

3. The Model WIPO Clause

Of the three organizations, WIPO suggests what is perhaps the most comprehensive clause in this regard, as follows:[15]

"Any dispute, controversy or claim arising under, out of or relating to this contract and any subsequent amendments of this contract, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. The arbitral tribunal shall consist of [three arbitrators][a sole arbitrator]. The place of arbitration shall be [place]. The language to be used in the arbitral proceedings shall be [language]. The dispute, controversy or claim referred to arbitration shall be decided in accordance with the law of [specify jurisdiction]."

This clause not only provides the maximum of what is needed for it to be valid and enforceable but it also provides for addressing those four issues that the parties commonly desire to specify.

4. The Model LCIA Clause

The LCIA model clause is as follows:[16]

"Any dispute arising out of or in connection with this contract, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the Rules of the LCIA, which Rules are deemed to be incorporated by reference into this clause.

The number of arbitrators shall be [one/three].

The seat, or legal place, of arbitration shall be [City and/or Country].

The language to be used in the arbitration shall be [ ].

The governing law of the contract shall be the substantive law of [ ]."

Two particularly interesting and unique points contained within the LCIA clause are the reference to the subject matter ("… any question regarding its existence, validity or determination …") and the explicit incorporation of the LCIA rules into the contract. As to this last point, it is unclear that the rules would be the rules in place as of the date of the signing of the contract (which is what one may be able to say they expected, especially since the rules have been explicitly incorporated therein) or those in place at the time of the arbitration.

C. Discussion

All of the proposed model clauses are useful in that (and as would be expected) each meets all the requirements needed for an enforceable clause. Each makes it clear that all disputes can be arbitrated, that the arbitration will be self-enforcing (proceedings can continue despite an objection from a party, unless stayed by court order) and that the proceedings are "final." Further, each furnishes a complete set of regulations providing for the appointment of neutral arbiters, the holding of administrative conferences and preliminary hearings, mediation, time limits to assure prompt disposition of dispute procedures for serving notices, *ex parte* hearings and the enforcement of the arbitral award.

Each clause is also drafted broadly in the sense that what is arbitrable includes disputes "relating to" (or in the ICC's case "in connection with"[17]) the contract and is not limited to disputes arising from the contract.[18] In this regard, the LCIA's and WIPO's clauses use of the phrase "arising out of" is of particular interest in so far as in the United Kingdom, the other phrases have been interpreted as being limit in scope, with the terms "in respect of" and "with regard to" or, best of all, "arising out of" having been held to have the widest possible meaning.[19]

While, of the clauses, the WIPO clause appears to be the most comprehensive, there are also elements within the ICC, LCIA and UNICITRAL clauses that should be given consideration to include.

14. Ibid.

15. See *http://www.wipo.int/amc/en/arbitration/contract-clauses/clauses.html.*

16. See *http://www.lcia-arbitration.com/.*

17. See *J.J. Ryan & Sons, Inc. v. Rhone Poulenc Textile, S.A.*, 863 F.2d 315 (4th Circuit, 1988).

18. For the effect of theis language, see *Cummings v. FedEx Ground Package Sys., Inc.*, 404 F.3d 1258 (10th Cir. 2005). See also, *Prima Paint Corp. v. Flood & Conklin Mfg. Co.*, 388 U.S. 395, 398 (1967).

19. See *Ethiopian Oilseeds & Pulses Export Corp. v. Rio Del Mar Foods, Inc.*, [1990] 1 Q.B. 86, 97.

A first potentially useful inclusion are those references contained in the WIPO, LCIA and UNCITRAL clauses to existence, breach, termination, validity, etc. Such clauses are useful in that they make it clear that those issues, such as whether a particular breach is material, and perhaps more significantly whether or not the agreement is valid, are intended to be subject to arbitration.

To be noted is the use in the UNCITRAL clause of the expression "presently in force" as it relates to the arbitration rules to be applied. Rules are amended from time to time, so if you want to use the rules that are in place at the time of the making of the contract (so you precisely know what rules you are signing up for) such language is interesting. Otherwise you will likely end up using the rules which are in force at the time that the arbitration takes place which may be dramatically different than those to which you signed-up for.[20] Clauses which speak of rules "as they may be amended from time-to-time" likewise will present you with arbitration under the rules which exist at the time which the arbitration proceedings occur and not those that you actually may have thought that you were signed up for. In this respect, the LCIA Model clause, with its explicit incorporation of the LCIA rules but failure to specify which rules is quizzical.

A further useful inclusion is WIPO's extension of arbitration to include disputes arising from " … subsequent amendments of this agreement, …". This inclusion represents a real departure from anything suggested by either the ICC or UNCITRAL model clauses. In this regard, it is noted that while extending the arbitration jurisdiction to include amendments can be a double-edged sword. Nonetheless, it is something to which consideration should be given particularly in view of the uncertain situation as to whether or not subsequent amendments automatically fall within the scope of the arbitration clause of the agreement they amend.

A still further useful inclusion is that one found in both the WIPO and UNCITRAL model clauses relating to the number of arbiters to be used in the arbitration, as well as the venue for, and language of, the proceedings.

In addition, the UNCITRAL model clause includes a reference to who the "appointing authority" is for the arbiters while the WIPO clause specifies the "governing law." In the case of WIPO, since its rules provide for who is to be the appointing authority under the circumstances at hand, the UNCITRAL clause referring to the "appointing authority" would not be needed in such a clause where the WIPO rules are designated as the applicable rules.

Three additional features not found in any of three model clauses, but which nonetheless should be given serious consideration for inclusion in a basic arbitration clause are those relating to:

a. entry of judgment (for the reasons that will be mentioned below);

b. specification of the governing law for both procedural as well as substantive matters (to avoid jurisdictions from applying the laws of the locale in which the arbitration will occur as the governing procedural law); and

c. exception from the application of governing laws of the conflict of laws principles which may dictate the application of another law (for obvious reasons).

These points shall each be discussed in greater detail below.

Accordingly, a more complete "Basic" model clause for this would be the following:

"Any dispute, controversy or claim arising under, out of or relating to this contract [and any subsequent amendments of this contract], including, without limitation, its formation, existence, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be referred to and finally determined by arbitration in accordance with the [applicable rules] presently in effect and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitral tribunal shall consist of [# arbitrators]. The place of arbitration shall be [place]. The language to be used in the arbitral proceedings shall be [language]. The dispute, controversy or claim referred to arbitration shall be decided in accordance with the procedural and substantive laws of [specify jurisdiction] other than its conflict of interest laws principles directing the application of any other law."

This clause combines the desired language in the WIPO, ICC and UNCITRAL clauses in addition to having language that address the elements commonly desired to be specified, as well as language addressing entry of judgment, expanded governing law and exclusion of conflicts of law principles.

4. The "Basic" Mediation Clause

Either instead of, or in addition to, arbitration, the

20. See, for example, Art. 6(1) of the ICC Rules of Arbitration which specifies that, in the absence of an agreement to the contrary, the arbitration shall be conducted according to the rules in force at the date of the proceedings.

parties may designate that disputes will be submitted to mediation.

A. Recommended Options to Specify in Mediation Clause

In essence, the basic mediation clauses are pretty much the same as the basic "arbitration" clause with one primary exception: since mediation involves consent, there are no findings of fact and hence, no necessity to specify the governing law to consider in order for the mediation to be enforceable.

Further, in most cases, the rules of mediation provide for only one mediator. Hence, the model clauses involving mediation do not usually specify a governing law or the number of mediators to be involved.

Nonetheless, as with the arbitration clause, most parties mediating disputes will also want to specify in their mediation clause the applicable rules, the venue of the mediation, the language of the mediation proceedings and the governing law that the mediator should apply when making his/her decision. On this last point, while not being required for enforceability, it can nonetheless assist in providing guidance so that the parties will have more certainty in what decision they may expect to receive.

B. Model Clauses

Most organizations that offer mediation services also propose "model" clauses for use in contracts to insure that the mediation process is conducted under their organization's auspices and according to its rules and procedures.

1. The Model WIPO Clause

An example of such a clause that can be included in the agreement before the dispute arises is that which is recommended by WIPO, and which reads, as follows:[21]

> *"Any dispute, controversy or claim arising under, out of or relating to this Agreement and any subsequent amendments of this Agreement, including, without limitation, its formation, existence, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be submitted to mediation in accordance with the WIPO Mediation Rules. The place of mediation shall be [place]. The language to be used in mediation shall be [specify]."*

2. The Model ICC Clause

The clause proposed for the same situation by the ICC reads, as follows:[22]

> *"In the event of any dispute arising out of or in connection with the present contract, the parties agree to submit the matter to settlement proceedings under the ICC ADR Rules. If the dispute has not been settled pursuant to the said Rules within 45 days following the filing of a Request for ADR or within such other period as the parties may agree in writing, the parties shall have no further obligations under this paragraph."*

3. Model UNCITRAL Clause

The model clause proposed for the same situation by UNCITRAL reads, as follows:[23]

> *"Where, in the event of a dispute arising out of or relating to this contract, the parties wish to seek an amicable settlement of that dispute by conciliation, the conciliation shall take place in accordance with the UNCITRAL Conciliation Rules as at present in force."*

4. The Model LCIA Clause

The LCIA proposes the following as their model mediation clause:[24]

> *"In the event of a dispute arising out of or relating to this contract, including any question regarding its existence, validity or termination, the parties shall seek settlement of that dispute by mediation in accordance with the LCIA Mediation Procedure, which Procedure is deemed to be incorporated by reference into this clause."*

D. Discussion

Once again, here all of the model clauses have elements of interest to offer the contract drafter.

The comprehensiveness of the WIPO and LCIA clauses in specifying the subject matter of the dispute is a first element of interest. Further, and as was noted above, the scope of the arbitration clause extends to include disputes arising from or relating to any amendments to this agreement. As was noted above, while this can be a double-edged sword, it is nonetheless something to which consideration should be given particularly in view of the uncertain situation as to whether or not subsequent amendments automatically fall within the scope of the arbitration clause of the agreement they amend.

The language of the ICC clause concerning the placement of a time limit on how long the mediation procedure should be required to mediate before they may resort to resolving their dispute via other means, such as arbitration or litigationis interesting. Once

21. See *http://www.wipo.int/amc/en/arbitration/contract-clauses/clauses.html.*

22. See *http://www.iccwbo.org/drs/english/adr/word_documents/submit_arb.txt.*

23. See *http://www.uncitral.org/pdf/english/texts/arbitration/conc-rules/conc-rules-e.pdf.*

24. See *http://www.lcia-arbitration.com/.*

again, such language prevents either of the parties from using the mediation procedure to block the other party to seeking to finally resolve the matter via other procedures, such as arbitration or litigation.

Of particular interest in the UNCITRAL model clause is its reference to the governing rules to being those "as at present in force." As was noted above,this assists in the parties knowing what they have agreed to.

Finally, the LCIA's clause once again presents an interest with its reference to the subject matter ("… any question regarding its existence, validity or determination …") and the explicit incorporation of the LCIA rules into the contract.

As with arbitration clauses discussed above, there are three additional features that should be considered to be included in such clauses:

(a) an "entry of agreement" reference (analogous to the "entry of judgment" clause);

(b) specification of the governing procedural law of the mediation procedure; and

(c) specification that no contrary conflict of laws results should be applied.

As it relates to the latter two of these points, the reason for advising the inclusion of the governing law clause and the exclusion of the conflict of laws principles exception, is that since mediation procedures are governed by rules and laws (just as arbitration procedures are so governed by rules and laws), it is believed that it is only prudent to specify these aspects. Nonetheless, they are admittedly of less importance here than in arbitration clauses.

Accordingly, a more complete "Basic" model mediation clause to propose for use in such situations where Mediation alone is agreed upon would be the following:

"Any dispute, controversy or claim arising under, out of or relating to this contract [and any subsequent amendments of this contract], including, without limitation, its formation, existence, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall, within [number] of days after a party has notified the other thereof be submitted to mediation in accordance with [the applicable rules], as at present in force and any agreement reached in such may be entered in any court having jurisdiction thereof. If the dispute, controversy or claim has not been settled pursuant to the said Rules within 45 days following the filing of a Request for ADR or within such other period as the parties may agree in writing, the parties shall have no further obligations under this paragraph. The procedural aspects of the Mediation shall be governed in accordance with the law of [specify jurisdiction] other than its conflict of interest laws principles directing the application of any other law."

This clause combines the desirable aspects from all of the model clauses. In addition it carries additional concepts not found in the model clauses, such as entry of judgment, specification of the procedural law and that no contrary conflict of laws results should occur and the placement of a time limitation on by when a party has to commence the Mediation procedure. These further clauses provide an additional measure of security against a party using the mediation to block the other party(ies) from seeking to finally resolve the dispute through either arbitration or litigation.

5. The "Basic" Clause for Mediation Followed by Arbitration

Because the resolution of a dispute by Mediation requires mutual consent, use of mediation alone is an unadvisable "soft option" for contract drafters to use (for example, when they really want litigation but do not want to seem unreasonable). But mediation still does not provide for the parties to be able to finally settle their dispute. Hence, in any agreements where the parties wish to attempt mediation but also wish for arbitration to be used to "finally" settle their dispute, the parties should stipulate that mediation will be attempted first but, should mediation fail, arbitration will then be the selected route.

A. Recommended Options to Specify in Mediation Clause

One major pitfall in combination mediation/arbitration clauses is the failure of the parties to put a time limit on the duration of the mediation process. Without such time limitations built into the contract, the parties could attempt to frustrate the process by continuously declaring that the arbitration process cannot start until after the mediation process is complete and that the particular mediation process had not yet run its course.

B. Model Clauses

Therefore, it is not surprising that each of the major organizations proposing a model mediation/arbitration clause (WIPO, LCIA and the ICC) include such time limits in its provisions.

1. WIPO Model Clause

The WIPO Model Clause recommended for such situations proves to be very astute in forseeing the time limits problem of such combined mediation/arbitration procedures by providing in

its language that:[25]

"If, and to the extent that, any dispute, controversy or claim has not been settled pursuant to the mediation with [60][90] days of the commencement of the mediation, it shall, upon the filing of a Request for Arbitration by either party, be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. Alternatively, if, before the expiration of the said period of [60][90] days, either party fails to participate or to continue to participate in the mediation, the dispute, controversy or claim shall, upon the filing of a Request for Arbitration by the other party, be referred to any finally determined by arbitration in accordance with the WIPO Arbitration Rules. The arbitral tribunal shall consist of [three arbitrators][a sole arbitrator]. The place of arbitration shall be [place]. The language to be used in the arbitral proceedings shall be [language]. The dispute, controversy or claim referred to arbitration shall be decided in accordance with the law of [specify governing law]."

Notice the time limit on the mediation process that is explicitly built into the clause. Without such a time limit the parties may unwillingly find themselves in an open-ended obligation to mediate which could eventually block their ability to get to arbitration and result in the whole matter ending up in litigation – precisely what the parties likely did not intend to happen when drafting the contract.

2. The Model ICC Clause

The clause proposed for the same situation by the ICC reads, as follows:[26]

"In the event of any dispute arising out of or in connection with the present contract, the parties agree to submit the matter to settlement proceedings under the ICC ADR Rules. If the dispute has not been settled pursuant to the said Rules within 45 days following the filing of a Request for ADR or within such other period as the parties may agree in writing, such dispute shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules of Arbitration."

Once again, attention is drawn to the model clauses inclusion of the time limit on the mediation process that is explicitly built into the clause.

3. The Model LCIA Clause

The clause proposed for the same situation by the LCIA reads as follows:[27]

"In the event of a dispute arising out of or relating to this contract, including any question regarding its existence, validity or termination, the parties shall first seek settlement of that dispute by mediation in accordance with the LCIA Mediation Procedure, which Procedure is deemed to be incorporated by reference into this clause.

If the dispute is not settled by mediation within [ ] days of the commencement of the mediation, or such further period as the parties shall agree in writing, the dispute shall be referred to and finally resolved by arbitration under the LCIA Rules, which Rules are deemed to be incorporated by reference into this clause.

The language to be used in the mediation and in the arbitration shall be [ ].

The governing law of the contract shall be the substantive law of [ ].

In any arbitration commenced pursuant to this clause,

(i) the number of arbitrators shall be [one/three]; and

(ii) the seat,or legal place, of arbitration shall be [City and/or Country].

C. Discussion

All of the clauses contain the interesting language: a time limit set on the duration of the mediation procedure.

Accordingly, an alternative "Basic" model Mediation clause to propose for use in such situations where Mediation followed by arbitration is desired would be the following:

"Any dispute, controversy or claim arising under, out of or relating to this contract [and any subsequent amendments of this contract], including, without limitation, its formation, existence, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be submitted to mediation in accordance with [the applicable rules], as at present in force and any agreement reached in such may be entered in any court having jurisdiction thereof. The procedural aspects of the mediation shall be governed in accordance with the law of [specify jurisdiction] other than its conflict of interest laws principles directing the application of any other law.

25. See *http://www.wipo.int/amc/en/arbitration/contract-clauses/clauses.html.*

26. See *http://www.iccwbo.org/drs/english/adr/word_documents/submit_arb.txt.*

27. See *http://www.lcia-arbitration.com/.*

If, and to the extent that, any dispute, controversy or claim has not been settled pursuant to the mediation with [60][90] days of the commencement of the mediation, or within such other period as the parties may agree in writing, it shall, upon the filing of a Request for Arbitration by either party, be referred to and finally determined by arbitration in accordance with the [applicable rules]. Alternatively, if, before the expiration of the said period of [60][90] days, or within such other period as the parties may agree in writing, either party fails to participate or to continue to participate in the mediation, the dispute, controversy or claim shall, upon the filing of a Request for Arbitration by the other party, be referred to any finally determined by arbitration in accordance with the [applicable rules] presently in effect and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitral tribunal shall consist of [# of arbitrators]. The place of arbitration shall be [place]. The language to be used in the arbitral proceedings shall be [language]. The dispute, controversy or claim referred to arbitration shall be decided in accordance with the procedural and substantive laws of [specify jurisdiction] other than its conflict of interest laws principles directing the application of any other law."

6. Common Pitfalls

In addition to what has been mentioned above relative to the "Basic" arbitration clauses, there are additional pitfalls often experienced by those engaging in arbitration. These pitfalls include the failure to:

1. specify arbitrable/non-arbitrable subject matter;
2. specify the use of Expedited Procedures;
3. give authority to Grant Provisional Remedies;
4. specify those remedies that are available/not available to the Arbiters;
5. include an "Entry of Judgment" clause;
6. include a time limit on the duration of the arbitration process and when the arbiters decision must be issued; and
7. include appropriate confidentiality provisions covering the procedures.

We shall now examine each of these pitfalls individually to see what it means and its implications and what clauses can be drafted which will assist in avoiding them.

A. Specification of Arbitrable/Non-Arbitrable Subject Matter

Not all parties want to submit each and every possible dispute to arbitration. Indeed, in certain cases, it may be legally advisable to specifically include/exclude from the subject matter of the arbitration certain issues.

Further, not all subject matter is suitable for arbitration. Certain subjects cannot be subject to arbitration. Intellectual Property is a field in which many but not all matters are subject to arbitration. For example, while patent infringement is generally considered as being a subject susceptible to arbitration, patent validity is often not a subject that may be arbitrated.[28]

Similarly, it may be that one party may wish to emphasize that a particular issue, such as inventorship or patent infringement be subject to arbitration, even if a linked issue, such as patent validity is not.

The danger with artificially limiting subject matter jurisdiction of the arbitration panel in intellectual property cases is that many of the issues are often so interlinked that it is difficult to make a proper determination as to one issue without making a similar determination as to another. This can be seen in the interrelationship of patent infringement and patent validity usually encountered in litigation. Thus, requiring an arbitration panel to decide on one of these issues while at the same time not permitting it to decide on the other can result in less than advantageous decisions.

The "Basic" clauses all take a sweeping view towards the arbitrations subject matter jurisdiction: "Any dispute, controversy or claim arising under, out of or relating to this contract." What that means is that no issue will be excluded from the dispute resolution mechanism (except, of course, if the law requires otherwise). If you wish to exclude any such issue, for whatever reason, you will need to precisely specify what you wish to exclude.

The reverse situation is the case in instances where the clause specifies only the issues over which the arbitration panel will have subject matter jurisdiction.

Accordingly, in order to avoid the pitfall that the whole clause may be invalidated or, and more likely, that a disputed series of connected issues is removed from arbitration because one of the issues is not arbitrable subject matter, it is recommended to specify that the issue is either not arbitrable/arbitrable, even if linked to some issue which is arbitrable/not arbitrable.

Language in this regard would be the following:

28. Primary exceptions to this are the United States (in 35 U.S.C. 294) and Switzerland.

"Any dispute, controversy or claim arising under, out of or relating to inventorship of any of the inventions made under this contract [and any subsequent amendments of this contract],…".

B. Use of Expedited Procedures

Most organizations offering mediation/arbitration services provide for so-called "expedited" procedures. Such "expedited" procedures often come with specific time constraints built in where certain steps have to be done within certain time limits, so that the overall process is completed within a set period of time.

To achieve these tight time lines, such processes often have reduced, "streamlined" or otherwise limited evidence production, "discovery" and cross-examination. Indeed, such streamlined procedures are often what the parties precisely have in mind when they initially think of arbitration. However, by signing up to the "Basic" arbitration clause, you are not necessarily signing up to the expedited procedures. Indeed, unless the rules state otherwise, what you are actually signing up to is the full arbitration procedure that, while being considerably streamlined in comparison to litigation (and in particular to litigation in the United States or the United Kingdom), is still somewhat lengthier and more intrusive than many parties may have anticipated.

While such streamlined processes save what can be considerable time and expense, they can nonetheless prove to be a double-edged sword.

Limited or restricted discovery can mean that proving complexes cases, such as those often involved in patent validity and patent infringement, can be made even more difficult than it already is. Further, in many jurisdictions, such as the United States, it can lead to the decisions and awards of the arbitration panel to be held to be unenforceable on the grounds that the proceedings lacked the appropriate and necessary due process to pass constitutional muster.

Examples of clauses containing language specifying an expedited procedure can be found in the WIPO Model Clauses. There, WIPO proposes two different formulations for designating their expedited procedure, as follows:

1. WIPO Expedited Arbitration Clause for Use in Agreement Without Mediation[29]

"Any dispute, controversy or claim arising under, out of or relating to this contract and ant subsequent amendments of this contract, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be referred to and finally determined by arbitration in accordance with the WIPO Expedited Arbitration Rules. The place of arbitration shall be [place]. The language to be used in the arbitral proceedings shall be [language]. The dispute, controversy or claim referred to arbitration shall be decided in accordance with the law of [specify jurisdiction]."

2. WIPO Model Clause for Use in Agreement with Mediation[30]

"If, and to the extent that, any dispute, controversy or claim has not been settled pursuant to the mediation with [60][90] days of the commencement of the mediation, it shall, upon the filing of a Request for Arbitration by either party, be referred to and finally determined by arbitration in accordance with the WIPO Expedited Arbitration Rules. Alternatively, if, before the expiration of the said period of [60][90] days, either party fails to participate or to continue to participate in the mediation, the dispute, controversy or claim shall, upon the filing of a Request for Arbitration by the other party, be referred to any finally determined by arbitration in accordance with the WIPO Expedited Arbitration Rules. The place of arbitration shall be [place]. The language to be used in the arbitral proceedings shall be [language]. The dispute, controversy or claim referred to arbitration shall be decided in accordance with the law of [specify jurisdiction]."

Once again, we note the presence of the time limit upon the period of mediation as well as the portion of the clause which expressly specifies that it is the "Expedited" WIPO arbitration procedure which is to be used.

The above is related to a more general pitfall sometimes seen where a clause fails to specify which rules are supposed to apply to the arbitration process.[31] This is something that is problematic to cure if not included in the arbitration clause. A court may determine that the national, state or local arbitration laws apply if there is a sufficient nexus, proof and jurisdiction for doing so. Alternatively, a court may simply hold the clause invalid.

29. See *http://www.wipo.int/amc/en/arbitration/contract-clauses/clauses.html.*

30. Ibid.

31. For example, a clause that is not uncommon to see is one that simply reads: "All disputes arising out of or in connection with the present contract shall be finally settled by binding arbitration."

C. Authority to Grant Provisional Remedies

The third pitfall often encountered is the lack of authority to grant provisional remedies.

While the rules and regulations of most major arbitration services give the arbitrators the power to grant provisional remedies,[32] others do not.[33] Thus, it is essential that you be aware of whether the rules under which your arbitration will proceed permit such remedies, what those remedies are and what conditions surround their application. If the rules and procedures you wish to use to govern your arbitration do not give the arbiters the authority to grant provisional remedies and you wish to give them such powers,[34] then suggested language for inclusion in the clause would include something along the lines of the following:

"Any provisional remedy which would be available from a court of law to the parties to this Agreement, shall be available from the arbitrator, pending arbitration."

D. Specification of Remedies Available/Not Available to Arbiters

A fourth commonly-encountered pitfall is a failure to specify what remedies either are or are NOT available to the arbitrator.

This is very important point in that most major rules and regulations provide that the arbitrator has all regular remedies available to him. Thus, if you do not want the arbiter(s) to have the authority to grant certain remedies, especially what for Europeans are truly extraordinary remedies such as punitive, consequential and incidental damages, then you should consider specifying this.

Suggested language to achieve this is as follows:

"The arbitrator(s) shall have no authority to award [punitive][consequential][incidental] damages or other damages not measured by the prevailing party's actual damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement"

By contrast, if you wish to give the arbiter(s) the authority to grant an extraordinary remedy normally not available, then you should also consider specifying that. However, one should take care with such remedies because their later enforcement may be more easily rejected for public policy reasons that normal awards.

E. Entry of Judgment Clause

A fifth commonly-encountered pitfall is the lack of an "entry of judgment" clause. In many cases, there is a presumption that no entry of judgment is needed[35] but this is not always the case.[36] To insure an agreement of an entry of judgment is specified, one could include language along the lines of the following:

"… the parties agree that the judgment of the arbiters shall be final and binding and judgment upon the award rendered by the arbitrator may be entered in any court, tribunal, administrative body or agency having jurisdiction thereof …"

In this regard, it is noted that, in the United States, the reference to the award being "final" has been relied upon to authorize entry of judgment of the award.[37]

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32. For example, Art 62(a) of the WIPO Rules of Arbitration states: "The Tribunal may make preliminary, interim, interlocutory, partial or final awards." Similarly, the ICC Rules of arbitration provide, in Article 23(1) thereof ("Conservatory and Interim Measures"), that, "Unless the parties have otherwise agreed, as soon as the file has been transmitted to it, the Arbitral Tribunal may, at the request of a party, order any interim or conservatory measure it deems appropriate." In England, §12(1) of the Arbitration Act of 1950 authorizes an arbiter to issue interim orders for the preservation, storage, interim custody and sale of goods that are the subject of the arbitration, provided those goods are under the parties control. See also, Art 13.1(h) of the Rules of the London Court of International Arbitration; Art. 22 of the International Arbitration Rules of the American Arbitration Association and Articles 17 and 26 of the UNCITRAL Model Law on Arbitration.

33. Under German law, interim orders for the protection of goods in dispute must be requested from a competent court.

34. For example, Article 183 of the Swiss Federal Private International Law Act of 1985 provides that, *unless excluded by the parties*, the arbiter has the power to order provisional or protective measures at the request of one party.

35. See, for example, the United States Uniform Arbitration Act that has been adopted in more than 34 states in the United States. See also *Dan River Inc. v. Cal-Togs Inc.*, 451 F. Supp. 497, 501 (S.D.N.Y. 1978) which held that adoption of an organizations rules (in that case being the American Arbitration Association (AAA) rules) which include a provision providing that 'Parties to these rules shall be deemed to have consented that judgment upon the arbitration award may be entered in any federal or state court having jurisdiction thereof', may be construed as including an agreement to entry of the judgment of the arbiters, even though the arbitration agreement itself did not contain a consent of entry of judgment provision.

36. §9 of the United States Federal Arbitration Act (9 U.S.C. §1 et seq.) appears to imply that the failure to state that judgment may be entered on the award may mean that a court will not enforce it, although, as Dan River shows, this is likely not the case. See also, Varley v. Tarrytown Association, Inc., 477 F.2d 208, 210 (2d Cir., 1974).

37. See *I/S Stavborg v. Metal Converter, Inc.*, 500 F.2d 424, 426-27 (2d Circuit, 1974).

F. Lack of Time Limit on Arbitration

A sixth commonly-encountered pitfall is the failure of the parties to include limits on the time in which the arbitration process needs to be completed.[38]

Particularly in cases of where time is of the essence, to insure that such time limits are included, a clause should be included specifying such time limits. An example of such a clause is the following:

> *"If, and to the extent that, any dispute, controversy or claim has not been finally settled pursuant to the arbitration within [time period] of the commencement of the arbitration, then either party may seek resolution of said unsettled dispute, controversy or claim in an appropriate court of law who shall thereafter have jurisdiction over such dispute, controversy or claim."*

Some arbitration rules and regulations do not provide for time limits on the duration of their procedures. This is an element that is in the WIPO mediation clauses and should be very carefully considered for inclusion in arbitration clauses. If you do not include it, you may find yourself in what can seem to be a costly never-ending arbitration with little chance of judicial intervention to save you.

G. Confidentiality Provisions

Many intellectual property disputes involve confidential information concerning patent information, know-how, biologicals and the like. Unfortunately, in that litigations are public proceedings, in principle, this means that the information of the record will become public. While documents can be sealed and gagging orders can be imposed, in cases of where multi-state international litigation is involved, it is very possible that you will be not be able to secure all of the confidential information with the same level of protection in all countries—or even that you will be able to secure any protection at all.

Consequently, the end result is that in multi-state international litigation, too much confidential information inevitably becomes of record and enters into the public domain.

Contrary thereto, arbitrations are private matters and are not public matters. Further, most arbitration riles and organizations place confidentiality obligations on arbiters and arbitral organizations.[39] While these confidentiality provisions do not extend to the parties themselves an appropriate confidentiality provision in the arbitration agreement itself would address this hole.

7. Conclusion

The proper crafting of mediation/arbitration clauses that are valid and enforceable and which provide for arbiters decisions and awards that will be enforceable is essential and important to insure that you and your negotiating partners eventually end up with the dispute resolution procedure that you have agreed upon to use.

Presented herein are certain model clauses that may prove useful in this regard.

Since one of the major advantages and reasons for selecting mediation/arbitration over litigation is procedural flexibility, parties opting for mediation/arbitration often try to mold the procedure to their desires. In doing so, the contract drafter should always think about what the rules provide for and make certain that the rules you intend to use provide for what you want.

Unfortunately, in doing so, there are numerous pitfalls into which the unwary contract drafter can easily stumble to his/her detriment. To avoid these, one needs to take care when drafting clauses that avoid these traps. Use of the clauses proposed herein may assist in this regard. ■

The viewpoints & opinions expressed herein those of the author and do not necessarily reflect, or are intended to reflect, the views of any employer of the author (past or present), and/or any association to which the author belongs.

38. This is in addition to the need for specifying time limits on when the mediation process has to be started and completed, which we discussed above.

39. See, for example, Arts. 20.7 and 21.3 of the ICC Rules of Arbitration (1998) and WIPO Arbitration Rules 73 to 76.