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SUGGESTED FORM OF CONTRACT TO ARBITRATE A PATENT OR OTHER COMMERCIAL DISPUTE, ANNOTATED[d1]

Tom Arnold[a1]

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***206 I. Introduction**

Most of us have a general understanding of "arbitration" and put arbitration clauses into our license contracts by adopting a short phrase from the flap of the ICA,[1] AAA,[2] ICC[3] or CPR[4] book of Arbitration Rules.[5]

However, that approach automatically
(1) omits some arbitration features that are very important in patent and other complex cases of high value, and

(2) unwittingly adopts one or more arbitration practices which would be shocking and abhorrent to most persons writing arbitration clauses.

For example: Did you know that the American Arbitration Association Commercial Arbitration Rules[6], Patent Arbitration Rules[7] and International Arbitration Rules[8] (which have several advantages in international license disputes), can each be selected in the contract to arbitrate and they are ***207** fundamentally different on a few key points? You should be explicit as to which you adopt, but how do you know which to adopt?

Did you know that if you adopt the American Arbitration Association Commercial Arbitration Rules with two party-appointed arbitrators and a Chairman appointed by them or the AAA, you get, under AAA Rule 12, paragraph 2, two arbitrators who are not obligated to be impartial neutrals and at least one of whom very often is not neutral, independent or impartial and will talk to the party that appointed him/her at various times during the arbitration?[9] If both party-appointed arbitrators do the same thing (which is not guaranteed at all), you nevertheless pay for three arbitrators and get only one in effect -- paying for "counsel" on the arbitration panel as well as counsel to present your case. However, your party-appointed arbitrator may perform as a neutral while the other performs as counsel to his appointer. This is simply unacceptable for a patent, trademark, trade secret or copyright case.

Did you know that one popular set of arbitration rules (CPR Rules[10]) calls for the Award to state the reasoning on which it rests (arbitration's word for "opinion"), and that another set (AAA Commercial Rules[11] and AAA Patent Rules[12]) calls for an Award to be a simple judgment with no findings of fact, conclusions of law, opinion or reasons in support of the award?

Did you know that the arbitrator's fees charged by one very well known arbitration administration agency, the International Chamber of Commerce in Paris, is set in significant part by the complexity of the case as reflected in the award[13] -- which suggests to the arbitrators that they write on every issue occurring in the case even though their Award is supported by only one or two simple points.

Did you know that by an election in a fairly complex case
● for three arbitrators rather than one,

● for International Chamber of Commerce administration rather than ad hoc arbitration (where the administration is by the arbitrator(s) himself),

● for a reasoned award rather than a naked-judgment style award, and/or

● for almost any now published set of arbitration rules without amendment to compel an expedited case management process, we are most likely to pay an extra $100,000 and take an extra year over the alternative choices of one arbitrator, ad hoc arbitration, award without reasons and a contract rules amendment providing for expedited procedure. We may want the more expensive alternatives, but we should know what it costs for that common combination of alternatives. We should also learn how and to what extent we can avoid those burdens of time and money.

This is not a paper which undertakes discussion at length of about 30 considerations[14] a party ought to undertake before entering into a contract to arbitrate a big-buck intellectual property, construction or other commercial dispute.

What follows is a form contract for setting up arbitration. With minor editing this could be a section or "clause" within any commercial contract including a license; it could be a separate contract calling for arbitration of a companion commercial contract; or it could be a separate contract to arbitrate any commercial dispute, such as a patent, trademark or copyright infringement dispute.

***208** The following form can be used like any form book form. But perhaps more important, reading through it will educate you on some of the more important issues in contracting for arbitration. For example:
(1) There are a modest number of key features of arbitration to which attention is here directed, that you simply must consider before making your decision as to *how* to arbitrate;

(2) There are significant, even perilous, booby traps and pitfalls for the unwary. These are easily avoided by the informed and experienced, which suggests to the uninitiated their need for consultation when considering arbitration clauses;

(3) Among the issues often deemed to be very important is the applicable practice in arbitration respecting:
● what types of discovery are allowed (often denied or sharply limited in arbitration, though it can also be wide open);

● what rules of evidence apply (affidavits of third hand hearsay are often "received" in evidence but with nobody knowing what weight they carry). Further, arbitration's "cure" for exclusionary rules of evidence is essentially "to let it all in," often including things like irrelevant, prejudicial slurs which are answered, rebutted, etc. This irrelevant, prejudicial material often shockingly runs up time and cost of arbitrations.

● how to avoid undue delay and expense which, when not addressed, can sometimes be as bad as or worse than in the court house;

● what remedies the arbitrators are authorized to grant or will feel free to grant (Treble or punitive damages? Injunctions?). When drafting an arbitration contract, people often don't consider that they are changing the available remedies by going to arbitration in lieu of court; but it should be noted that an arbitrator, particularly an arbitrator in a foreign country arbitration, may not award an enforceable injunction. Furthermore, no foreign country is known to award punitive damages in civil cases; and New York purports not to in breach of contract cases.[15] Therefore, the contract should be very explicit on remedies;

● what is the law construing any commercial contract in issue; what is the applicable substantive law governing the dispute (often different from the law construing the contract); what is the applicable procedural law (particularly the statute of limitations); and in international cases, the site and corresponding *lex arbitri* which governs such things as confirmation or

vacation of the award; and

● how best to ensure that you have a rational and *neutral* arbitrator who will handle the case fairly and efficiently.

(4) Via well-planned domestic U.S. arbitration, even in a fairly complex patent infringement suit, a party can almost uniformly get the final decision and a permanent injunction in place within 365 days. By comparison, it would take an average of more than six years for patent cases to make their way through the trial and appeal process.

Arbitration, particularly arbitration which follows mediation of the same dispute,[16] is truly capable of resolving complex commercial, patent infringement, licensing or other intellectual property disputes at less than half the cost of, and often in 15% of the time required for, typical court resolution of the similar dispute. In addition, arbitration can provide a more intelligent and higher quality study and consideration of the issues than is available in a large percentage of trials. However, unless arbitration ***209** is correctly contracted for, little if any of that potential value may be captured. Furthermore, without a correctly drafted arbitration contract, a party may be frustrated by lack of discovery, by an adversary's proof by affidavit of third hand hearsay, or by non-neutral arbitrators, among other possible problems.

Let me emphasize the merit of a contract for a hybrid procedure including an early mediation prior to a dispositive arbitration. In a future paper I will suggest language for that hybrid. Meanwhile I will here refer you to proposed contract forms for such a hybrid process published in 1992 by the Center for Public Resources.[17] One proposal for a hybrid of compulsory negotiation and mediation which can be hybridized with the arbitration contract form, which follows below, is set forth at the end of this article.[18]

II. Agreement to Arbitrate a Patent Dispute

1. Parties

1:1 ... is a corporation of ... with its principal place of business at ...

1:2 ... is a corporation of ... with its principal place of business at ...

2. Background

2:1 ... alleges, and ... does not contest for purposes of this arbitration, that ... is the owner of the following United States Patents:

-
-
-
-

2:2 ..... alleges that ..... infringes some valid scope of some claim of those patents with product models as follows:
● ... model[19] ... as disclosed in the attached Appendix I, alleged to infringe claim ... of patent ...

● ... model ... as disclosed in the attached Appendix II, alleged to infringe claim ... of patent ... etc.[20]

***210** 2:3 ..... denies that it has infringed or is infringing any valid, enforceable scope of any of the identified patents and explicitly denies validity and enforceability of the patent.

3. Agreement to arbitrate -- issues to be arbitrated and not arbitrated

3:1 The parties agree to arbitrate the issues of whether there is any enforceable, not invalid[21] scope of the designated patent claims, and whether the above designated ... models infringe any enforceable, not invalid scope of the designated patent

claims.

3:2 [In this example form, nothing is explicitly excluded from arbitration. In some contracts, however, there will be no contest about enforceability if valid, or the contest will be focused on infringement and not validity. Whatever is not to be arbitrated should be set forth explicitly in this paragraph.]

3:3 This agreement to arbitrate shall be binding and may be exercised by either party even after it may have initiated litigation involving the arbitratable subject matter, up until 120 days after the filing of both the Complaint/Petition and Answer or the setting of the case for trial on the merits, which ever is earlier -- upon which event the right to compel arbitration under this agreement is waived.

4. Judgment may be entered on the award

4:1 Each party agrees to abide by the Award rendered in this arbitration, and agrees that a judgment of the court having jurisdiction may be entered upon the award.[22]

5. Time and place of arbitration; personal jurisdiction of courts

5:1 The arbitration shall be held at [city], [state]; and the parties consent to the personal jurisdiction of the state and federal courts there, for any cause arising out of or otherwise related to this arbitration, its conduct and its enforcement.[23]

5:2 If the parties do not agree on the site within such city for the arbitration, the arbitrator(s) shall choose the site after receiving such advice as the parties wish to provide.

6. The arbitration shall be ad hoc, not administered

6:1 Any Rules which may be adopted notwithstanding, the parties agree that the arbitration shall be ad hoc and administered solely by the arbitrator after appointment.[24]

211** ***7. License agreements

7:1 The parties have reached agreement as to a different license agreement (copies attached as Appendix ...), each covering one patent. If the award should be that any given patent is not invalid, is enforceable and infringed, then the subject license agreement shall become effective.[25]

8. Law applicable

8:1 The case shall be arbitrated solely under Title 35 of the United States Code, as interpreted by the United States Court of Appeals for the Federal Circuit, and pursuant to the Title 9 of the United States Code, the Federal Arbitration Act.[26]

8:2 [If there exists a commercial contract to be construed]. The contract shall be construed under the law of ....

8:3 Excepting the foregoing, the statute of limitations and the substantive law governing all disputes submitted to arbitration and the remedies for any wrongs found ....

212** ***9. Rules adopted

9:1 The Arbitration Rules of the Center for Public Resources, New York, NY, [[[or perhaps, the ICA or UNCITRAL Rules[27], or AAA, ICC or LCIA or Stockholm Chamber of Commerce, etc.] as they existed on the date of this contract, are adopted as the rules governing this arbitration,[28] provided however, that no rule shall be applied in a manner inconsistent with any recitation in this agreement. A copy of those Rules is attached to Appendix ...[29]

10. Number of arbitrators[30]

10:1 The number of arbitrators shall be one.[31]

213** ***11. How the arbitrators are chosen[32]

11.1 Unless the parties agree on an individual by name,[33] the arbitrator shall meet these qualifications:

(a) Shall be neutral,[34] impartial,[35] independent of the parties and others having any known interest in the outcome, shall abide by the ABA and AAA Code of Ethics[36] for neutral arbitrators, and shall have no *ex parte* communications about the subject matter of the case[37] [or about the appointment of a third arbitrator, if the party-appointees are assigned that duty[38]] or the person's views on matters of law[39] with either party in the appointing process or otherwise during the pendency of the arbitration.[40]

***214** (b) Shall have a college or university degree in engineering.

(c) Shall have been a duly licensed lawyer for ten years.

(d) Shall have been admitted to practice before the Patent Office for ten years.[41]

(e) Shall have participated actively (including witness examination) in the trial of at least eight lawsuits of some kind, at least four of which shall have been patent infringement suits.[42]

(f) Shall have carried first chair responsibility for the trial of at least one patent infringement suit for the patentee and at least one for the accused infringer.[43]

(g) Shall have spent more than half of his time in patent litigation work during five of the last 15 years, wherein not more than 80% of his time was on either the patentee or infringer side of the docket.

(h) Shall have personally drafted and prosecuted to issue at least five patents.

(i) Shall certify that he has time to handle this arbitration expeditiously, and will give to this arbitration a priority of claim on this time to the end that it may be concluded within 270 days.[44]

(j) Shall agree to charge fees and expenses that are reasonable under the circumstances, including no more than standard coach air fare and common or standard business-travel hotel bills for his travel expenses.

(k) Shall agree that he will render his award within 30 days of the close of evidence or any post-evidence briefs or arguments that may be allowed.

11:2 If the parties fail to reach agreement on a single arbitrator by name within 30 days of the execution of this agreement, or otherwise determine to seek appointment by another,[45]

Alternative A: Each party shall appoint one arbitrator [Alternative A-1: fulfilling the above specifications] [Alternative A-2: from among the former Commissioners of Patents or patent-backgrounded past officers or Board members of the American Intellectual Property Law Association, National Council of Intellectual Property Law Associations or American Bar Section of Intellectual Property Law, or other Intellectual Property Law Association having more than 250 members, and the two persons so appointed shall appoint the sole arbitrator from among the persons meeting the above specification.[46]

***215** Alternative B: they shall ask the Center for Public Resources [or the ICC or American Arbitration Association] to appoint an arbitrator meeting these specifications.

Alternative C: in accord with the AAA rules or others, wherein the AAA, ICA or CPR provides a list of five or seven persons to each party, the parties strike one or two and rank the remainder in preference order, and the person with the highest joint ranking is the arbitrator if he/she will commit the time and reasonable fee scale.

12. Case management

12:1 Prompt disposal of this dispute is important to the parties;[47] the resolution of this dispute shall be conducted expeditiously. [Alternative A: --to the end that this dispute may be finally resolved within ... days.].

12:2 The arbitrator(s) and counsel each must commit that they have adequate time for expeditious handling of this dispute and that they will commit adequate priority of claim upon their time to the end that the case can be reasonably disposed of

within that designated time.[48]

12:3 The arbitrator[49] is *instructed, directed and commanded* to assume case management initiative and control of the dispute resolution process and to initiate early scheduling of all events in order to reasonably assure the disposal of this dispute as expeditiously as is practical but in all events in less than 270 days from the date her appointment is confirmed. The parties agree to be bound by her case management orders.[50]

12:4 The arbitrator [or Chairman of an arbitration panel] is also instructed to attend selected key depositions if there are any, thereby expediting them and enabling him to rule immediately on questions arising and avoiding the delays of motion practice.

12.5 The arbitrator is empowered to proceed with any issue or hearing in the absence of a party who has been duly notified of the submission of the issue or the time and place of a hearing.[51]

13. No reasons for the award

[Alternative A for a patent case] 13:1 The award as to each patent, shall be essentially in the form, "Patent claims ... invalid [or not invalid] and Infringement found. [or, Infringement not found.]" ***216** --coupled with other terms as necessary (damages, interest, costs of the arbitration) in the style of a judgement. There shall be no reasons for the award.[52]

[Alternative B for some other commercial case] 13:1 The award shall be in the nature of a naked judgment, without findings of fact, conclusions of law, opinion, or other reasons.

[Alternative C] 13:1 The award shall be accompanied by such reasons, normally not more than five pages,[53] as are necessary to explain the reasons necessary to support the award but shall not address evidence and issues not necessary to support the award.

14. Discovery

14.1 The arbitrator[54] shall give active, attentive case management to the scope, form, cost-effectiveness and scheduling of all discovery that may be needed in order that the lack of discovery does not cause an injustice; but there shall be no discovery which the arbitrator finds to be cost-ineffective and unneeded.[55]

14.2 Subject to exceptions to be determined for good reason and on timely motion, each party shall within 30 days following appointment of the arbitrator(s) produce all non-privileged documents in its custody or control which are deemed relevant to the issues in dispute, and shall list relevant documents on which privilege is claimed by date, author, addressee(s), custodian, and subjects treated. Any document categories potentially containing relevant documents but not searched for any reason (e.g., lack of cost-effectiveness), shall be identified as to location, approximate volume and why they were not searched.[56]

***217** 14.3 The arbitrator may issue orders to protect the confidentiality of proprietary information, trade secrets and other sensitive information disclosed in discovery or the final hearing, and to protect against misuse of such information and secrets. The parties agree to abide by such orders.

15. Evidence Rules

[Alternative A] 15.1 This arbitration shall be conducted under the Federal Rules of Evidence.[57]

[Alternative B] 15.1 [Recite nothing about "evidence," whereby the arbitrator(s) are free to do what they think necessary, reasonable and appropriate. The vast majority of arbitrations are handled in that way, not without problem, but with better cost effectiveness than the Federal Rules.]

16. Arbitrator jurisdiction

16.1 The arbitrator shall have jurisdiction to construe this contract and determine his own jurisdiction under it.

17. Arbitrator fees -- sharing/allocation of arbitration costs and expenses

17.1 Whether by telephone or otherwise, all communications and negotiations between any party and any arbitrator with respect to the fees of any arbitrator(s) and advance retainers of the arbitrator(s), shall be *inter partes* with the arbitrator(s) and parties represented.[58]

17.2 The arbitrator(s) is instructed, in the normal circumstance, to award her costs, fees and expenses against the party losing the case. Or if the arbitrator perceives there to be a significantly split award she may divide her costs, fees and expenses accordingly, in her sole discretion.

17.3 Provided, however: If as to any issue or patent-in-suit the arbitrator should determine under the applicable law that the advocacy by or a position taken by a party is frivolous or otherwise irresponsible or in callous disregard of law and equity or the rights of the other party, she may in her discretion also award an appropriate allocation of the adversary's reasonable attorney's fees, costs and expenses to be paid by the offending party. The precise sums to be determined after a bill of attorney's fees, expenses and costs consistent with such award has been presented following the award on the merits.[59]

Date: By

Date: By

***219 III. Appendix I: Arbitration Clause Check List**

(1) Ad hoc vs. administered arbitration.

(2) Identity of administering agency.

(3) Description of issues submitted to arbitration

Including, recitation that a construction of the contract to arbitrate and the scope of arbitration shall themselves be issues to be arbitrated. E.g., "Any controversy, dispute or claim arising out of or relating to this contract or the performance, enforcement, breach, termination or validity thereof, including the determination of the scope of the contract to arbitrate, shall be issues for arbitration."

(4) Governing law provision. Statute of limitations.

Expressly authorize or negate "amiable compositeur", "ex aequo et bono," or "natural justice and equity" on the one hand, or such as the "law of Delaware."

Don't trust the statutes of limitations and related conflicts rules. Put your own limitation period into the contract, particularly if you are permitting "amiable compositeur" or "natural justice and equity" which will induce many arbitrators to disregard the statute of limitations.

If you want the dispute to be arbitrated to be the same dispute that would be handled by a court and with the same remedies, be sure the choice of law clause is not limited to "This contract shall be construed under ...". That designates no law for the statute of limitations or the extraordinary remedies like seizure of property and punitive damages. Rather, use a more generic clause like "All disputes referred to arbitration and the statute of limitations and the remedies for any wrongs that may be found, shall be governed by the law of ..." The purpose of these clause selections is because the statute of limitations is likely regarded as adjectival law. Therefore, the law and its remedies, like seizure of property and punitive damages, are sometimes not allowable in arbitration and are almost always regarded as not "a construction of the contract." Thus, such law is not adopted by a construction-of-the-contract clause and, indeed, may not be adopted by adoption of "the substantive law of ..." clause.

Often, particularly in international contracts, you will want two or three choices of law for different things, like the substantive law and statute of limitations of Connecticut, the procedural law and *lex arbitri* of the arbitration forum, and arbitration law solely of the Federal Arbitration Act. See Federal Arbitration Act, 9 U.S.C. § 1 et seq (1988), as supplemented by the Texas (or California) International Arbitration Act, TEX. REV. CIV. STAT. ANN. art. 249-1 et seq. (Vernon Supp. 1994); CAL. CIV. PRO. CODE § 1297.11 et seq (West 1993) which, modeled after the UNCITRAL Model law,[60] fills in some voids in the federal act.

***220** But in some forums, there must be some sort of rational connection between the substantive law selected and the dispute or disputants. While in others the right of the parties to choose a "neutral" law is honored.

But be careful, especially in intellectual property cases. Some jurisdictions have procedural law disallowing discovery and substantive law placing the burden of proof on the accused infringer of a method patent. The substantive patent law and related procedural law are often interrelated, so if you select a patent law you must know the procedural law that goes with it or you risk serious entrapment.

(5) Review provisions if any. (Contrast 23 below).

Both the finality of the arbitrator's award, and the power of the arbitrator to fashion creative procedures and remedies, are often the greatest merits of the process, in terms of both economics and equity.

But in a big case, an arbitrator running wild with creativity is also a legitimate fear -- a possibility you may wish to restrain or guard against.

One partial protection is three arbitrators rather than one -- expensive as that is.

Another protection is court review of the arbitrator's law; and another is court determination of whether there was "substantial evidence" for his findings. These reviews are themselves burdensome and costly in time and money and command the expense of transcripts and reasoned awards with findings and conclusions which sacrifice the prompt finality of the award addressed in (23) below; but they tend to keep the arbitrators more disciplined in response to law.

(6) Process for interim or provisional remedies.

To be heard by the court or only by the arbitrator(s), and under what circumstances heard by each.

(7) The place of hearing.

"The place of arbitration shall be [city and country]" or "If the parties do not agree the arbitrator shall select the place(s) for hearings after consultation with the parties." I strongly urge the first form, coupled with a personal jurisdiction clause to the effect, "The parties consent to the personal jurisdiction of the state and Federal courts of [that city] with respect to any dispute arising out of or otherwise related to this arbitration agreement or the arbitration it provides for or the enforcement of the Award."

In international arbitration the choice of site usually also is a choice of law governing the hearing process of the arbitration and the confirmation, enforcement or modification of the award, whereby site selection can be very important.

I suggest also: Choose a site which is a signatory to the New York Convention.

***221** (8) A set of administrative rules.

Consider, by way of example:

"Any controversy, dispute or claim arising out of or relating to this contract or the performance, enforcement, breach, termination or validity thereof, shall be determined by arbitration and a judgement of the court may be entered upon the award upon request by either party within one year of the award. The arbitration shall be in accordance with the arbitration rules of [[[ICA (International Centers for Arbitration, Houston), WIPO (World Intellectual Property Organization, Geneva), AAA Commercial, Patent or International Rules, ICC, or UNCITRAL Rules] in force at the time of the contract." [If the appointing or administering agency is different from the agency whose rules are adopted, "The appointing (or 'administering agency') shall be [name the institution or person]."]

Be advised that the AAA rules have buried in them an adoption of the AAA as case administrator, so don't adopt AAA rules unless you are also of a mind to use AAA case administration and pay the fees for that -- which are not usually exorbitant.

The AAA will act as appointing authority and will administer cases either under AAA rules or under the UNCITRAL Arbitration Rules. The UNCITRAL Rules have several preferable rules. For example:

> "Any controversy, dispute or claim arising out of or relating to this contact or the performance,

> enforcement, breach, termination, or validity thereof, shall be determined by arbitration in accordance with the Uncitral Arbitration Rules in effect on the date of this contract. The American Arbitration Association shall be the arbitrator appointing authority and shall administer the arbitration in accordance with its *Procedures For Cases Under the Uncitral Arbitration Rules*. A judgement of the court may be entered upon the award upon request by either party within one year of the award."

(9) Rules should be subject to personally drafted modifications of your choice -- for a patent or trademark case you will likely modify several of the adopted rules.

(10) Procedures for appointment of arbitrators, and sometimes of setting arbitrator(s)' fees.

(11) The number of arbitrators.

> "The number of arbitrators shall be [one, two or three]"

(12) Recitation of whether the arbitration can proceed or must start over when one arbitrator ceases to serve, and perhaps under what timing and conditions.

(13) The qualifications of the arbitrators. In panels the qualifications may be different for the Chairman and other arbitrators. Some arbitrators need not be lawyers.

***222** Give explicit consideration to a recitation that the arbitrators have time to expedite the arbitration and commit to give a priority of claim upon their time sufficient to conclude the arbitration in X days.

Consider reciting that the arbitrators shall stay together and work continuously after the close of evidence, until their award is completed.

Consider specifying the nationality of the arbitrators.

(14) Third-party claims; joinder of third-party respondents.

(15) Evidence rules.

There may or may not be oral discovery, interrogatories, requests for admission.

In the U.S. the arbitrator can issue a subpoena; in England a court will issue a subpoena in aid of arbitration; in most countries there is no subpoena in arbitration so discovery and final-hearing testimony is limited to party discovery the arbitrator can persuade the parties to yield -- which is usually all identifiable relevant documents but often little else. How is a subpoena enforced?

Who may subpoena a witness or documents?

(16) Language of the hearings.

> "The language to be used in the arbitral proceedings shall be [language]."

Specify who pays for interpretation. If a live witness needs interpretation, adverse parties will likely want their own interpreter as a check or back-up where the value at risk justifies the expense.

(17) How fees and costs are to be controlled and borne.

(18) May attorneys' fees be awarded?

Usually, yes, awarded as part of "costs" in foreign cases, and the arbitrators have wide discretion not limited to specific evidence as to costs/fees. In the United States, specific statutes like 35 U.S.C. § 285 (1988) govern.

(19) Prejudgment interest?

Now universally accepted in the United States, but at what rate?

(20) May multiplied damages or punitive awards be granted? Not normally permissible in international arbitration and never allowed in foreign law arbitration unless it is spelled out in the contract to arbitrate.

***223** (21) May injunctive remedies be awarded?

Within the United States injunctive relief is a settled remedy, but in some international arbitration the arbitration award of an injunction is far from settled. Additionally, the courts in some countries do not enforce injunctions effectively; so this possibility must be verified.

(22) Currency in which the award is to be paid, and exchange rate to be used.

(23) An award enforcement provision:

If it be an international dispute within the ultimate control of the "New York Convention," this clause is necessary only if the potential country of enforcement of the award has not signed the "New York" *1958 Convention On the Recognition and Enforcement of Foreign Arbitral Awards*.

If the dispute is not international, however, it is desirable (*perhaps necessary*) under the Federal Arbitration Act[61] to have an explicit clause to the effect that the award may be enforced by any court having jurisdiction over the dispute or arbitration of it.

(24) Provisions concerning discovery and discovery management.

These provisions are often difficult to agree on.

(25) Neutrality of arbitrators:

Perhaps, "Each arbitrator shall be neutral, independent, disinterested, impartial and shall abide by the Canons of Ethics of the American Bar Association for neutral, independent arbitrators. An arbitrator shall be subject to disqualification if an appointing party, either before or after the appointment, asks for the views of the arbitrator or makes an *ex parte* disclosure of significant facts or themes of the dispute beyond what is appropriate for the arbitrators' conflict check and revelation of his qualifications for the case. There shall be no *ex parte* communications with an arbitrator either before or during the arbitration, relating to the dispute, the issues involved in the dispute or the arbitrator's views on any such issues [or in cases using party appointed arbitrators to appoint a third arbitrator, a party-appointed arbitrator's choice of a third arbitrator]."

(26) Various devices for controlling procrastination and expediting the case, e.g.:
a. Clause reciting that the prompt resolution of the dispute is important to the parties.

b. Commitment from arbitrator(s) [and perhaps counsel as well] that t(he)y have the time necessary to quickly resolve the dispute and that t(he)y will give the dispute priority over other matters.

***224** c. "Instruction, direction and command" to arbitrator or the chairman of the panel to assume "case management initiative and control" to schedule the case early and to reasonably expedite the case toward full resolution within X days (whatever is reasonable for the case).

d. Commitment by the arbitrator(s) to render the award within X days of the close of evidence or any post-evidence briefing.

e. Rewards to the arbitrator if the dispute is resolved by a target date and penalties if not resolved in defined timely fashion including specifically X days after close of evidence or post-evidence briefing.

f. Requirement that arbitrators remain together working upon the award, after the close of evidence, until they complete their award.

g. Use of a naked award or limiting reasons to less than five or so pages -- and to only those issues necessary to support the award.

h. Use of one arbitrator rather than three.

(27) The award is final, binding and not subject to appeal. (A common clause in a few countries, unnecessary in others).

(28) The award is subject to interest payments or other penalties from the date of the award.

(29) Compulsory negotiation or mediation prior to a binding arbitration.

A day of mediation prior to arbitration in an intellectual property dispute is strongly recommended. In addition, "baseball" or "final offer" binding arbitration is very effective when occurring after a mediation.

(30) Consent to personal jurisdiction of a given court where the arbitration is to be held and enforcement is deemed likely to be necessary.

(31) Consent to proceed with an *ex parte* hearing when a party, having notice of the hearing, fails to appear.

(32) Arbitration's "cure" for the various burdens, problems and injustices resulting from court evidence exclusionary rules is essentially to "let it all in;" but that practice carries with it certain hazards. An arbitral award can be overturned on the ground that the arbitrator refused to consider relevant evidence. In addition, arbitrators seek social acceptance by counsel -- particularly when they were named by counsel. Therefore, counsel are prone to try and offer prejudicial material, effectively trying the immaterial issues; and arbitrators are prone to let it in. Not infrequently, this can result in a run-away arbitration that takes incredible amounts of time and money. Accordingly, to avoid the risk of this booby-trap there should be a clause in the contract waiving the right to have an award overturned by reason of exclusion of evidence. Essentially this clause should read:

> ***225** "The arbitrator shall have the authority to exclude evidence deemed to be irrelevant, redundant or prejudicial beyond its probative value, and is instructed to exercise that authority consistently with the reasonable expedition of the proceeding. The parties explicitly agree that the exclusion of evidence by the arbitrator on grounds of irrelevance, redundance, or prejudicial beyond its probative value shall not be grounds for failure to confirm and enforce the award."

The strong bias of most arbitrators is to let in too much, so the risk from that clause is small. In that context, if you trust the arbitrator with your case on the merits, then you must also trust him to rule out time consuming evidence; or you risk experiencing an arbitrator horror story which are very common in the practice.

*226 IV. Appendix II: Suggested Form of Section of a Commercial Contract for Pre-Litigation Negotiation and Mediation

Section ____, Dispute Resolution

1. Agreement to Use Process.-- The parties agree to attempt, prior to the commencement or conduct of litigation, to resolve amicably by the process set forth herein (the "Process"), any dispute (the "Dispute") relating to the performance, breach, termination or enforcement of this contract or otherwise arising out of or directly or indirectly relating to this contract.

2. Exceptions.-- Provided, however: Nothing herein shall preclude a party from seeking, by litigation, a temporary restraining order or preliminary injunction to prevent irreparable harm and/or preserve the status quo pending resolution of a Dispute. Further, the obligations of this Dispute Resolution section shall not be binding if initiated less than one hundred eighty days before the running of any applicable statute of limitations, and continuation of the Process shall not be a binding obligation during the last ten days before the running of any statute of limitations and thereafter.

3. Initiation of the Process.-- The party seeking to initiate the Process (the "Initiating Party") shall give written notice to the other party, describing in general terms the nature of the Dispute, the Initiating Party's claim for relief and identifying one or more individuals with authority to settle the Dispute on such party's behalf. The party receiving such notice (the "Responding Party") shall have five business days from receipt within which to designate, by written notice to the Initiating Party, one or more individuals with authority to settle the Dispute on such party's behalf. (The individuals so designated are herein referred to as the "Authorized Individuals.")

4. Direct Negotiations.-- The Authorized Individuals shall be entitled to make such investigation of the Dispute as they deem appropriate, but agree promptly, and in no event later than 30 days from the date of the Initiating Party's written notice, to meet to discuss resolution of the Dispute. The Authorized Individuals shall meet at such times and places and with such frequency as they may agree. If the Dispute has not been resolved within 30 days from the date of their initial meeting, the parties shall submit the Dispute to mediation in accordance with the following procedure.

5. Selection of Mediator.--

(a) The Authorized Individuals may select a mediator by direct, timely conference. Failing that, the Authorized Individuals for each party shall have five business days from the expiration of said 30 days to submit to each other a written list of ten acceptable qualified, neutral, disinterested, unbiased mediators who are independent of the parties. If there are any common names, or if names from the other party's list are acceptable, then within five days from the date of receipt of such list the Authorized Individuals shall rank any such names in numerical order of preference and exchange such rankings. The person with the highest combined ranking having no conflicts and willing and able to serve at a time reasonable under the circumstances, shall be designated as the mediator, subject to agreement as to fee.

(b) If no mediator has been selected under this procedure, the parties agree jointly to request [some provider of such services, e.g., the Center for Public Resources, NY, American Arbitration Association, U.S. Arbitration and Mediation Service, Judicial Arbitration and Mediation Service, a State or Federal District Judge of their choosing, or if they cannot agree, the Local Administrative Judge of _____ County, _____] to supply within ten business days a list of at least five ***227** qualified mediators. Within five business days of receipt of the list, the parties shall rank the proposed mediators in numerical order of preference and shall simultaneously exchange such lists and shall select as the mediator the individual receiving the highest combined ranking. If such mediator is not available to serve at a time and at a fee reasonable under the circumstances, they shall proceed to contact in order the mediators who are next highest in ranking until they are able to select a mediator.

6. Time and Place for Mediation.-- In consultation with the mediator selected, the parties shall promptly designate a mutually convenient time and place for the mediation, and unless circumstances require otherwise, such time to be not later than 45 days after selection of the mediator. If the parties do not agree promptly, then the mediator shall determine the time and place.

7. Exchange of Information.-- In the event that any party to this Agreement has substantial need for information in the possession of another party to this Agreement in order to prepare for the mediation, all parties shall attempt in good faith to agree on procedures for the expeditious exchange of such information, with the help of the mediator if required. The bias shall be against discovery which is not clearly essential, and the parties agree to be bound by the mediator's determination of what discovery shall be had.

8. Summary of Views.-- At least seven days prior to the first scheduled session of the mediation, each party shall submit such statements of their views on the Dispute as requested by the mediator.

9. Parties to be Represented.-- In the mediation each party shall be represented by a business person fully authorized to negotiate and to settle the dispute (an "Authorized Person") and may be represented by counsel as well. In addition, each party may, with notice to the other party and permission of the mediator, bring such additional persons (normally not more than two additional) as needed to respond to questions, contribute information and participate in the negotiations.

10. Conduct of Mediation.-- The mediator shall determine the format for the meetings, designed to assure that:

(a) both the mediator and the Authorized Persons have an opportunity to hear an oral presentation of each party's views on the matter in dispute, and

(b) that the authorized parties attempt to negotiate a resolution of the matter in dispute, with or without the assistance of counsel or others, but with the assistance of the mediator.

To this end, the mediator is authorized to conduct both joint meetings and separate private caucuses with the parties. The mediator will keep all information learned in private caucus with any party confidential unless specifically authorized by such party to disclose the information to the other party. The parties agree to a mediation consistent with [e.g., Chapter 154 of the Texas Remedies and Practice Code (Texas Alternative Dispute Resolution Procedures Act), TEX. CIV. PRAC. & REM. CODE ANN. § 154.001 et seq (Vernon Supp. 1994)] and such other reasonable rules as the mediator shall prescribe.

11. Commitment.-- The parties commit to participate in the proceedings in good faith with the intention of resolving the Dispute if at all possible.

12. Termination of Procedure.-- The parties agree to participate in the mediation procedure to its conclusion. The mediation shall be terminated

(a) by the execution of a settlement agreement by the parties,

***228** (b) by a declaration of the mediator that the mediation is terminated, or

(c) by a written declaration of a party at any time after one full day's mediation session to the effect that the mediation process is terminated.

Even if the mediation is terminated without a resolution of the Dispute, the parties agree not to terminate negotiations and not to commence any legal action or seek other remedies prior to the expiration of five days following the mediation.

13. Fees of Mediator; Disqualification.-- The fees and expenses of the mediator shall be shared equally by the parties. The mediator shall be disqualified as a witness, consultant, expert or counsel with respect to the Dispute and any related matters.

14. Confidentiality.-- The mediation shall be conducted in private. The parties agree that the mediation is a compromise negotiation for purposes of the Federal and State Rules of Evidence and constitutes privileged communication. The entire mediation process shall be confidential, and no stenographic, visual or audio record shall be made. Further, any notes (of course, excepting the final agreement, if any) made during the mediation shall be destroyed upon its completion. All conduct, statements, promises, offers, views and opinions, whether oral or written, made in the course of the mediation by any party, their agents, employees, representatives or other invitees and by the mediator, are confidential and shall, in addition and where appropriate, be deemed to be privileged. Subject to the two basic rules,
(i) that some information (like drug, child or environmental abuse or conspiracy to commit a future crime) is by law sometimes subject to revelation in an appropriate proceeding, and

(ii) that evidence that is otherwise discoverable and usable cannot be insulated from discovery by disclosure in a mediation and such evidence remains subject to regular discovery process and use,
such conduct, statements, promises, offers, views and opinions shall not be discoverable or admissible for any purposes, including impeachment, in any litigation or other proceeding involving the parties, and shall not be disclosed to anyone not an agent, employee, expert, witness, or representative of any of the parties having need to know for purposes of work upon resolution of this dispute.

* * *

[It is recommended that commercial contracts also provide for binding arbitration if the parties do not reach agreement in the mediation. Following a mediation, so-call "baseball" or "final offer" arbitration is particularly attractive as the device for final, expeditious disposal of the dispute.]

Footnotes

a1 Mr. Arnold is a fellow of the Chartered Institute of Arbitrators. Mr. Arnold, a co-founder-director of International Centers for Arbitration, has served as President of the A. A. White Dispute Resolution Institute, the American Intellectual Property Law Association, the Licensing Executives Society, the Houston Bar Association, and was Chairman of the Patent Trademark and Copyright Section of the American Bar Association, the National Council of Intellectual Property Law Associations, and others.
He has served as an adjunct Professor of Law at the University of Houston teaching Alternative Dispute Resolution, and at the University of Texas teaching Intellectual Property law.

He is co-author of books including *Patent Alternative Dispute Resolution Handbook, Licensing Law Handbook 1988, Patent Law for Engineers* and several hundred speeches and papers on ADR, litigation and intellectual property law.
He is a founding member of Arnold, White & Durkee in Houston, Texas.

[1] International Centers for Arbitration, Houston.

[2] American Arbitration Ass'n, New York.

[3] International Chamber of Commerce, Paris.

[4] Center for Public Resources, Inc., New York.

[5] International Centers for Arbitration, Supplemental Rules and Procedures for Administration of Disputes under the UNCITRAL Arbitration Rules (1993); American Arbitration Ass'n Commercial Arbitration Rules (1992); American Arbitration Ass'n Patent Arbitration Rules (1992); American Arbitration Ass'n International Arbitration Rules (1992); ICC Rules of Conciliation and Arbitration (International Chamber of Commerce 1988); Rules for Non-Administered Arbitration of Business Disputes and Commentary (Center for Public Resources 1993).

[6] *See supra* note 5.

[7] *See supra* note 5.

[8] *See supra* note 5.

[9] *See* American Arbitration Ass'n Commercial Arbitration Rules, § 12, paragraph 2, and § 19.

[10] CPR Rules for Non-Administered Arbitration of Business Disputes and Commentary, Rule 13.2 (1993).

[11] American Arbitration Ass'n Commercial Arbitration Rules, § 42.

[12] American Arbitration Ass'n Patent Arbitration Rules, § 41.

[13] ICC Rules of Conciliation and Arbitration, Appendix II, Art. 18 (International Chamber of Commerce 1988).

[14] *See* Appendix I at the end of this article.

[15] *See, e.g.,* Green v. Dolphy Construction Co., 187 A.D.2d 635, 637, 590 N.Y.S.2d 238, 239 (N.Y. App. Div. 1992).

[16] Mediation sets up particularly well a "baseball" or "final offer" style binding arbitration.

[17] DISPUTE RESOLUTION CLAUSES FOR BUSINESS AGREEMENTS, at 10, 14 (CPR 1992).

[18] *See* Appendix II at the end of this article.

[19] In the normal patent law suit the alleged infringing product models are not designated in the complaint and there is often much

controversy over which versions are and are not accused models. Hopefully, if the parties are agreeable enough to enter into this contract, they will also be able to specify what models and structures are to be submitted to the arbitrator's jurisdiction.
It may be that there are no "model" names or numbers, and that this phrase in the contract needs to be changed to some other grammatical form; but if the arbitrator's jurisdiction is to be well defined in the contract, the contract should explicitly identify the accused products (and/or processes if there be any method claims in issue).
Quite likely, it will be found desirable to append to this contract and adopt by reference an appendix of drawings, photographs and/or specifications of each product whereby the identification of their structure is explicitly spelled out in the contract.

[20] Obviously, this table must be completed carefully, specifically identifying each accused product, product structure and composition, and process, as well as each patent and patent claim. It is important to specifically recite the claims alleged to be infringed and to attempt to negotiate a final agreement to arbitrate. Preferably, that agreement to arbitrate will be limited to a single representative sample claim in each patent.

[21] This language tracks the Federal Circuit's theme of the late 1980's: that a patent is presumed valid and that the evidentiary burden is on an infringer to prove it invalid. *See* 35 U.S.C. § 282 (1988); Atlas Powder Co. v. E.I. DuPont de Nemours & Co., 750 F.2d 1569, 1573, 224 U.S.P.Q. (BNA) 409 (Fed. Cir. 1984). Failing that, the judgment should not be "valid" but "not proved invalid." Stevenson v. Sears, Roebuck & Co., 713 F.2d 705, 707, 218 U.S.P.Q. (BNA) 969 (Fed. Cir. 1983). Perhaps the logic is overdone, but it is nevertheless the correct Federal Circuit law.

[22] A clause legally necessary to get court enforcement in some jurisdictions. Use of it removes doubt under 9 U.S.C. § 9 (1988).

[23] Some contracts recite that if the parties cannot agree at arbitration time, the arbitrator shall choose the city of the arbitration after consultation with the parties. However, some city designation is preferable, in order to support the addition of a clause relating to consent to the personal jurisdiction of the courts in that location. Furthermore, at least in international arbitrations, the local law governing actual conduct of the arbitration, discipline of witnesses or counsel, and confirmation or vacation of the award is inherently of interest.

[24] AAA Rules have buried within them an adoption of the AAA as the administering agency. *See, e.g.,* American Arbitration Ass'n Commercial Arbitration Rules, § 3 (1992). The ICA, CPR or UNCITRAL (United Nations Commission on International Trade Law) rules (UNCITRAL Arbitration Rules (United Nations 1977)) are preferred over the AAA rules. However, with appropriate contract modification of a couple of the AAA rules, use of the AAA rules or the ICC rules can be beneficial at least for two parties with no experience in arbitration who end up with an arbitrator also having no experience in arbitration.
Many view AAA, CPR, ICA or ICC assistance as a particular aid in arbitrator appointment; that aid may also take from you a measure of control over choice of arbitrator. Arbitrator appointment is its own problem meriting careful attention. UNCITRAL Rules (the basic model for ICA Rules) are well adapted for both domestic and international arbitration.
In addition, having an administrator has its own burdens in terms of increased time and money involved in the dispute. Although this has not been the case with most AAA administrations, it has been a problem in several complex cases administered by ICC and LCIA (London Court of International Arbitration).
While the author has not had a lot of experience with ad hoc arbitration as provided for under the CPR Rules, he has certainly felt burdened (e.g., precluded from efficient pre-mediation arbitrator phone calls to the parties) when serving as an arbitrator for some of the administering agencies.
While the choice is perhaps six of one, half dozen of the other, if the parties and the arbitrator have prior arbitration experience, then use the ad hoc choice -- CPR, ICA or UNCITRAL rules.

[25] Obviously, this is an alternative concept for your consideration in a compromise situation; such a clause is not found in most arbitration agreements.

[26] It is important to consider the choice of (i) substantive law, (ii) adjectival law and (iii) arbitration law. Because the statute of limitations is important (and whether it is substantive or adjectival is often unclear), the choice of law needs to be explicitly recited. However, the best idea in any commercial contract is to recite the limitation for issues related to that contract in the contract itself so as to avoid all of the conflict of laws problems.
By using the Federal Arbitration Act, 9 U.S.C. § 1 et seq. (1988), you can sometimes avoid some of the strange provisions of the arbitration laws of the states, but not always. For example, it has been held that the Federal Arbitration Act did not preempt California law permitting the court to stay arbitration, pending resolution of related litigation involving third parties not bound by an arbitration agreement, where parties agreed by contract to abide by state rules of arbitration. Volt Information Sciences, Inc. v. Board of Trustees of the Leland Stanford Junior University, 489 U.S. 468 (1989). Since the FAA is benign in essentially every detail, it is beneficial to recite both the state arbitration law and the FAA in state-law cases.
In a U.S. patent case the above suggested clause has the effect of letting the arbitrator decide what adjectival law to use except as recited in Title 35.

Texas and California have adopted the UNCITRAL Model Arbitration Law, with minor modifications, as their international arbitration law. TEX. REV. CIV. STAT. ANN. art. 249-1 et seq. (Vernon Supp. 1994); California International Commercial Arbitration and Conciliation Act, CAL. CIV. PRO. CODE § 1297.11 et seq. (West 1993). While it is preempted by the Federal Arbitration Act on points there made, some holes in the Federal Act are effectively filled in by the terms of this law, making Texas international arbitration law particularly good for an international case.

27 UNCITRAL Arbitration Rules (United Nations 1977).

28 The American Arbitration Ass'n Rules are good for an administered arbitration if the parties adopt all the further rules and modifications of rules which are outlined in this proposed contract. AAA Commercial Rules include some anomalies, like party-appointed arbitrators in three arbitrator panels being non-neutral, that cannot be recommended. Also, unless you explicitly provide otherwise, when you adopt AAA Rules you also adopt the AAA administration. *See, e.g.,* American Arbitration Ass'n Commercial Arbitration Rules, § 3 (1992).
While the ICA administered arbitration can be considered to be adequate, the UNCITRAL or CPR Rules are preferred because they provide for ad hoc arbitration. In addition, they also contain better provisions than do the AAA rules. However, as modified by this instrument, there is little significant difference.

29 This preserves ready access to an agreed set of the rules as they existed at contract time.

30 One or three? There are many factors that should go into making this decision.
Three gives you some insulation from off-the-wall ideas to which you are inherently at risk from any one arbitrator and affords the opportunity to use fellow arbitrators who bring complementary experience and knowledge to the table. But the group dynamics of three dilutes responsibility for craftsmanship, dilutes efficiency in case management, and sometimes inhibits careful work more than can be imagined. In a complex international case, it could very well take a year in time and $100,000 in expenses.
The AAA Commercial Rules (the most commonly used in the U.S.) provide for a naked award without reasons (American Arbitration Ass'n Commercial Arbitration Rules, § 42); the ICC, ICA, CPR rules and AAA International Rules call for an award with reasons (ICC Rules of Conciliation and Arbitration, Art. 21, and Appendix II, paragraph 17; ICA Supplemental Rules and Procedures for Administration of Disputes under the UNCITRAL Arbitration Rules, art. 32(3) (1993); Rules for Non-Administered Arbitration of Business Disputes and Commentary Rule 13.2 (CPR 1993); American Arbitration Ass'n International Arbitration Rules, Art. 28, paragraph 2). Reasons can be requested and limits can be put on them; However, the limits may be inconsistent with the justification for having a reasoned award in the first place. Additionally, it is highly unlikely that a reasoned award will be worth the cost, which is likely to be two to four months of time and a few ten thousand dollars in a patent arbitration before a single arbitrator.
Three are often preferred merely because using three enables you to use the happy appointment formula by which each party appoints one and those two or an agency appoint a third. While this is very handy and convenient, it is unwise to use any variety of straight party-appointed arbitrators because they tend to be too strongly influenced by who appointed them.
While it is definitely the case that one arbitrator is more likely to reach a bizarre result than three, it might be a bizarre result in your favor. In addition, three arbitrators are more likely to fashion a compromise instead of a full, strong remedy.
However, if the parties can agree on one, or are willing to let the ICA, AAA, ICC or CPR appoint one who meets recited specifications, then that is the avenue that should be taken in all but the very large case.

31 You may want to provide that, if the parties do not agree on a single arbitrator within 45 days, then the number shall be three, one appointed by each party and one appointed by the first two. If you do that, the expressions recited many places in this instrument will need further editing. However, recall the admonition against ever using party appointed arbitrators of any type -- agency-appointments are much better.
Also, be sure you recite that: "All arbitrators shall be neutral, independent and unbiased and shall have no *ex parte* communications with parties that in any way relate to the subject matter of the case." In the real world, this does not perfect complete lack of bias from party-appointed arbitrators who would like to be appointed again by the same party, but this explicit recitation is vitally important.

32 If there are to be three arbitrators, one common approach (of which the author disapproves) is to use the parties-appoint-one-and-those-two-appoint-the-Chairman approach of the CPR Rules. Another approach is to have the parties appoint one and have the ICA, CPR, ICC, JAMS (Judicial Arbitration and Mediation Services) or AAA appoint the third. The latter approach affords protection from deliberate delays by one arbitrator and eliminates a nest of issues relating to party-arbitrator communications about the choice of the third arbitrator.
Even if the contract provides for party appointed arbitrators, the contract should still retain a recitation of the qualifications of the arbitrator, and most importantly, the recitations about the arbitrators being independent and impartial and abiding by the ABA/AAA Code of Ethics for neutral arbitrators. Code of Ethics for Arbitrators in Commercial Disputes (American Arbitration Ass'n 1977).

Further, it is not uncommon to have a party-appointed arbitrator drag her feet on making the appointment of the third. Therefore, it is important to draft a provision to deal with this situation. For example: "If the two do not perform within 30 or 45 days, then the ICA [AAA, CPR, JAMS or a judge] will be asked to appoint the third arbitrator [or name a list of seven nominees which the parties separately rank with the highest jointly ranked person being appointed if he is willing and able to take on the job and perform it in due time]."

[33] Always preserve the option of agreeing on a name, but expect disputants to quickly agree on a name only rarely and don't allow the process to get tied up while waiting on agreement. It should happen in a relatively quick amount of time, or it is not going to happen at all.

[34] If the agreement calls for the election of three arbitrators, an explicit inclusion of "all" arbitrators as neutrals becomes critically important because of the common belief found in AAA practice (and elsewhere) that party-appointed arbitrators need not be neutrals.

[35] In a majority of types of arbitration, "impartial" is a desirable word. However, in a baseball salary arbitration a fellow player or player-agent, or a fellow owner, would not be considered as "impartial." Even so, if the two impartial arbitrators are balanced in that sort of situation, with a third arbitrator from a truly impartial background and culture, they make a great pair to work with the truly impartial third. Similarly, in a contractor-architect dispute the inclusion of a fellow architect on one side and fellow contractor on the other, might be inclusions of non "impartials" that would be most desirable.
The author's service on panels with two "independent" but arguably "partial" neutrals (in that they came from the industry segments of the appointing parties) has been most satisfactory. Even *excellent.* So, for some types of arbitrations, further attention to the use, nonuse or special definition of "impartial" is recommended.

[36] Code of Ethics for Arbitrators in Commercial Disputes (American Arbitration Ass'n 1977).

[37] If there are to be party-appointed arbitrators, there must be conversation about the arbitrator's fees, his qualifications and his availability, perhaps also a listing of his publications, so accommodation to those conversations is necessary if you use a panel including party-appointed arbitrators. That is one of several reasons to avoid party appointed arbitrators. But an explicit prohibition of *ex parte* conversations about any other subjects is warranted.

[38] It is not an uncommon practice in cases of party-appointed arbitrators being designated to appoint a third arbitrator, that the party and his party-appointed arbitrator confer about the third arbitrator. This practice should be explicitly prohibited because that association is one of several events that, by building relationships and communication between the arbitrator and his appointer, can tend to bias the arbitrator on the merits.

[39] This phrase permits the arbitrator to run into a party's counsel at a social event, bar meeting or the like and exchange pleasantries without violation of the neutrality clause. It is a practical necessity.

[40] This is a desirable recitation in any event as a reminder to both the parties and the arbitrators. However, this is a critical clause if you should, perchance, adopt AAA Rules providing for party-appointed arbitrators who, by those rules, are not necessarily independent neutrals.

[41] Several of these qualifications are thrown in by way of example for one type of case. These can be changed to fit the applicable situation.

[42] Like the following qualification, this one eliminates some good candidates among the ex-Commissioners of Patents along with eliminating some under-employed ex-Commissioners that would perhaps no longer be recommended.

[43] This and the next qualification would eliminate some excellent people that could be trusted with the job. However, it would be a mistake to change the recitation to be "or has served as Commissioner of Patents" because likely one of our living former Commissioners may no longer be a good choice for the job. If the two parties can agree on a name, however, it does not matter how well he meets the prior specifications.

[44] This clause goes perhaps more naturally in the "Case Management" group below, but it is given high profile by including it in the

qualifications of the arbitrator. This clause is not used in the industry very often, but it is a beneficial clause in stressing the importance of time management to the proposed arbitrators. Arbitrators tend to take on more than they can handle and to procrastinate; and this clause will help prevent this from happening.
The time limit should be adjusted to suit the needs of the present case. Several factors should be considered in setting this time limit including the amount of discovery, if any, that will need to be performed.

45 As recited earlier preserving and prompting the option of joint appointment is desirable, but at dispute time the parties are sufficiently unlikely to agree on a person by name that timely movement to another appointment mode must be provided for.

46 Possibly, "... each functioning to make the appointment at the expense of the party asking him so to serve." Most practitioners are disenchanted with the idea of a party making payments to an individual arbitrator for any reason if they are not negotiated and paid in inter partes context; but it is not uncommon in U.S. practice for the service of appointing the third arbitrator to be paid for by the party appointing the arbitrator who is to perform that service. The best provision would make the service of making the third appointment be part of the total costs of the arbitrators' service.

47 This recitation of agreement on this becomes an important lever in the hands of an anxious lawyer or arbitrator seeking to get a procrastinating lawyer or arbitrator to get back on this case.

48 If either the arbitrator or counsel have dockets so overloaded that they will not sign that clause, do you want new counsel and arbitrators? Those who have been through lengthy procedures with large periods of delay vote loudly, "Yes."

49 Or if there be three, "the Chairman of the Arbitration Panel."

50 Again, is 270 days the choice for your case? Rest assured, the total cost of the proceeding tends to be more nearly proportional to how long you let it drag on, than it is to the number and complexity of issues in the case.

51 These case management clauses do not always effectuate an expeditious case, but they are an important influence towards the efficient and timely disposal of the case. Taken together, these clauses almost assure avoidance of the delay horror stories which are not as rare in arbitration as they should be.

52 The arguments for and against "reasons" (arbitration's synonym for findings of fact, conclusions of law and opinion) have filled books. But reasons cost a lot and take a lot of time.
While there are a lot of plausible theories of value in having reasons, value that cannot properly be fully discounted, there is precious little hard evidence that reasoned awards, which are terribly expensive, are truly more just or equitable than unreasoned awards.
Unless the value at risk is over a million dollars, which is enough to justify a hearing transcript and the party's indexing that transcript for the arbitrators, the naked award may be preferable.
If electing reasoned awards, consider putting a page limit such as a five page limit on them to avoid expensive arbitrator review. Arbitrators have been known to spend $10,000 or even $100,000 writing marvelous opinions and checking them twice at your expense. In a long arbitration where the arbitrators have no indexed transcript or likely no transcript at all, they can spend unimaginable hours trying to find in their various handwritten notes details that are not really important.

53 Arbitrators are prone to write on every issue presented in the evidence, even when a short set of reasons usually suffices to support the grounds for the determination they made. If you wish to have reasons, let there be some limits on them as proposed here, so that the parties do not suffer the delay and expense of a lot of scholarship on issues not important to the decision.
For example in one arbitration I proposed five pages that were sufficient to support the award that the license was terminated, by virtue of which a dozen others issues became irrelevant. My fellow arbitrators desired to and did write a total of 125 pages analyzing all the issues presented in the evidence. Thus dramatically increasing the cost to the parties.

54 Or if there be three, "Chairman of the panel."

55 The drafter should study what discovery, if any, each party wants and ought to have and what each will be asking for, prior to adopting this clause or the next one.

[56] This roughly tracks the British practice on which we have a good experience rating and is philosophically similar to the Federal rule as of December 1, 1993. FED. R. CIV. P. 26(a)(1)(B). Not without some problems in practice, this rule nevertheless has been proven to be a big cost and time saver even though contrary to the instinct of American litigators.

[57] This will sacrifice a great amount of the savings in time and money that arbitration potentially affords, but it is the only way one can get some people to accept arbitration.
Some will want to use affidavit evidence generally, or on certain classes of peripheral or uncontested issues. This clause excludes that common money-saving arbitration practice. When parties can negotiate a contract to arbitrate in this way, they can usually also define the circumstances where affidavit evidence is by agreement, admissible. The risk of acceptance of affidavit evidence is for cases where modest sums are at risk.
However, blanket use of affidavit evidence is unreliable, risky and dangerous in a case with much at risk. For example, lawyers will draw affidavits based on stories their client told, and the client will execute what the lawyer drafts including a recitation of "personal knowledge" when in fact the information is third hand hearsay from highly biased sources. It is highly deceptive and misleading. Both sides need to know what the rules are with respect to affidavit evidence when preparing their case.

[58] It has been common practice in the U.S. under AAA rules, for a party-appointed arbitrator to be paid by the party appointing him in response to their own arrangements; and the fee is, thus, negotiated as part of the appointing process. There is a lot of convenience in this, but that practice is also rich with potential for mischief. Hence, the proposal in this paper of a more complex mechanics, in order to ensure impartial neutrality of the arbitrators.
Indeed, as recited before, there are a number of reasons why there should be no party appointed arbitrators at all; and hence no problem with *ex parte* fee negotiation.

[59] The issues presented in this form and in the Appendix I to this article surely make the case that in patent and other complex commercial cases the very simple one-sentence "agree to arbitrate under the ... rules," is inadequate.

[60] *See* Holtzman & Neuhaus, A Guide to the UNCITRAL Model Law on International Commercial Arbitration: Legislative History and Commentary 1191, 1195 (1989); First Secretariat Note, Possible Features of a Model Law on International Commercial Arbitration, U.N. Doc. A/CN9/207 (1981).

[61] 9 U.S.C. § 1 *et seq.* (1988).