2017 B2B DISPUTE RESOLUTION INFOGRAPHIC

2017 Claims
Total Claims: $12,471,715,995
Large Case Average Claims: $7,204,560
Large Case Median Claims: $1,280,330

2017 Counterclaims
Total Counterclaims: $3,000,246,359
Large Case Average Counterclaims: $5,082,294
Large Case Median Counterclaims: $867,246

LARGEST CLAIM AMOUNTS BY INDUSTRY

<table>
<thead>
<tr>
<th>Industry</th>
<th>Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>TECHNOLOGY</td>
<td>$600M</td>
</tr>
<tr>
<td>INSURANCE</td>
<td>$569M</td>
</tr>
<tr>
<td>ENERGY</td>
<td>$500M</td>
</tr>
<tr>
<td>AVIATION/AEROSPACE/NATIONAL SECURITY</td>
<td>$200M</td>
</tr>
<tr>
<td>FINANCIAL SERVICES</td>
<td>$160M</td>
</tr>
<tr>
<td>FOOD/BEVERAGE</td>
<td>$150M</td>
</tr>
<tr>
<td>COMMERCIAL CONSTRUCTION</td>
<td>$134M</td>
</tr>
<tr>
<td>CHEMICALS</td>
<td>$125M</td>
</tr>
<tr>
<td>PHARMACEUTICALS</td>
<td>$113M</td>
</tr>
<tr>
<td>COMMERCIAL REAL ESTATE</td>
<td>$100M</td>
</tr>
<tr>
<td>SPORTS</td>
<td>$100M</td>
</tr>
<tr>
<td>HEALTHCARE</td>
<td>$95M</td>
</tr>
<tr>
<td>AGRICULTURE</td>
<td>$75M</td>
</tr>
<tr>
<td>TELECOMMUNICATIONS</td>
<td>$67M</td>
</tr>
<tr>
<td>HOSPITALITY/TRAVEL</td>
<td>$63M</td>
</tr>
</tbody>
</table>

2016 V. 2017 CHANGES IN CASELOAD BY INDUSTRY

<table>
<thead>
<tr>
<th>Industry</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIVIL CONSTRUCTION</td>
<td>+10.6%</td>
</tr>
<tr>
<td>COMMERCIAL INSURANCE</td>
<td>+3.6%</td>
</tr>
<tr>
<td>HEALTHCARE</td>
<td>+5.1%</td>
</tr>
<tr>
<td>AGRICULTURE</td>
<td>+9.7%</td>
</tr>
<tr>
<td>AVIATION, AEROSPACE, &amp; NATIONAL SECURITY</td>
<td>+19.4%</td>
</tr>
<tr>
<td>COMMERCIAL REAL ESTATE</td>
<td>+16.8%</td>
</tr>
<tr>
<td>SPORTS</td>
<td>+41.3%</td>
</tr>
<tr>
<td>TECHNOLOGY</td>
<td>+14.2%</td>
</tr>
<tr>
<td>TELECOMMUNICATIONS</td>
<td>-13.1%</td>
</tr>
<tr>
<td>TRANSPORTATION</td>
<td>-5.1%</td>
</tr>
<tr>
<td>FINANCIAL SERVICES</td>
<td>-7.3%</td>
</tr>
<tr>
<td>LEGAL SERVICES</td>
<td>-1.3%</td>
</tr>
<tr>
<td>AUTOMOTIVE</td>
<td>-17.9%</td>
</tr>
</tbody>
</table>

Commitment to Diversity 25% diverse roster 25% diverse appointments
Patent Arbitration: It Still Makes Good Sense

By Peter L. Michaelson

Peter L. Michaelson, an attorney/arbitrator/mediator with Michaelson ADR Chambers in New York City and Rumson, New Jersey, primarily handles domestic and international IP (particularly patent), IT, technical, and technology-related disputes and is a fellow of the College of Commercial Arbitrators, and a fellow and chartered arbitrator of The Chartered Institute of Arbitrators and Chair of its New York Branch. He may be reached at pete@plmadr.com.

“Reports of my death have been greatly exaggerated.”¹ So it is with patent arbitration.

Dire predictions have recently been made by commentators pondering the future of patent arbitration in light of the new U.S. Patent and Trademark Office (USPTO) post-grant trial proceedings (post-grant review (PGR) and inter partes review (IPR)) implemented by the Leahy-Smith America Invents Act (AIA).² Contrary to those views, patent arbitration is still very much alive, widely used, and, where employed in appropriate situations and structured properly, will likely see increasing use.

This article first considers post-grant proceedings as being complementary to patent arbitration and then discusses how arbitration can be structured to be an effective litigation alternative for resolving patent-related disputes.


Post-grant proceedings, while certainly expeditious and cost-effective, are strictly limited by statute to validity challenges.³ As any experienced patent practitioner appreciates, disputes involving patents extend well beyond validity and present issues lying outside the narrow jurisdiction of the USPTO—but, pursuant to 35 U.S.C. § 294,⁴ well within the realm of arbitration. The purpose and inherent characteristics of these proceedings so fundamentally differentiate them from arbitration that they are not arbitration substitutes and thus not likely to adversely affect the future use of arbitration to any significant extent.

Frequently, alleged infringers settled patent infringement litigation early on just to avoid a prospect of incurring significant legal expenses over a prolonged period even if they were likely to ultimately succeed in their defense. This was particularly true in actions brought by assertion entities where those entities broadly construed the claims at issue to such an extent that they were of rather questionable validity but were willing to settle for less than the litigation costs that the alleged infringer would otherwise incur. Such disputes frequently arose in situations where no arbitration agreement existed between the parties and one or both parties would not agree to arbitrate, thus leaving the parties to litigate their dispute.
Post-grant proceedings drastically “leveled the playing field” by providing a third party with an administrative opportunity to effectively and efficiently challenge validity in the USPTO of any patent claim(s) by filing a petition to initiate an appropriate proceeding. Such a proceeding is a trial process before the Patent Trial and Appeal Board (PTAB) with a statutory one-year pendency from its date of initiation. It is much faster and less expensive than litigation. The proceeding itself is public; its results have public effect.

Not surprisingly, post-grant proceedings have proven rather popular. As of August 31, 2014, approximately 1,700 petitions to initiate such proceedings have been cumulatively filed with the PTAB and at an average monthly rate of approximately 50–100 petitions. Anecdotally, initiating a proceeding, and often just a credible threat of doing so, presented alleged infringers, who have potentially invalidating prior art to rather broadly asserted claims, with an effective “club” to reach early settlements of infringement disputes at markedly less cost than they would otherwise have incurred through litigation and at more favorable terms.

Where patent validity is the dispositive issue in dispute, the relative low cost and quick pendency of a post-grant proceeding make it a rather attractive litigation substitute. However, the likely effects of a public decision of invalidity flowing from such a proceeding, including all potentially adverse consequences, must be recognized, understood, and carefully evaluated in deciding whether to institute it—as those effects may be worse than the ensuing benefits. Hence, a potential challenger must carefully and strategically delineate and evaluate not only the likely legal consequences but also all ensuing business consequences that will likely flow from public invalidation of the patent, and particularly those that might ultimately redound to its own detriment. This includes, e.g., any adverse effect on: (1) the challenger’s own position in the marketplace vis-à-vis its own competitors—some of whom may now or later be paying royalties under the patent but for the finding of invalidity; (2) the challenger’s business relationship with the patent owner/licensor—which may be compromised or destroyed; and (3) the owner/licensor itself, including likely changes to the owner/licensor’s own position in the marketplace. While these considerations may be difficult to quantify, their likely impact may nevertheless prove significant to that alleged infringer’s future business and should not be ignored.

Where those considerations implicate serious business concerns or critical patent-related issues exist in a dispute that extend beyond validity, patent arbitration, offering private resolution, may well be a much better alternative to litigation than a post-grant proceeding. Nevertheless, where these factors do not exist, such a proceeding may be ideal.

Rather than patent arbitration being displaced by post-grant proceedings—as some commentators have opined—both processes, effectuating different purposes, will likely see increasing use as the number of patent-related disputes continues to rise.

**Properly Structuring Patent Arbitration: Fit the Process to the Fuss**

Patent litigation uniquely offers various advantages unobtainable through any other resolution mechanism, chief among them: a public forum that, in the context of a finding of patent invalidity or unenforceability, provides a decision binding on all third parties; a public result that may serve as a deterrent
either against future patent infringement by others (if, e.g., a relatively large sum is awarded in damages) or patent enforcement against others (if, e.g., the claims are narrowly constructed so as not to capture allegedly infringing activity of commercial significance); and potentially an award of sanctions under Federal Rule of Civil Procedure 11 and attorneys’ fees for instituting meritless litigation. Yet, far more often than not, these advantages are grossly outweighed by the deficiencies inherent in litigation, principally: substantial cost, significant delay, and exhaustive discovery.

In its default mode, patent arbitration closely mirrors litigation with all its principal deficiencies. This concern underlies nearly all complaints about patent arbitration.

Yet, once properly configured, an arbitral process can yield substantial cost and time efficiencies, along with other benefits unavailable through litigation. But, for it to do so, the parties must sufficiently adapt (“fit”) the process, radically if necessary, to conform it to the specific characteristics of the dispute (“fuss”). While this should always occur in practice, all too often it does not. Where superfluous, time-consuming, and expensive trial elements are imported into an arbitral process, the ensuing process just wastes valuable resources to the detriment of the parties.

What surprises this author is just how little is known by the practicing bar about the flexibility and advantages of arbitration and how extensive their misconceptions are about the process.

**Cost- and Time-Saving Advantages of Patent Arbitration**

Arbitration does not follow a one-size-fits-all litigation template strictly mandated by the Federal Rules of Civil Procedure supplemented by local court patent rules. Rather, an arbitral process is remarkably open-ended and relatively informal: a blank canvas on which parties can collectively create the exact process they need and no more. Parties are completely free and have total autonomy, under the rule sets of arbitral institutions, to decide what specific steps they will use and when, and all related aspects, subject only to affording mutual due process. These rule sets, while sufficiently definite and inclusive to define a minimal but essential framework of an arbitral process that can yield a legally binding award, are intentionally very broad and quite malleable to provide parties with sufficient latitude to exquisitely adapt the process to fit the characteristics of their dispute. Such flexibility and party autonomy are entirely absent in litigation.

To aid the practicing bar, professional organizations and arbitral institutions have recently promulgated guidelines and protocols that provide process enhancements designed to streamline all phases of an arbitral proceeding. Parties can incorporate appropriate enhancements into their arbitration provisions during contract formation or can separately agree, post-dispute, on their use.

The Protocols for Expeditious, Cost-Effective Commercial Arbitration, developed by the College of Commercial Arbitrators (CCA), identify four stakeholder groups in arbitration: business users and in-house counsel, outside counsel, arbitrators, and institutions; and delineate various process-enhancing techniques applicable to each group. For example, for outside counsel, the protocols illustratively recommend:
• Memorializing early assessment of a case, including realistic estimates of the time and cost involved in arbitrating the matter at various levels of depth and detail, and reaching a written understanding with the client regarding the specific approach to be taken, including the nature and extent of discovery;
• Selecting arbitrators with proven management ability and setting forth expectations to the arbitrators for an efficient and speedy process;
• Cooperating to the fullest extent with opposing counsel on procedural matters;
• Limiting discovery consistent with the client’s goals and cooperating with the tribunal and opposing counsel in finding appropriate ways to do so;
• Considering billing alternatives that incentivize reduced cycle time or net costs of dispute resolution;
• Recognizing and exploiting differences between arbitration and litigation, such as the absence of a jury, limitations on motion practice, and relaxed evidentiary standards that preclude a need for repeated objections as to form and hearsay; and
• Keeping the tribunal informed of any problems and concerns, including discovery, scheduling, and other procedural aspects, as soon as they arise, and empowering and then enlisting the tribunal chair to quickly address and resolve these matters so as to minimally impact the remainder of the process.

The report Techniques for Controlling Time and Costs in Arbitration, produced by the International Chamber of Commerce (ICC), also specifies a number of process-enhancing techniques. Based on statistics provided by the ICC International Court of Arbitration, the report noted that only 18 percent of the total costs of an ICC arbitration are for administrative fees and arbitrator’s fees and expenses—an amount that could be easily recouped through use of appropriate efficiency enhancing techniques.

Specifically, discovery, usually the highest cost driver, can be drastically limited in arbitration. Arbitration rules regarding discovery are very simple, as evident in Rule R-34(a) of the 2013 American Arbitration Association (AAA) Commercial Arbitration Rules: “The parties may offer such evidence as is relevant and material to the dispute and shall produce such evidence as the arbitrator may deem necessary to an understanding and determination of the dispute. Conformity to legal rules of evidence shall not be necessary.”

The arbitrator controls discovery; the parties agree on its extent. Parties can agree to a joint, sharply focused exchange of only those documents on which each intends to rely, nothing more: no interrogatories, no depositions, no other discovery. Should the parties need a greater degree of discovery, including e-discovery, they can choose that instead. The International Institute for Conflict Prevention and Resolution (CPR) recently promulgated a protocol providing multiple levels of increasingly extensive discovery of physical and electronic documents to which parties can mutually agree to use a particular level during arbitration.

Efficient, cost-effective modalities can be used to receive witness testimony, such as, e.g., prefilled direct testimony, witness statements, deposition testimony (with limits on their length and number), “hot-tubbing” opposing expert witnesses, and video-linked testimony.
Motion practice provides further opportunities to achieve efficiencies. Arbitrators exercise considerable discretion in deciding if and when to accept motions, as reflected in Rule R-32(b) of the 2013 AAA Commercial Arbitration Rules: “The arbitrator, exercising his or her discretion, shall conduct the proceedings with a view to expediting the resolution of the dispute. . . .”

An arbitrator often prevents the filing of futile motions and eliminates the attendant expense by requiring a requesting party to first justify its motion through a three- to five-page premotion letter brief, which includes not only supporting law and facts underlying the motion but also a showing of why the tribunal is more likely than not to grant the motion. Based on the letter briefs of the requestor and responder, the arbitrator then grants the requestor leave to file the motion or not. Certain motions, when interposed early and particularly those that do not implicate extensive discovery, presentation of evidence, or fact-finding, such as to bifurcate or for partial summary judgment, can advantageously eliminate issues from the proceeding or parse threshold issues out for early disposition. These issues include contractual limitations on damages, statutory remedies, statutes of limitations, and claim construction. Through such motions, the remainder of the proceeding can often be simplified, yielding cost savings far greater than the cumulative expense of the motion. Further, granting such a motion at an early stage in a proceeding may: (1) motivate the parties to initiate or reconvene settlement discussions rather than bear the time and expense of pursuing a claim that has suddenly lost its appeal, or (2) enhance the likelihood that later activities will foster settlement.11 The use and timing of such motions is typically discussed with the arbitrator during a preliminary scheduling conference.

Parties can dramatically compress an entire arbitral process by appropriately limiting the available time each side has to present its case at a merits hearing. Knowing this limit at the inception of the proceeding forces counsel to sharply concentrate their efforts from the onset on the core issue(s) in contention, excluding all secondary and tangential issues from discovery, briefing, motions, and the hearing itself. Illustratively, in an arbitration of a large, complex pharmaceutical patent licensing dispute, the parties, in their arbitration agreement, limited each side at the hearing to only two hours to present its arguments and another 30 minutes for rebuttal.12

**Appellate Procedures and Further Benefits of Patent Arbitration**

Further complaints about patent arbitration often center around a perceived risk due to no appeal on the merits to an errant arbitration award, and concerns that arbitrators tend to compromise and not follow legal norms.

Contrary to those perceptions, appellate arbitration proceedings have been in effect for some time. The Federal Arbitration Act (FAA) provides the exclusive grounds for challenging an arbitral award in federal court.13 Those grounds are limited to specific procedural infirmities and certain transgressions by the tribunal. Parties cannot contractually provide for federal judicial review of an award.14 However, arbitral institutions have expanded their rule sets to include an optional appellate procedure, for adoption by all the parties, through which an award can be comprehensively reviewed by a second, i.e., appellate, arbitral tribunal.15 In essence, the award rendered by a first arbitration panel is not viewed as being final, for purposes of the FAA, while it is under appeal.
Concerns about arbitrators’ conformance to legal norms and any perceived tendency to compromise can be readily addressed by selecting experienced lawyers or former judges as arbitrators, choosing counsel sufficiently well-versed in arbitration and imposing contractual standards for award writing in conformity with applicable law.16

Further, patent litigation suffers from a relatively high historic reversal rate on appeal in the Federal Circuit of claim construction (Markman) rulings often issued very early in a litigation. A substantial amount of time and cost has often been invested prior to and at trial by patent disputants, predicated on a particular construction governing the litigation, only to be subsequently negated on appeal, thus wasting most of the investment. Some commentators estimate the reversal rate in the neighborhood of 50 percent (basically a coin flip), though others lately view the rate lower at approximately 25–30 percent.17 Recent studies conclude that: (1) Federal Circuit judges remain divided on how to approach the task of claim construction, and (2) reversals of district courts generally resulted from their misapplication of settled principles of claim construction.18 The finality of an arbitration award under the FAA eliminates all possibilities of such reversals. Moreover, in arbitration, parties can agree to use a predefined construction (one to which they specifically agreed by themselves or that resulted from a prior ruling of a district court or an arbitral tribunal) or, should an appellate process be used, to constrain the appellate tribunal from reviewing the construction adopted by the first panel.

Moreover, arbitration provides further significant benefits that are simply unavailable in litigation, including: avoidance of excessive or emotionally driven jury awards, ability to choose arbitrators with particular qualifications to cope with daunting and specialized issues of law and technology, avoidance of establishing legal precedents, relative confidentiality of the entire process, and privacy of any award.

Further, arbitral institutions have recently supplemented their rule sets to implement emergency and expedited procedures. Emergency arbitrations are highly compressed, extremely efficient proceedings designed to urgently provide interim relief to a requesting party.19 As of September 15, 2014, the International Centre for Dispute Resolution (ICDR, the international arm of the AAA) has administered 40 emergency arbitrations with an average pendency of just three weeks—starting from the time a request is made to the AAA/ICDR to initiate the procedure to the time an award is rendered.20 Where urgent relief is not required but transaction cost and pendency time are still of primary concern, an expedited arbitration proceeding, similar to emergency arbitration, features deadlines that are significantly relaxed over those in emergency arbitration but still considerably shorter than in a standard arbitration.21

**International Patent Arbitration**

In the international arena, arbitration can be far more advantageous than national litigation. Arbitration provides a neutral forum, predicated on the parties: (1) having selected arbitrators from neutral nationalities or of recognized neutrality who are independent of the parties, their home governments, and national courts; and (2) using substantive law of a chosen jurisdiction together with institutional arbitration rules that ensure requisite neutrality and due process. This eliminates a source of potential bias and provides assurance that the rule of law will be followed. Further, international arbitration circumvents national court delays, which in some jurisdictions can readily exceed five to 10 years.
Most importantly, arbitration awards are internationally enforceable by convention. As of September 25, 2014, 152 countries have ratified the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). Through Article III of the Convention, an arbitral award, conforming to the formal requirements of the Convention, issued in any one member country is entitled to reciprocal enforcement, as binding, in any other member country to the same extent as a domestic arbitration award. Article V of the Convention sets forth narrow grounds on which recognition and enforcement of foreign awards may be refused by a national court. In stark contrast, judicial awards are only enforceable in other countries through comity, which renders cross-border enforcement subject to wide discretion of the enforcing court with the outcome thus being subject to considerable uncertainty and risk.

Furthermore, international patent litigation often involves parallel judicial proceedings simultaneously occurring in multiple national courts. Such an approach is extraordinarily costly and very risky. National courts often have differing views that lead to inconsistent results. The patent owner may prevail on its lawsuit or just one or more of its contentions in some forums, but not in others. In contrast, at considerably less cost and time, a single arbitration before a single tribunal chosen by the parties and using substantive law of a jurisdiction specifically chosen by the parties can often address the entire dispute with a single award given affect, through the New York Convention, across many, if not all, jurisdictions at issue.\(^{22}\)

**Fully Realizing the Advantages of Patent Arbitration**

In 2014, Professor Thomas Stipanowich conducted a survey, through the Straus Institute for Dispute Resolution at Pepperdine University School of Law, of approximately 140 fellows of the CCA, all of whom were highly experienced commercial arbitrators, regarding their practices in promoting settlement through arbitration. The resulting insights—though not surprising at all for those, like this author, who regularly sit as arbitrators—shatter many arbitral myths widely held by counsel. These insights include: 83 percent of surveyed arbitrators believed they played a beneficial role in settling a case prior to its merits hearing; less than 1 percent refuse to rule on motions for summary judgment; 70 percent say they “readily” rule on dispositive motions and 80 percent of those motions may have prompted informal settlement of the entire case; 91 percent work with counsel to limit discovery and 94 percent encourage the parties to limit the scope of discovery; 75 percent generally “receive virtually all non-privileged evidence and discourage traditional objections (hearsay, foundation, etc.)”; and 87 percent always try to follow the applicable law in rendering an award. Also, experienced arbitrators proactively manage their cases in various ways, with the great majority requiring parties to submit a core collection of joint exhibits for the merits hearing, limiting duplicative testimony, and telling counsel when a point has been understood so “they can move on.” Approximately 65 percent of the surveyed arbitrators believed that excessive, inappropriate, or mismanaged motion practice contributed to inefficiencies, excess cost, and time.\(^{23}\)

Yet, in spite of a wide array of available process enhancements, patent disputants still routinely settle for a default “litigation-like” arbitral process. Why?
Generally because they either inadvertently or intentionally gave no forethought, either at contractual formation or after a dispute arises, to using process-enhancing techniques or were unable or just did not attempt to reach agreement on their use. This typically results from: (1) inexperience or just ignorance of the parties and their counsel regarding arbitration; (2) outside counsel’s marked tendency, owing to their own core competencies and focused career experiences in nonarbitral settings, to resolve every adversarial dispute through litigation or litigation-like proceedings regardless of its suitability; or (3) a counsel’s or party’s prior experience with arbitration that was so poor as to profoundly prejudice that individual or his or her organization against using arbitration at all, regardless of its benefits. Consequently, patent disputants effectively deny themselves the substantial time and cost efficiencies that arbitration can readily provide and that would ultimately boost their bottom line.

With all that arbitration offers, it seems axiomatic that, when a dispute arises which requires a third party fact finder to resolve it, counsel would eagerly devise an arbitral process that efficiently does so. Yet, few do. Professor Frank Sander, then with Harvard Law School, recognized this fallacy by stating in 2007: “The theoretical advantages of arbitration over court adjudication are manifold. . . . These theoretical advantages [however] are not always fully realized.” Nevertheless, when arbitration is used to resolve intellectual property disputes, its resulting savings over litigation have proven to be considerable: according to a 2013 World Intellectual Property Organization (WIPO) survey, more than 60 percent in time and up to 55 percent in costs.

**Conclusion**

Parties who seek private resolution can readily exploit the inherent flexibility of arbitration—as now evident—to tailor an arbitral process to closely mimic a post-grant proceeding, with its inherent time and cost efficiencies and even including an appellate process, and with a crucial additional advantage not afforded by the USPTO: the complete freedom to choose their arbitrator(s). A properly configured arbitral process can be a very effective substitute for a post-grant proceeding, though a post-grant proceeding, while being a viable litigation alternative in certain instances, is not a realistic substitute for arbitration.

Yet the full advantages and efficiencies of arbitration will not arise merely because parties chose to arbitrate a patent-related dispute or even just a validity challenge in a post-grant proceeding look-alike; the parties and their counsel must thoroughly, thoughtfully, but deliberately “fit the process to the fuss.” They need the motivation to do it, and the will to get it done. Once accomplished, they may be astonished at the extent and breadth of the efficiencies they achieve—realizing that arbitrating patent disputes still makes good sense as a truly effective alternative to litigation and very likely always will.

**Endnotes**

1. Common misquotation of “The report of my death was an exaggeration,” in a letter written by Mark Twain and which appeared in *Mark Twain Amused*, N.Y. J., June 2, 1897.
3. For IPR and PGR, see 35 U.S.C. §§ 311(b) and 321(b), respectively.
4. “A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract.” 35 U.S.C. § 294(a).

5. See 35 U.S.C. §§ 316(a)(11) and 326(a)(11) for IPR and PGR, respectively, both of which provide the USPTO with discretion to grant, on due cause shown, extensions up to six months.

6. See 35 U.S.C. §§ 318(a)–(b) and 328(a)–(b), respectively, for the public effect of IPR and PGR decisions; and 35 U.S.C. §§ 316(a)(1) and 326(a)(1), which provide exceptions in IPR and PGR proceedings, respectively, for materials filed under seal.


8. COLL. OF COMMERCIAL ARBITRATORS, PROTOCOLS FOR EXPEDITIOUS, COST-EFFECTIVE COMMERCIAL ARBITRATION (Stipanowich et al. eds., 2010), available at http://www.thecca.net/cca-protocols-expeditious-cost-effective-commercial-arbitration; see also THE COLLEGE OF COMMERCIAL ARBITRATORS GUIDE TO BEST PRACTICES IN COMMERCIAL ARBITRATION (James M. Gaitis et al. eds., 3d ed., 2013).

9. INT’L CHAMBER OF COMMERCE (ICC) COMM’N ON ARBITRATION, PUB. NO. 843, TECHNIQUES FOR CONTROLLING TIME AND COSTS IN ARBITRATION (2007); see also ICC COMM’N ON ARBITRATION & ADR, PUB. NO. 861-1, TECHNIQUES FOR CONTROLLING TIME AND COSTS IN ARBITRATION (2014).


13. The grounds are: “(1) where the award was procured by corruption, fraud, or undue means; (2) where there was evident partiality or corruption in the arbitrators, or either of them; (3) where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced; or (4) where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.” 9 U.S.C. § 10(a).


22. In some countries, as a matter of public policy, certain IP issues, such as patent validity, either may not be arbitrable at all or of limited arbitrability. Thus, an award exceeding those bounds may not be wholly or partially enforceable there. See Kenneth R. Adamo, Overview of International Arbitration in the Intellectual Property Context, 2 GLOBAL BUS. L. REV. 7 (2011).


The Benefits of Mediation and Arbitration for Dispute Resolution in Outsourcing Agreements

By Julian Millstein and Sherman Kahn

Benefits of Mediation in Outsourcing Cases

In outsourcing, a business process or technology process is transferred from one organization (the “customer”) to another organization (the “service provider”) so that the customer can focus on its “core competencies.” For example, a company might contract with a service provider to run its IT functions, its data management or its telephone sales activities.

Outsourcing agreements typically establish long-term relationships between the customer and the service provider. Outsourcing agreements are usually complicated agreements that must be managed by both parties over the long term. Beset by issues that arise from business and technology changes, these long-term agreements are never performed without disagreements over scope, price, adequacy of performance, reasons for delay, and changed requirements. Handling these disputes is an important aspect of the day-to-day governance of outsourcing relationships.

Disputes come in all shapes and sizes in outsourcing relationships. For example, disputes frequently arise during the initial transfer to the provider’s process, often as a result of delay by one or both parties. Disputes over scope and pricing (“scope creep”) are also typical, with the customer concerned about paying extra for services which it argues should be included in the provider’s services, while the provider argues that such services are extras, and were never intended to be delivered at the initial pricing.

Parties also frequently dispute the cause of performance failures, or indeed whether such failures were correctly measured (i.e., whether there was in fact a failure). Agreements contain various pricing mechanisms which often call for “equitable” price adjustments, “truing up” to revised figures on baseline assets and transaction volumes, and benchmarking to market price, and the parties may not be able to come to mutual agreement about such forward pricing or adjustments. In all of these situations, the parties managing the outsourcing attempt to resolve their differences, and frequently they are able to do so on their own. However, for those occasions when the parties reach an impasse, timely mediation can ensure that disputes over specific issues do not fester and contribute to a broader communication problem, ultimately affecting the viability of the relationship.

Mediation in outsourcing disputes can be used to remind the parties of the positive reasons both chose to enter into the agreement. Because it is usually in the interest of both the customer and the provider to reach a resolution that allows for the ongoing viability of the relationship, it makes sense that the parties should look to a mutually trusted neutral who understands the history and objectives of the venture. It is often useful to select this person in advance, so that the use of mediation is not itself considered a failure of the relationship.

In addition, a knowledgeable mediator may be able to help the parties identify creative ways to resolve disputes. Mediators are trained to look for value which can be traded in such a way that an item that is valued highly by one party, but not by the other, may be traded for a reciprocal item. Often, the mediator can identify these while the parties themselves cannot. For example, a mediator can act as a bridge, receiving confidential information from both sides, and, without disclosing it to the other side, use it to help the parties reach an accord. And the mediator is trained in techniques that encourage the parties to focus on positive solutions, rather than wasting effort in blame and recrimination. Finally, the mediator can help the parties agree to adopt changes in the governance of the relationship that will reduce the chances of future misunderstanding.

Often outsourcing relationships give rise to disputes that are essentially technical in nature. It therefore may be useful to appoint a technically savvy mediator to resolve these types of issues as they arise. A number of the leading arbitral institutions administer proceedings in which experts can be brought in to mediate or resolve disputes. If an agreement has a technical component, providing for resolution of particular categories of technical disputes by a neutral expert can go a long way to smoothing the relationship.

The parties’ agreement to devote time and energy to the mediation process is itself an important indicator of the likelihood of success of an outsourcing relationship. The mediator can also act as a guardian of the parties’ relationship, resolving disputes as they arise and, if appointed for the long term, even anticipating and smoothing over disputes before they become a problem. For these reasons, particularly in large outsourcing relationships, judicious use of mediation can considerably enhance the customer/provider relationship.

Benefits of Arbitration in Outsourcing Cases

Arbitration is often used as the final dispute resolution process in outsourcing disputes, especially in international outsourcing relationships. Using arbitration in out-
sourcing relationships can benefit both the outsourcing provider and the customer in a variety of ways. Where, as in outsourcing, the goal is a continued relationship of mutual benefit to both sides, a public dispute in court is usually the last thing that either party wants. Court litigation can even have the effect of ending a relationship over a dispute that otherwise could be resolved. On the other hand, because neither party wants to go to court, the threat of litigation in court can cause both parties to avoid dispute resolution until a point when the parties’ positions are so far opposed that it is no longer possible to salvage the relationship.

Arbitration is beneficial to outsourcing customers because litigation, an expensive and time-consuming last resort in most commercial relationships, cannot usually address the customer’s business risks associated with a failing outsourcing relationship. It becomes a “nuclear option” that, if initiated, ends the relationship at the expense of great business disruption to the customer. Moreover, it is seldom in the interest of the customer to publicize its difficulties with the provider of key services by filing a lawsuit.

The outsourcing provider likewise has reasons to resolve its disputes outside of court. Its business success depends very much on its reputation as a professional, competent supplier of services. Consequently, most service providers prefer to settle disputes without public airing, and will work very hard to retain relationships which were expensive to obtain, and may have required substantial up front investments which cannot be recovered unless the agreement continues for several years.

Finally, many outsourcing relationships involve offshore or nearshore performance. Even after the long and arduous process of obtaining a judgment in court, it is often very difficult to enforce such a judgment in a foreign jurisdiction—and it may be necessary to do just that if the other party resides (or keeps its assets) in that foreign jurisdiction. In the more than 150 jurisdictions that are signatories to the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (“the New York Convention”), arbitration awards can be routinely enforced with very little opportunity for challenge or re-litigation even if the award was obtained and confirmed overseas.

Arbitration is an important tool when a dispute must be adjudicated (or enforced) in a court system which has problems in rendering timely decisions. For example, under Indian law, a dispute under an agreement between the Indian affiliates of two contracting companies must be litigated in Indian courts, which are notoriously slow, unless the parties agree to arbitration. Thus a global deal which provides for litigation between the parties could contain an exception providing that disputes between certain local country affiliates will be arbitrated. Similarly, agreements involving parties residing in countries where courts are not reliable or may be unlikely to enforce foreign judgments should include arbitration provisions.

Parties may wish to accept that in these complicated multi-year (and often multi-party) relationships, difficult disputes will be inevitable, and therefore designate arbitration panels which are available on call should an impasse occur. So-called Dispute Resolution Boards are used in the construction industry, where large multi-year projects cannot be put at risk of being side-tracked by disputes between developers, contractors and subcontractors. The building must go on, just as the process must go on in an outsourcing relationship. A readily available resource to resolve disputes, including arbitration services, mediation services, or both, can go far to make the outsourcing relationship a long and productive one for both parties.

Indeed, it is often useful to try to resolve a given outsourcing dispute through a combination of mediation and arbitration. A mediator can help the parties narrow down a dispute. For example, with the help of a mediator, general displeasure with service performance may be tracked to a root cause. Both parties can settle on an agreed solution, with only the cost of the solution left to be arbitrated. The roles of mediation and arbitration can be pre-arranged in the outsourcing agreement through the use of an appropriate “step-clause” providing for mediation then, if necessary, arbitration or through provisions allocating some types of disputes to mediation and other types of disputes to arbitration. The parties may also decide to use arbitration and/or mediation on an ad hoc basis as disputes arise.

In sum, arbitration protects the outsourcing process by providing an efficient mechanism for resolution of disputes between the outsourcing customer and provider outside of the public eye. Arbitration is also a vital element of outsourcing agreements that cross international borders as it results in awards more easily enforceable internationally. A carefully drafted arbitration clause in the outsourcing agreement can help to ensure a long and profitable partnership between the outsourcing provider and its customer.

Julian Millstein is Senior Counselor at Morrison & Foerster and acts as an arbitrator and mediator in outsourcing, IT and e-commerce cases. Sherman Kahn is of counsel at Morrison & Foerster LLP and co-chair of the NYSBA Dispute Resolution Section Arbitration Committee.
INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION  
International Arbitration Tribunal  

In the Matter of the Arbitration between:  

OpenTLD, B.V., Claimant  

vs  

Internet Corporation for Assigned Names and Numbers (ICANN)  

ICDR Case No. 01-15-0004-1379  

---  

EMERGENCY AWARD  

I, the undersigned arbitrator, having been designated in accordance with the arbitration provision contained within § 5.8 of the Registrar Accreditation Agreement entered into by the above-named parties on or about July 1, 2014 ("RAA") and further pursuant to Article 6 ("Emergency Measures of Protection") of the International Arbitration Procedures of the International Centre for Dispute Resolution (ICDR), and having been duly sworn, and having duly heard and considered the proofs and allegations of both parties, now issue, through an emergency arbitration procedure, this EMERGENCY AWARD as follows.  

A. Parties  

1. Claimant  

Claimant, OpenTLD, B.V., is a Netherlands company headquartered in Amsterdam, Netherlands. Through the RAA, the Claimant, an ICANN-accredited Internet domain name registrar, provides domain name registration services to the public for various generic top level domains (gTLDs). It also oversees separate domain name registry services for 5 country-code top level domains (ccTLDs), specifically .gq for Equatorial Guinea, .tk for Tokelau, .ml for Mali, .ga for Gabon, and .cf for the Central African Republic. The Claimant offers, through its affiliated reseller <freenom.com>, low-cost and free domain name registration services for each of these ccTLDs.¹  

---  

¹ Claimant’s Opening Brief, Section II(A)(1), at p.3.
2. Respondent

Respondent, ICANN, formed in 1998, is a public, non-profit California corporation. Its mission is to "coordinate, at an overall level, the global Internet's system of unique identifiers ... to ensure the stable and secure operation of the Internet's unique identifier systems"\(^2\). In doing so, ICANN coordinates, on behalf of the entire Internet community and pursuant to a series of agreements with the US Department of Commerce\(^3\), the entire global hierarchical domain name system (DNS) of the Internet, which provides Internet addressing through translation of domain names to unique numerical Internet Protocol (IP) addresses, so as to ensure stable and secure operation of the DNS which, in turn, preserves and enhances the operational stability, reliability security and global interoperability of the Internet\(^4\). Each specific top level domain (TLD), whether it is a gTLD (such as .com, .net, .org and others) or ccTLD, has an associated registry which provides a centralized repository of names registered, as second level domains (SLDs) for use under that particular TLD (to form a domain name of the form <SLD,gTLD> or <SLD,ccTLD>). Each registry, in turn, may utilize the services of one or more registrars which are each granted permission by the registry to establish new registrations in the registry and service their existing registrations, such as through handling transfers and renewals. All registries and registrars must be accredited by ICANN in order to provide domain name registration services as well as domain name to IP address translation services.

B. RAA

The RAA sets forth the rights and obligations of an ICANN accredited registrar.

The provisions of the RAA relevant to this arbitration are as follows.

1. Arbitration provision

The arbitration provision, contained within RAA § 5.8, governs this proceeding and states in pertinent part:

"... [D]isputes arising under or in connection with this Agreement ... shall be resolved in a court of competent jurisdiction or, at the election of either party, by an arbitration conducted as provided in this Subsection 5.8 pursuant to the International Arbitration Rules of the American Arbitration Association ("AAA"). The arbitration shall be conducted in English and shall occur in Los Angeles County, California, USA. ... The parties shall bear the costs of the arbitration in equal shares, subject to the right of the arbitrator to reallocate the costs in their award as provided in the AAA rules. The parties shall bear their own attorneys' fees in connection with the arbitration, and the arbitrator may not reallocate the attorneys' fees in conjunction with their award. ... In the event

\(^2\) ICANN Bylaws, Article I. A copy of the bylaws appears in Exh. C to OpenTLD's Request for Arbitration and is accessible at https://www.icann.org/resources/pages/governance/bylaws-en .

\(^3\) ICANN's Response Brief at p. 4. Also see, ICANN's Articles of Incorporation at Articles 3-4. A copy of these articles appears in Exh. B to OpenTLD's Request for Arbitration and is accessible at https://www.icann.org/resources/pages/governance/articles-en .

\(^4\) ICANN Bylaws, Article I, Sect. 2, para. 1.
Registrar initiates arbitration to contest the appropriateness of ... suspension of Registrar by ICANN pursuant to Section 5.7.1, Registrar may at the same time request that the arbitration panel stay the termination or suspension until the arbitration decision is rendered. The arbitration panel shall order a stay: (i) upon showing by Registrar that continued operations would not be harmful to consumers or the public interest ... In all litigation involving ICANN concerning this Agreement (whether in a case where arbitration has not been elected or to enforce an arbitration award), jurisdiction and exclusive venue for such litigation shall be in a court located in Los Angeles, California, USA; however, the parties shall also have the right to enforce a judgment of such a court in any court of competent jurisdiction. For the purpose of aiding the arbitration and/or preserving the rights of the parties during the pendency of an arbitration, the parties shall have the right to seek temporary or preliminary injunctive relief from the arbitration panel or in a court located in Los Angeles, California, USA, which shall not be a waiver of this arbitration agreement.”

2. Termination, Suspension, Notice provisions

The relevant provisions are §§ 5.5.2.4, 5.7.1, 5.7.2 and 7.6, the operative portion of each is as follows:

“5.5 Termination of Agreement by ICANN. This Agreement may be terminated before its expiration by ICANN in any of the following circumstances:
5.5.2 Registrar
5.5.2.4 is found by ICANN, based on its review of the findings of arbitral tribunals, to have been engaged, either directly or through its Affiliate, in a pattern and practice of trafficking in or use of domain names identical or confusingly similar to a trademark or service mark of a third party in which the Registered Name Holder has no rights or legitimate interest, which trademarks have been registered and are being used in bad faith.

5.7 Suspension
5.7.1 Upon the occurrence of any of the circumstances set forth in Section 5.5, ICANN may, in ICANN's sole discretion, upon delivery of a notice pursuant to Subsection 5.7.2, elect to suspend Registrar's ability to create or sponsor new Registered Names or initiate inbound transfers of Registered Names for any or all gTLDs for a period of up to a twelve (12) months following the effectiveness of such suspension.
5.7.2 Any suspension under Subsections 5.7.1 will be effective upon fifteen (15) days written notice to Registrar, with Registrar being given an opportunity during that time to initiate arbitration under Subsection 5.8 to determine the appropriateness of suspension under this Agreement.

7.6 Notices and Designations
... [A]ll notices to be given under this Agreement shall be given in writing at the address of the appropriate party .... Any written notice required by this Agreement shall be deemed to have been properly given when delivered in person, when sent by electronic facsimile with receipt of confirmation of delivery, when scheduled for delivery by
internationally recognized courier service, or when delivered by electronic means followed by an affirmative confirmation of receipt by the recipient’s facsimile machine or email server...

C. Governing Law and Arbitral Seat

The RAA is silent as to the governing law and the seat of arbitration. RAA § 5.8 specifies that the place of arbitration is to be Los Angeles, California and that a court located in Los Angeles is the exclusive venue for litigation, including in aid of this arbitration. Consequently, it is reasonable for the Arbitrator to infer, particularly given the absence of any language in the RAA to the contrary, that the parties tacitly intended that California law would govern this emergency arbitration proceeding and that the arbitral seat would be Los Angeles. Those choices will govern this proceeding, as subsequently agreed by the parties.

D. Emergency Arbitration Proceeding

Through a preliminary hearing held telephonically on July 16, 2015 with Counsel for both sides and the Arbitrator present, OpenTLD, ICANN and the Arbitrator agreed that, given the exigency of this emergency proceeding, this proceeding would consist of: (a) one round of written submissions (OpenTLD’s opening brief due July 23rd, ICANN’s response brief due August 4th, and followed by OpenTLD’s reply brief due August 10th); (b) a telephonic hearing on the merits on August 14th; and (c) issuance of the Arbitrator’s award no later than August 24, 2015.

Consistent with procedure, both sides have timely filed their respective briefs. The Arbitrator has carefully reviewed and considered all of them. The merits hearing was telephonically held on August 14, 2015. The Arbitrator has carefully considered all arguments raised during that hearing. OpenTLD and ICANN each filed a post-hearing submission on August 17th and 21st, respectively, both of which have also been considered.

E. Factual Background

On March 17, 2015, ICANN sent Mr. Joost Zuurbier, Chief Executive Officer at OpenTLD, a letter (“Notice of Breach”) stating that, for four specific reasons, OpenTLD was then in breach of its RAA. Specifically, the Notice stated that OpenTLD did not: (a) file a Compliance Certificate for 2014 with ICANN, (b) display, on its website, the then current ICANN logo; (c) escrow its registration data; and (d) remit its past due accreditation fee to ICANN of US $ 494.67. The letter set forth a deadline of April 7, 2015 by which OpenTLD had to remedy these breaches.

---

6 See separate e-mail messages to the Arbitrator from ICANN’s Counsel dated August 12, 2015 and OpenTLD’s Counsel dated August 13, 2015.
7 Pursuant to Article 27(2) of theICDR International Arbitration Procedure, the Arbitrator has the discretion to re-open the hearing upon application of any party. The Arbitrator treats these submission as collectively such an application but solely for the purpose of having these submissions considered. Subsequently, on August 23, 2015, the Arbitrator received an e-mail message from Counsel for each side. Both messages are inconsequential.
8 A copy of which appears as Exh. A to the Declaration of Joost Zuurbier dated July 23, 2015 submitted with OpenTLD’s Opening Brief (“Zuurbier decl.”).
(referred to hereinafter as the “March 2015 breaches”). Through subsequent correspondence (not relevant here) between the parties, ICANN successively extended that deadline to May 6, 2014. OpenTLD finally resolved all these deficiencies to ICANN’s satisfaction resulting in ICANN having sent an email message on May 18, 2015 to Mr. Zuurbier (at jzuurbier@opentld.com) stating that all beaches set forth in the 3/17 Notice of Breach were cured. \(^9\)

Subsequently on or about May 28, 2015, the World Intellectual Property Organization Arbitration and Mediation Center (hereinafter simply “WIPO”) issued administrative panel decisions dated May 19, 2015 in two domain name arbitrations in which OpenTLD or its related proxy service, Stitching OpenTLD WHOIS Proxy\(^10\), was the respondent: Key-Systems GmbH v. Joost Zuurbier, OpenTLD B.V., WIPO Case No. DME2015-0002 involving the domain names <key-systems.cc> and <rrpproxy.me>, and NetEarth Group, Inc. v. Stitching OpenTLD WHOIS Proxy, WIPO Case No. D2015-0428 involving the domain name <netearthone.biz>\(^11\). In each case, the complainant is a competing ICANN accredited registrar to OpenTLD. Each complainant held a Community (European) trademark registration for a mark identical to the term(s) used as the SLD in a corresponding domain name(s) and instituted its corresponding proceeding to attain transfer of that name(s) from OpenTLD. Further, OpenTLD, either directly or through its proxy service (Stitching OpenTLD WHOIS Proxy) was not only the registrar but also the registrant by having registered each name on its own behalf\(^12\). Each complainant contended that OpenTLD, directly or through its proxy service, used the corresponding disputed domain name(s) to divert Internet users to a website through which OpenTLD or its affiliated reseller, Freenom, offered name registration services competitive with those then offered by that complainant and enticed those users to switch from that registrar’s services to Freenom’s services, thus disrupting that registrar’s business. For simplicity, hereinafter both OpenTLD and Stitching OpenTLD WHOIS Proxy will be collectively referred to as simply OpenTLD, unless specifically stated otherwise. OpenTLD did not file a response to the complaint in either case. In both cases, the WIPO panel found that OpenTLD’s conduct as a registrar was “highly suspect” for reasons of cyberflight and cybersquatting. Specifically, as to the former, the panel found that OpenTLD intentionally deleted the disputed domain name registration(s) during the pendency of the corresponding proceeding instead of placing the name(s) on registrar lock, in direct contravention to paragraph 8 of the Uniform Domain Name Dispute Resolution Policy (UDRP), and failed to: (a) timely respond to registrar verification requests from WIPO, and (b) afford the complainant in each case with the opportunity to restore the name(s) pursuant to § 3.7.5.7 of ICANN’s Expired Domain Deletion Policy, thus collectively viewing this conduct as “tantamount to the abusive and bad faith practice of cyberflight”.\(^13\) As to cybersquatting, the WIPO panel found that, in each case, OpenTLD intentionally registered a domain name(s)

---

\(^9\) Zuurbier decl. at para. 7-11, with a copy of an e-mail chain between the parties and culminating in ICANN’s May 18th message appearing in Exhibit B to the Zuurbier decl.

\(^10\) This entity, a non-profit organization organized under the laws of the Netherlands, is fully managed by OpenTLD. See letter from OpenTLD’s Counsel to ICANN dated 8/17/15 and filed as OpenTLD’s post-hearing submission.


\(^12\) Zuurbier decl. at para. 15-19.

\(^13\) OpenTLD disputes the panel’s finding of cyberflight. See OpenTLD’s Reply Brief at Sect. II(A)(3), p. 4-5.
corresponding to the complainant’s mark(s) and proceeded to use that name(s) to divert Internet users to its own website at which it offered competing services, thus “trading on the goodwill and reputation of the Complainant’s mark(s) through creation of Internet user confusion” and disrupting the business of a competitor.

Moreover, in each case, the WIPO panel found that, on August 14, 2014 -- the same day on which each of the disputed domain names in both decisions was registered, OpenTLD had registered at least 5 other domain names containing trade names or marks of domain name registrars with which OpenTLD or Freenom then competed and used those names in a similar fashion to its use of the disputed names. 14

Accordingly, the panel, in both cases, concluded that, under the UDRP, not only did OpenTLD lack any legitimate rights or interests in any of the names at issue but also its actions regarding these names constituted bad faith registration and use, thus ordering all the names transferred to the respective complainants. Further, the panel directed WIPO to send a copy of each decision to, inter alia, ICANN as the accrediting authority. ICANN received these decisions on May 28, 2015.

ICANN received a copy of a February 19, 2015 e-mail letter which Ms. Sara Bockey, Policy Manager, at GoDaddy Operating Company, LLC (“GoDaddy”) sent to Mr. Jeremie Godreche, Chief Operating Officer of OpenTLD. 15 Through the letter, GoDaddy, a competing ICANN-accredited registrar to OpenTLD, pointed to four ccTLD-based domain names (specifically <godaddy.cf>, <godaddy.ml>, <domainsbyproxy.tk> and <domainsbyproxy.ga>) which OpenTLD registered, where each name contained, as its SLD, a registered mark (specifically “godaddy” or “domainsbyproxy”) owned by GoDaddy. GoDaddy demanded that OpenTLD transfer these names to GoDaddy and set a deadline of February 25, 2015 to receive a response from OpenTLD. By August 4th, GoDaddy had not received either any response from OpenTLD or a transfer of any of the names. However, OpenTLD deleted <godaddy.cf> on February 20th. As to the other 3 names, OpenTLD stated during this emergency proceeding that: <domainsbyprosy.ga> was registered by a third-party registrant and would expire on January 15, 2016, <domainsbyproxy.tk> was registered in April 2014 by a third-party registrant whose registration expired on April 23, 2015 and is currently registered by GoDaddy.com through Key-Systems GmbH, and <godaddy.ml> was never registered and is available for registration. 16

ICANN received a complaint from Tucows, another ICANN-accredited registrar, regarding OpenTLD. Tucows stated that OpenTLD, through its reseller Freenom, registered a domain name that was identical to Tucows’ registered mark, “opensrs”. In addition, Tucows complained that Freenom used a third level domain “opensrs” in conjunction with its domain name <freenom.com> to form a subdomain name <opensrs.freenom.com> that identically included Tucow’s mark which, in turn, was used to redirect traffic to solicit domain name registration business. 17

14 Key-Systems and Net-Earth, each at Sect. 4 (“Factual Background”), last para.
15 A copy of which appears in Exh. 3 to Smigelski decl.
16 OpenTLD’s Reply Brief, Sect. II(A)(4) at p. 6-7.
17 Smigelski decl. at para. 11. Similarly, see OpenTLD’s Reply Brief at Sect. II(A)(4), p. 6-7.
As a result of the WIPO decisions and ICANN’s examination of the website <freenom.com>, ICANN sent a compliance inquiry message on June 2, 2015 by e-mail to Mr. Zuurbier and, in that message, set a deadline of June 10, 2015 for receiving a response from OpenTLD. That message sought information from OpenTLD concerning certain issues raised by the WIPO decisions and notified OpenTLD of ICANN’s investigation of OpenTLD’s potential breaches of its RAA.\textsuperscript{18} ICANN received no response from OpenTLD to this message. According to ICANN’s log entries produced by its e-mail server, the June 2nd message was received by OpenTLD’s e-mail server (mail.opentld.com) three seconds after it was sent.\textsuperscript{19} Further, after ICANN sent the June 2nd message, the third level domain <opensrs.freenom.com> ceased operating.\textsuperscript{20}

On June 23, 2015, ICANN then sent a second communication (a formal letter), specifically a “Notice of Suspension”, by e-mail, facsimile and courier to Mr. Zuurbier stating:

“Pursuant to Section 5.5.2.4 of the RAA, ICANN has found that OpenTLD has engaged in a pattern and practice of trafficking in or use of domain names identical or confusingly similar to a trademark or service mark of a third party in which the Registered Name Holder has no rights or legitimate interest.”

By virtue of this finding, ICANN, in its 6/23 Notice of Suspension, suspended OpenTLD from creating any registered names and initiating any inbound transfers of registered names for a 90 day period commencing on 00:00 UTC (Universal Coordinated Time) (17:00 PDT) on July 8, 2015 (“Suspension Order”).\textsuperscript{21} The Notice of Suspension delineated 9 required steps which OpenTLD must demonstrate that it has taken by September 15, 2015 to bring its operation into full compliance with the RAA, otherwise ICANN may terminate the RAA or extend the suspension pending termination. As of August 4th, ICANN reported that OpenTLD had not complied with any of the requirements set forth in the 6/23 Suspension Notice.\textsuperscript{22} Subsequently, OpenTLD, through a letter sent by its Counsel to ICANN on August 10, 2015, described various specific steps which OpenTLD has either completed or initiated that it believes will collectively bring it into full compliance (hereinafter simply “8/10 letter”).\textsuperscript{23} On August 20, 2015, ICANN’s compliance department provided its response, via an e-mail message, to the 8/10 message. In its response, ICANN specified certain additional information and records it requires from OpenTLD to determine whether OpenTLD had cured all the breaches set forth in the 6/23 Notice of Suspension (hereinafter referred to as the “8/20 responding message”).\textsuperscript{24}

\textsuperscript{18} A copy of the June 2nd letter appears in Exh. 4 to the Smigelinski decl.
\textsuperscript{19} Smigelinski decl. at para. 13.
\textsuperscript{20} Id at para. 11.
\textsuperscript{21} A copy of which appears as Exh. C to the Zuurbier decl.
\textsuperscript{22} Smigelinski decl. at para. 20.
\textsuperscript{23} See Supplemental Declaration of Joost Zuurbier (“Zuurbier supp. decl.”) at para. 3, and, as referenced in that paragraph, Exh. A to OpenTLD’s Reply Brief; the latter containing a copy of a letter dated August 10, 2015 from OpenTLD’s Counsel to Mr. Smigelinski detailing the actions then taken by OpenTLD. As specific aspects of those actions are not relevant to this award and are confidential to OpenTLD, those aspects will not be discussed any further. ICANN, in respecting this confidentiality, stated that it will not publish this letter on its website, a decision with which the Arbitrator agrees.
\textsuperscript{24} E-mail from ICANN’s Counsel to the Arbitrator dated August 21, 2015 forwarding the 8/20 responding message.
While Mr. Zuurbier acknowledges his receipt of the 6/23 Notice of Suspension, he denies ever having received the 6/2 compliance inquiry message or any intervening communication from ICANN regarding any “pattern and practice of cybersquatting.”  

In response to the Suspension Order, on July 7, 2015, OpenTLD initiated this emergency proceeding by filing its demand for emergency arbitration online with the ICDR pursuant to RAA § 5.8. Through this proceeding, OpenTLD seeks to stay the Suspension Order pending a final determination on the merits of the suspension. ICANN stated, during the July 16th preliminary hearing, that, although its Suspension Order took effect at 00:00 UTC on July 8th, upon receipt of the demand later that same day, ICANN subsequently stayed the Suspension Order (the suspension itself having been in effect for approximately an hour), with that stay remaining in effect until such time as the Emergency Arbitrator issues this award.  

F. ICANN Governance Principles

As one of its core values, ICANN, in guiding its decisions and actions, will make its decisions by applying documented policies neutrally and objectively, with integrity and fairness.

ICANN has published its dispute resolution procedure, in terms of its overall compliance approach, which consists of a prevention stage (informal resolution process) and an enforcement stage (formal resolution process) and is intended to ensure consistency for all parties involved. The prevention stage involves upwards of three successive inquiries of notice sent to a non-compliant registrar, each requiring use of added notification modalities (the first inquiry is sent by email; if the first inquiry is not answered, the second inquiry is made by email and telephone; and if the second inquiry is not answered, then the third inquiry is made by e-mail, facsimile and telephone). Each inquiry may be sent to gather information particularly if there is no known compliance violation, or for proactive compliance monitoring. If a response is not received from the non-compliant registrar as of the deadline set in the inquiries or an insufficient response is received, then, compliance advances to a next level, where ICANN may send an “escalated notice” to that registrar which requires immediate resolution of either alleged breaches or a repeated instance of a recently cured breach. If, despite ICANN’s attempts to informally resolve the breaches, the requested response is not received by a deadline set in that notice, then ICANN can escalate to the enforcement stage through which it can then take appropriate enforcement action against the non-compliant registrar. Through this stage, ICANN first issues a notice of breach, publishes the notice, provides a response period and then analyzes a response from the registrar. If the response cured the breach, the enforcement stage essentially terminates. If response does not cure the breach, then ICANN informs and/or consults with the registrar and

---

26 Smigelski decl. at para. 17.
27 ICANN Bylaws at Art. 1, Sect. 2, para. 8.
28 See ICANN Overall Compliance Approach, a copy of which appears as Exh. C to the Declaration of Jerl B. Leutz (“Leutz decl.”).  
29 General Questions - Complainants and Disputes, specifically Question 31 (“What is ICANN’s contractual compliance approach and process?”). A copy of this document (hereinafter simply “Compliance Processes FAQ”) appears at Exh. F to the Leutz decl. and is accessible at https://www.icann.org/resources/pages/faqs-84-2012-02-25-en#suspension.
30 Informal Resolution Process, a copy of which appears as Exh. D to the Leutz decl.
may suspend that registrar under its RAA or terminate that registrar’s RAA.\textsuperscript{31} ICANN attempts to first resolve contractual compliance under an RAA informally, by facilitating open dialogue and resolution. However, where necessary, if ICANN determines that a non-compliant registrar must resolve a critical issue immediately, ICANN sends an escalated notice, with failure to respond to such notice potentially resulting in a notice of breach.\textsuperscript{32}

ICANN, through its Bylaws, has obligated itself to apply, inter alia, its procedures (here its dispute resolution procedures) on a non-discriminatory basis unless the circumstances sufficiently justify disparate treatment. Specifically, Article 2, Section 3 of the Bylaws state, in pertinent part:

“ICANN ... shall not apply its standards, policies, procedures, or practices inequitably or single out any particular party for disparate treatment unless justified by substantial and reasonable cause, such as the promotion of effective competition.”

G. Relief sought by OpenTLD, Issue for Determination by the Arbitrator

Through this emergency proceeding, OpenTLD seeks a stay of the Suspension Order (though currently stayed by ICANN while this emergency proceeding is pending) until such time as the merits of the suspension itself have been determined in a subsequent arbitral proceeding. The sole issue before the Arbitrator is whether OpenTLD is entitled to this requested stay pending further arbitration.

H. Discussion and Findings

1. Applicable time frames for analysis of OpenTLD’s conduct

The Arbitrator’s determination of whether OpenTLD is entitled to its requested stay involves two principal issues:
(a) whether the 6/23 suspension was properly imposed at the time, and
(b) whether, under RAA § 5.8, OpenTLD’s continued operation would not be harmful to consumers or the public interest.

OpenTLD’s conduct involved a series of actions spanning the period starting prior to the 6/2 compliance inquiry message and continuing past the 6/23 Notice of Suspension.

As to the first such issue, those actions which preceded the 6/2 compliance inquiry message formed the basis of ICANN’s finding that OpenTLD was in breach of its RAA, particularly the violation of RAA § 5.5.2.4 and, coupled with the absence of any response from OpenTLD to that letter, formed the basis of the 6/23 Notice of Suspension.

It is only the suspension that was imposed on June 23rd that is at issue, not any enforcement action which ICANN may subsequently choose to utilize. As such, the Arbitrator confines his focus and assesses just the operative facts which ICANN then knew and conclusions it then

\textsuperscript{31} Formal Resolution Process, a copy of which appears as Exh. E to the Leutz decl.
\textsuperscript{32} Compliance Processes FAQ, specifically question 32 ("What is the difference between the Informal resolution and Formal resolution process?").
reached which led it to issue the 6/2 compliance inquiry message and any and all relevant intervening facts and conclusions that led to the 6/23 Notice of Suspension.

Since June 23rd, OpenTLD has taken what it believes to be serious, considerable and sufficient efforts aimed at achieving compliance with its RAA, thus justifying its present request for a stay of the Suspension Order. Not unexpectedly, OpenTLD strenuously points to those efforts as sufficient to protect consumers and the public interest from harm -- a necessary predicate under RAA § 5.8 for an automatic stay of a suspension -- which might otherwise arise, thus justifying its present request for a stay. All of OpenTLD’s actions which occurred post-6/23 are outside the pertinent analytic time frame and hence irrelevant in determining whether the suspension was properly imposed.

As to the second issue, whether harm would arise from OpenTLD’s continued operation, the applicable window of time under which OpenTLD’s conduct is assessed does not end with the 6/23 Notice of Suspension but continues up to the issuance of this award.

Specifically, RAA § 5.8 states that “In the event the Registrar initiates arbitration to contest the appropriateness of ... suspension, Registrar may at the same time request the arbitration panel stay the ... suspension .... The arbitration panel shall order a stay: (i) upon showing by Registrar that continued operations would not be harmful to the consumers or the public interest ....”

This section does not define the date by which relevant conduct must occur by a registrar, relative to the date of a suspension it is then contesting, i.e., whether an operative cutoff date is that of the original commencement of the suspension (i.e., 15 days after the Notice of Suspension, which here is July 8th); or if the suspension was stayed by ICANN (as here), the date that stay became effective (which is also July 8th) or the date that stay expires (which here is the date this award is received by ICANN).

As ICANN stayed its own suspension pending the issuance of this award, then, were the Arbitrator to deny OpenTLD’s pending request for a stay, ICANN, if it so chooses, can commence the suspension coincident with its receipt of this award. Consequently, to afford proper fairness to OpenTLD in determining whether harm would arise, the Arbitrator will assess all of OpenTLD’s relevant conduct occurring up to the date this award is received by ICANN, including all of OpenTLD’s post-6/23 compliance actions that occurred up to that date.

2. Imposition of the Suspension Order

OpenTLD raises the following argument that the Suspension Order was improperly imposed, as a basis justifying its request for a stay:

Significant public interest requires that ICANN administer its standards in a fair, transparent and consistent manner -- which it has not done here. First, suspension of OpenTLD’s registrar privileges is arbitrary, unprecedented and excessive as ICANN did not follow its published resolution polices when it immediately escalated its enforcement action to suspension without providing any opportunity to OpenTLD to cure those

33 OpenTLD’s Reply Brief at Sect. II(A)(6) at p. 9-10 and Zuurbier supp. decl. at para. 3 and Exh. A thereto.
34 RAA § 5.7.2.
breaches, particularly when compared to suspensions ICANN imposed on other registrars. Second, contrary to ICANN’s stated escalation policy, OpenTLD was not previously notified of those breaches prior to its receipt of ICANN’s June 23rd suspension letter and thus not given an opportunity to cure those breaches prior to the Suspension Order. Consequently, in the absence of the requested stay, OpenTLD, without the benefit of having a fair process, will suffer significant financial and reputational harm.\textsuperscript{35}

This argument fails to persuade the Arbitrator.

OpenTLD predicates its argument on its view of having been treated unfairly and arbitrarily by ICANN, in administering its published dispute resolution procedures, by virtue of:
(a) comparison to enforcement actions ICANN had invoked, including the length of response and cure periods, for RAA breaches as set forth in prior third-party Notices of Breach or Suspension; and
(b) not having been provided with any notice of the breach coupled with an opportunity to cure the breach prior to the June 23rd Suspension Order.

a) Was the Suspension Order as arbitrary exercise of ICANN’s enforcement action?

The Arbitrator finds that ICANN did not act in an arbitrary fashion in issuing the Suspension Order.

Through its bylaws, ICANN has reserved for itself the ability to treat any registrar differently from others where “substantial and reasonable cause” circumstances warrant doing so.\textsuperscript{36} Such a situation exists here and proper cause lies in ICANN having done so.

An examination of published prior third-party Notices of Breach and Suspension (“third-party Notices”) which OpenTLD has provided\textsuperscript{37} reveals a total of 6 suspension notices, and 3 notices of breach, with none of them being a breach of RAA § 5.5.2.4 due to cybersquatting.

These breaches (and the associated non-compliant registrars) included, e.g.: failure to maintain registration records (Alatron Bilism Ltd STi), failure to pay accreditation fees (Alatron Bilism Ltd STi; Black Ice Domains, Inc.; Visesh Infotecnics Ltd d/b/a Signdomains.com), failure to maintain registration records and make them available to ICANN (Alatron Bilism Ltd STi; Registration Technologies, Inc.), failure to make registration records available to ICANN (Pacnames Ltd.), failure to provide an authorization code to a registered name holder within 5 days (Registration Technologies, Inc.); failure to provide ICANN with corrective and preventive action to ensure timely response to ICANN inquiries (Black Ice Domains, Inc.), failure to allow a registered name holder to transfer its name to another registrar or provide a valid reason for denial (Registration Technologies, Inc.), failure to provide required authorization forms

\textsuperscript{35} OpenTLD’s Opening Brief at Sect. III(B) at p. 9-11.
\textsuperscript{36} ICANN Bylaws, Art. 2, Sect. 3.
\textsuperscript{37} See Leutz decl., Exh G. These notices are stated to be ICANN’s posted history of Notices of Breach, Suspension, Termination and Non-renewal from 2008 to July 23, 2015, the latter being the date of execution of the Leutz decl., and available at https://www.icann.org/resources/pages/notices-2012-02-25-en.
(Cheapies.com Inc.), sending deceptive marketing materials to registered name holders (Brandon Gray Internet Services Inc. d/b/a NameJuice.com), and the occurrence of three repeated failures over a 12-month period (Cheapies.com Inc.; Homestead Limited d/b/a Namevault.com; Black Ice Domains, Inc.; Pacnames Ltd.) with the individual failures, to the extent pertinent and provided in these last notices, having been the essentially the same as some of those listed for the other third-party non-compliant registrars immediately above.

This emergency proceeding presented the first instance of registrar cybersquatting for which a breach is alleged under RAA § 5.5.2.4. Thus, no other instances exist against which to compare the nature of the enforcement action taken.

Nevertheless, in light of the rather pernicious effect of cybersquatting on consumers and the general Internet community, as discussed below, which would only exacerbate over time if not quickly remedied, ICANN was well within its discretion, to act as expeditiously as it did in issuing its 6/2 compliance inquiry message followed, due to non-response of OpenTLD, with, on June 23rd, its Suspension Order.

To the extent that ICANN’s actions could be seen to have differed, in scope and speed, from other enforcement actions taken against other non-compliant registrars -- as evidenced by the third-party Notices, the Arbitrator finds that OpenTLD’s conduct and its expected deleterious effect on both consumers and the public in general, were that conduct to continue, provided ICANN with “substantial and reasonable cause” justifying disparate enforcement action.

Any question as to whether, in light of OpenTLD’s offending conduct here, the magnitude of the enforcement action imposed by ICANN was appropriate and legitimate, i.e. whether the suspension itself, including its 90-day length, for registering and then using the various domain names as it did -- when compared with other possible enforcement action which ICANN could alternatively have taken -- is excessive, is beyond the limited remit of the Arbitrator and thus one on which the Arbitrator will not opine.

ICANN, when faced with past instances of cybersquatting by any of its accredited registrars, can ill afford to delay remedial action to prevent future instances as doing so presents a very real threat of exacerbating injury to the Internet user community through, e.g., accelerating user confusion, escalating damage to third-party marks and attendant goodwill, and increasing disruption of legitimate business interests. Even just maintaining the status quo, in the absence of suspending continued operation of a non-compliant registrar still may present a risk, if, as perceived by ICANN, cybersquatting may persist while that registrar is in the midst of implementing corrective action that, only once fully functional and operational, will ameliorate the continuing threat otherwise present.

Consistent with ICANN’s perception of the severity of potential injury to consumers or the public interest resulting from a registrar’s continuing conduct in breach of RAA § 5.5.2.4, ICANN has the ability and so exercised it here, under Article 2, Section 3 of its bylaws, to take whatever particular enforcement action it deems necessary under the circumstances, including at

---

38 ICANN, through its Counsel’s e-mail message to the Arbitrator of August 12, 2015 stated that this proceeding is the first arbitration, under RAA § 5.8, involving a registrar breach of RAA § 5.5.2.4.
whatever degree of urgency is appropriate, even including -- as it did here -- accelerating certain steps and omitting others set forth in its published dispute resolution procedure, to effectively prevent such injury and deter similar conduct by other registrars.

OpenTLD points to arbitrariness from the standpoint of comparing ICANN’s present enforcement action taken here against both prior ICANN enforcement action taken against OpenTLD, resulting from the March 2015 breaches, and those stated in the third-party Notices. For OpenTLD’s March 2015 breaches, ICANN engaged in multiple rounds of informal correspondence through which the corresponding breaches were remedied well short of imposing any suspension. Similarly, resolution, short of suspension, remediated most of the breaches set forth in the third-party Notices. However, both OpenTLD’s March 2015 breaches and the third-party breaches were for infractions that at worst likely had a de minimus effect, and in many instances no effect, whatsoever on consumers or the public in general, such as: a failure to remit annual accreditation fees, maintain registration records and/or make them available to ICANN, or submit necessary reports to ICANN; or even three such minor infractions over a 12-month interval. A breach based on cybersquatting (RAA § 5.5.2.4) is quite distinguishable in that it is far more onerous and its effects can be far more pervasive and pernicious as impacting a considerable number of Internet users, and can yield substantially greater third-party harm and thus call for immediate remediation, through appropriately strong corrective measures being implemented at the registrar level, than any of the breaches delineated in any of the prior third-party Notices.

In such instances, ICANN, to fully effectuate its core values set forth in its Bylaws, must have sufficient flexibility to expeditiously impose forceful remedial action, whenever it deems necessary to do so, in order to ensure rapid compliance of a non-compliant registrar and immediate discontinuance of its prior or continuing breaches. In doing so, of necessity, ICANN must have the freedom to determine the strength of an enforcement effort and the exigency at which it will be imposed as a function of the likelihood that harm to consumers or the public interest would otherwise occur and the type and extent of that harm. Where significant harm is likely and imminent, ICANN can choose to take suitably expedited remedial action to ensure rapid compliance. Alternatively, where no or de minimus public harm is likely to occur over time, and hence no or little risk exists to consumers or the public interest, ICANN, can choose informal enforcement, e.g., extending through multiple rounds of informal communication, so as to afford the registrar extended time to attain compliance (as ICANN did so with OpenTLD’s March 2015 breaches).

Further, prompt and forceful remedial action, as taken here in its first instance and when suitably publicized, such as through ICANN’s website or even reporting by the trade media, establishes an initial precedent. Should a similar situation later arise which ICANN then perceives as posing a similar threat to consumers or the public interest if left uncorrected, ICANN, then following its precedent, can impose a similar level of enforcement. By doing so, ICANN provides a measure of enforcement predictability for subsequent actions taken for registrar breaches of RAA § 5.5.2.4 that acts to deter similar injurious conduct that might otherwise occur by other registrars in the future.
b) Did ICANN provide proper prior notice to OpenTLD of its breaches with an opportunity for timely cure?

RAA § 7.6 defines what constitutes effective written notice of any dispute arising under the RAA. It specifies that proper notice can be effectuated under any of five alternate modalities: personal delivery, delivery by electronic facsimile (commonly referred to as “e-fax”), delivery by an internationally recognized courier service, delivery by conventional facsimile or delivery by e-mail. Should ICANN use any of these non-personal modalities to deliver notice, § 7.6 also requires that ICANN have affirmative confirmation of receipt, such as from a facsimile machine or e-mail server, that a peer communications system for the chosen modality actually received the notice sent to it for ultimately delivery to the intended recipient.

ICANN transmitted its 6/2 compliance inquiry message by e-mail to Mr. Zuurbier at OpenTLD. As previously noted, this message set forth OpenTLD’s alleged breaches of the RAA, providing specific reference to the WIPO decisions and RAA § 5.5.2.4, sought 9 distinct items of information from OpenTLD to aid ICANN in its investigation of these breaches, and set forth June 10th as a deadline for OpenTLD’s response. ICANN did not receive any response to this message.

A log entry from ICANN’s e-mail server confirms that this server transmitted the message and, three seconds later, the message was received by OpenTLD’s e-mail server. This is sufficient affirmative confirmation under RAA § 7.6 to indicate that ICANN provided OpenTLD with proper notice of this message. Once this message was confirmed as having been received by OpenTLD’s server, responsibility for its ultimate delivery by that server to Mr. Zuurbier, whether through posting the message to his Inbox associated with a PC-based client e-mail application (such as Microsoft Outlook), forwarding to a mobile telephone and/or other portable user device having client e-mail capability, or handling that message in some other manner, automatically transferred over to OpenTLD. OpenTLD alone, not ICANN, was liable for proper operation of its own e-mail server, including that server’s delivery of the message onward to its ultimate addressee, and all other server- and/or client-side e-mail processing, such as, e.g., anti-spam and anti-virus filtering, malware protection, that may have then been in place and operational at OpenTLD. It is also possible that the message was in fact delivered to Mr. Zuurbier but that, for whatever reason, he just inadvertently deleted it. Regardless of where the message specifically went askry, it did so somewhere along that part of the message delivery path which was OpenTLD’s sole responsibility.

The 6/2 compliance inquiry message provided an 8-day response period (from June 2nd through June 10th) during which OpenTLD could endeavor to engage with ICANN to fully cure the alleged breaches within that period or at least, with ICANN’s approval, initiate suitable remedial action that would ultimately cure those breaches -- either of would likely have avoided the imposition, on June 23rd, of the Suspension Order. That this period expired without OpenTLD having been aware of it, much less responding within it, was exclusively the fault of OpenTLD as a failure occurred somewhere along that portion of the e-mail delivery path for which OpenTLD was solely responsible. ICANN provided a cure period for which OpenTLD, due to its own failing, did not avail itself.
Hence, ICANN did not treat OpenTLD in an arbitrary or unfair manner with respect to the 6/23 Notice of Suspension and Suspension Order.

3. Potential Harm to Consumers or the Public Interest

a) Would OpenTLD’s continued operation be harmful?  

As discussed above, for determining this issue, the Arbitrator assesses all of OpenTLD’s conduct that occurred up to the issuance of this award. This includes all the steps OpenTLD has either completed or initiated to bring itself into full compliance with its RAA and so remedy the breaches specified by ICANN in the 6/23 Notice of Suspension, along with the various mechanisms OpenTLD currently has in place to combat and prevent abusive name registrations.

Even in light of all that steps OpenTLD has taken, including all the mechanisms which it presently has in place, the Arbitrator finds -- directly contrary to OpenTLD’s argument here -- that, in the absence of fully remedying all the breaches set forth by ICANN in the 6/23 Notice of Suspension, OpenTLD’s continued operation could potentially harm consumers and the public interest.

While the Arbitrator commends OpenTLD for all its efforts thus far aimed at achieving compliance, a condition expressly set forth in the 6/23 Suspension Order is that OpenTLD must resolve all those breaches, to ICANN’s satisfaction, by September 15, 2015. If full compliance is not met by that date, then, ICANN, at its discretion, can extend the suspension, presently stayed but due to expire coincident with this award, beyond its 90-day length or terminate OpenTLD’s RAA.

Specifically, OpenTLD contends that inasmuch it manages 25 million domain names worldwide, its having acted as a registrar in only 3 names, cumulatively across both WIPO decisions, does not fairly evidence a “pattern or practice of domain name trafficking” as required under RAA § 5.5.2.4 for suspension pursuant to RAA § 5.7.1 and thus OpenTLD’s continued conduct poses no harm and consequently qualifies it for a mandatory stay under RAA § 5.8.  

RAA § 5.5.2.4 does not reach just one result of cybersquatting (though defined in terms slightly narrower than the grounds set forth in §4(a)(i)-(iii) of the UDRP -- as the differences are irrelevant here, they will be ignored), i.e., a “pattern or practice of trafficking in domain names” -- the result which OpenTLD contends does not exist here, but rather either of two alternative results: a “pattern or practice of trafficking in domain names” or a “pattern or practice of use of domain names” -- the latter which OpenTLD fails to address. Either result suffices.

The WIPO panel in each of the 2 decisions found, and the Arbitrator so accepts, that, each of the three disputed domain names was identical to a registered mark of a third-party registrar, was one in which OpenTLD had no rights or legitimate interests and one which OpenTLD used in bad faith.

39 OpenTLD’s Opening Brief, Sect. III(A), at p. 8-9.
40 Id at p. 9.
A pattern of acts requires repetition. A single isolated act is not a pattern. If all OpenTLD were to have done was to register just one domain name that constituted cybersquatting under the specific grounds set forth in RAA § 5.5.2.4, that one act would not constitute a pattern. However, OpenTLD did not register a single such name; it registered at least 9 such names. Three of those names were those cumulatively disputed in both WIPO decisions. Five other domain names, were noted by the WIPO panels in those decisions as including third-party marks but not then in dispute (as presumably involving third-party rights holders), were registered by OpenTLD and were used in the same fashion as the three names in dispute. Further, ICANN received a complaint from Tucows regarding another abusive name registration which OpenTLD’s affiliated reseller, Freenom, made which incorporated Tucow’s registered mark and was used by that reseller to redirect Internet user traffic to solicit domain name registration business to OpenTLD in much the same way as the other abusive registrations made by OpenTLD.

The RAA does not define what constitutes a pattern (nor does the UDRP define that term as it is used in the illustration of bad faith registration and use under UDRP paragraph 4(b)(ii)), but leaves that determination to the fact-finder to be made under the particular circumstances at issue.

Having assessed the facts of record in their totality, the Arbitrator has little doubt that the multiple abusive name registrations made by OpenTLD, each of which included the registered mark of a competing domain name registrar and OpenTLD’s subsequent use of those names -- as delineated by the WIPO panels -- formed part of a broad concerted effort by OpenTLD calculated to deliberately divert name registration business, otherwise destined for competing domain name registrars (of which there are at least three under the present facts: NetEarth and Key-Systems being Complainants in the 2 WIPO decisions, and Tucows being the third), away from those registrars to OpenTLD instead. Specifically, by using those names to divert Internet users destined for any of these registrars to OpenTLD’s website at which OpenTLD offered competitive registration services, any such user would reasonably be led to believe that an affiliation, association, sponsorship or other authorized relationship existed between the corresponding registrar and OpenTLD -- when, in fact, none existed at all. Thus, OpenTLD, through inducing consumer confusion, would capture registration business to which it was not entitled, thus denying that business to the competing registrars and consequently disrupting their businesses -- as the WIPO panels in both decisions concluded. At least 9 separate abusive domain name registrations, each being used in essentially the same manner, clearly manifest the same abusive pattern of use.41

Such a pattern, if allowed to continue, inflicts increasing harm through illicit exploitation of third-party trademark rights by the cumulative effect of escalating consumer confusion in the marketplace which, over time, can appreciably weaken, if not destroy, the secondary meaning.

---

41 While ICANN points to as many as 73 other gTLD-based domain names in OpenTLD’s portfolio that contained third-party marks, with at least 14 of them having been registered after the June 23rd Suspension Notice by OpenTLD’s proxy service (ICANN’s Response Brief at para. 44-45 and Smigelski decl. at para. 18-19), the Arbitrator cannot determine, from the limited information of record, whether the ultimate registrant for any of these names was OpenTLD or another entity, the identity of the latter being masked by OpenTLD’s proxy service from public view, in the WhoIS database or other reports or records searched by ICANN. Hence, the Arbitrator will ignore all these registrations.
established in trademarks as extremely valuable product and service source- and quality-designators to the ultimate detriment of not only the rights holders but also clearly consumers and the public in general.

For OpenTLD to show, consistent with RAA § 5.8 that no harm to consumers or public interest will result if the Arbitrator grants the requested stay, OpenTLD has the burden of proving that all the remedial actions it has thus far taken, whether completed or just initiated as described in the 8/10 letter as well as the mechanisms it has in place to prevent or reduce abusive registrations, will effectively prevent this abusive conduct -- where was the subject of the WIPO decisions -- from ever re-occurring.

OpenTLD has not met its burden. Though all the post-6/23 actions which OpenTLD has specifically taken to date to remediate its breaches and bring itself into compliance with its RAA are commendable, those steps do not include any actual specific process or procedure, either currently in operation or being actively implemented, or other suitable measure that is specifically aimed at preventing OpenTLD from ever repeating this abusive conduct in the future and more broadly stated preventing it from engaging in cybersquatting as defined in RAA § 5.5.2.4.

For example, as one of the steps set forth in the 8/10 letter is an assurance by OpenTLD that it “will not register any domain names in bad faith that are identical or confusingly similar to a trademark or service of a third party”. This assurance is just a commitment, nothing more. OpenTLD has made the same assurance when it entered into the RAA, namely that it would comply with RAA § 5.5.2.4. Yet, through its subsequent actions, it failed to meet its obligation.

ICANN has the discretion to require more than just a written assurance from a non-compliant registrar, which breached its obligation, that it will not engage in any specific abusive conduct going forward. It does just that here -- including through its 8/20 responding message. Specifically, the assurance OpenTLD has made in the 8/10 letter is insufficient, in ICANN’s view, to effectively prevent OpenTLD whether directly, or through its proxy service, from ever registering a domain name that includes a mark of a competing registrar and then intentionally using that name to divert Internet users to a website, whether of OpenTLD or another, where, through exploiting resulting user confusion as to whether that registrar and OpenTLD are in any way related, that user will be solicited to switch to OpenTLD’s registration services to the detriment of that registrar. For example, OpenTLD’s mechanisms appear to be directed to thwarting only third-party abusive registrations but not abusive registrations made directly by OpenTLD or indirectly by it through its proxy service, and thus would not capture its own registrations and rather likely its own subsequent conduct potentially in breach of RAA § 5.5.2.4.

RAA § 5.7 expressly states that upon the occurrence of any circumstance set forth in RAA § 5.5 by a registrar, of which cybersquatting under RAA § 5.5.2.4 is one, ICANN has sole discretion to impose a suspension order on that registrar for up to 12 months or terminate that registrar’s RAA. As such, ICANN has sole discretion to determine the specific enforcement action to be taken which necessarily includes setting forth the extent of compliance, i.e. the remedial steps,

42 Statement of ICANN’s Counsel at 8/14 hearing.
required to fully remedy that registrar’s contractual breaches under its RAA. As a result of ICANN having completed its detailed review of each of OpenTLD’s actions set forth in the 8/10 letter, it is quite evident to ICANN and the Arbitrator that the steps set forth in that letter combined with the mechanisms already in place are collectively insufficient to effectively detect and prevent a breach of RAA § 5.5.2.4 from ever re-occurring.

Therefore, OpenTLD does not qualify for an automatic stay under RAA §5.8 on the basis that no harm would occur to either consumers or the public interest were it to continue operating its business as it currently does.

b) Would harm result from OpenTLD’s alleged inability to accept domain name registrations for any of its five ccTLDs?

Further, OpenTLD raises the following additional argument that its continued operation will not cause any harm to consumers or the public interest, and as such provides another basis supporting its request for a stay:

As OpenTLD serves as the registry for 5 country codes for corresponding countries in West Africa and the South Pacific and provides, as a registrar, domain name registration services to registrants from these countries either at low cost or for free, suspension of OpenTLD’s ability to accept registrations for domain names for any of these ccTLDs would cause harm to the public, particularly potential public registrants in those countries who seek to register names under any of these codes.44

Here too, the Arbitrator is not persuaded.

There are two aspects to this argument: one legal and the other technical.

The legal aspect is implicitly based on OpenTLD’s belief that its ccTLD-based domain name registration activity is subject to regulation under the RAA. In actuality, it is not.

ICANN expressly acknowledges that the RAA only applies to gTLDs and, as such, ICANN “has no authority under the RAA to take compliance action against OpenTLD as to its activities within the domain of a ccTLD.” Consequently, OpenTLD’s ability to act as registry operator and registrar for each of the 5 ccTLDs is totally unaffected by the suspension.45 Thus, the ability of anyone seeking to register a domain name in any of these 5 ccTLD namespaces will not be impacted whatsoever by the suspension.

As to the technical aspect, OpenTLD argues that its “gTLD and ccTLD registration systems are deeply intertwined and separation of the gTLD option from the free ccTLD offering will impair OpenTLD’s ability to do business.”46 This argument falls short. Based on his own engineering experience, the Arbitrator believes that this characteristic of OpenTLD’s registration systems can

43 See ICANN’s 8/21 responding message setting forth further compliance items it seeks from OpenTLD.
44 Id at Sect. III(C) at p. 11-12.
45 ICANN’s Response Brief at para. 29, at p. 10-11, and para. 54-55 at p. 19-20. Also, Smigelski decl. at para. 3 and 16.
46 OpenTLD Reply Brief, Sect. II(C), at p. 12.
be readily and rather simply addressed through the addition of appropriate input filtering or other suitable pre-processing, which, based on testing the TLD in any domain name which a user than seeks to register through OpenTLD, prevents any such name having, as its TLD, a gTLD, from being processed further by these registration systems while allowing ccTLD-based names to be handled by these systems as they currently are. Such a solution would not require OpenTLD to separate its existing registration systems. Once the suspension expires, the input filter or pre-processing could simply be removed or bypassed in its entirety.\textsuperscript{47}

OpenTLD further argues that the suspension, should it occur, will cause considerable damage to its efforts to collaborate with its partners in the African domain space.\textsuperscript{48} That is a collateral consequence of the suspension. As ICANN had sufficient justification to impose the suspension, OpenTLD must accept all consequences of the suspension, including whatever damage occurs to its reputation and future business dealings.

I. \textbf{Conclusions}

Through this emergency proceeding, the undersigned Arbitrator hereby declares and awards as follows:

1. For the reasons set forth above, OpenTLD’s request for a stay of the Suspension Order is \textbf{DENIED}.

2. Pursuant to RAA §5.8, each side is to incur its own attorneys’ fees in connection with this emergency arbitration proceeding.

3. As to costs, RAA §5.8 specifically states that the parties shall bear the costs of the arbitration in equal shares subject to the arbitrator to “reallocate the costs in their award as provided by the AAA Rules.” Article 34 of the ICDR International Arbitration Procedures gives the Arbitrator discretion to apportion the costs of the proceeding among the parties if doing so is reasonable, taking into account the circumstances of the case. Under the circumstances here, the Arbitrator sees no justification to depart from equal-share allocation set forth in §5.8. Accordingly, the parties are to bear the costs of this emergency arbitration proceeding in equal shares.

This Emergency Award is in full settlement of all claims submitted to this emergency arbitration proceeding. Any and all claims not specifically mentioned herein are denied.

I hereby certify that, for the purposes of Article 1 of The New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, this Emergency Award was made in Los Angeles, California, United States of America.

August 24, 2015

\begin{flushright}
Peter L. Michaelson, Esq., Emergency Arbitrator
\end{flushright}

\begin{flushright}
\textsuperscript{47} The Arbitrator raised this view at the merits hearing, but OpenTLD’s Counsel stated that he was not then able to respond to it.
\end{flushright}

\begin{flushright}
\textsuperscript{48} Id.
\end{flushright}
State of New Jersey
County of Monmouth

I, Peter L. Michaelson, Esq., do hereby affirm upon my oath as Arbitrator that I am the individual described in and who executed this instrument, which is my Emergency Award.

August 24, 2015

Peter L. Michaelson, Esq., Emergency Arbitrator

State of New Jersey
County of Monmouth

On this 24th day of August 2015, before me personally came and appeared Peter L. Michaelson, to me known and known to me to be the individual described in and who executed the foregoing instrument and he acknowledged to me that he executed the same.

August 24, 2015
Date
Notary Public

[Stamp: Ashley Deandre Lucien
Notary Public
State of New Jersey
My Commission Expires Aug. 30, 2015]
The Benefits of Mediation and Arbitration for Dispute Resolution in Intellectual Property Law

By Cheryl H. Agris, Stephen P. Gilbert, Charles E. Miller and Sherman Kahn

We review the benefits of mediation and arbitration generally and how they can serve to improve your client’s experience in resolving intellectual property disputes and lead to better outcomes.

I. Benefits of Mediation in Intellectual Property Cases

Mediation can provide substantial benefits for parties with intellectual property disputes and, indeed, is widely used in complex intellectual property matters to resolve disputes. Many of the courts with the heaviest dockets of intellectual property cases strongly encourage mediation. The Northern District of California, for example, submits all patent cases to its ADR program—which provides mediation as an ADR option. Judges in the Eastern District of Texas typically require that a mediation be included in the scheduling order for every patent case. The District of Delaware has a magistrate judge who devotes a substantial amount of her time to mediating disputes and who has particular expertise in mediating complex intellectual property disputes.

Mediation can be particularly valuable for intellectual property disputes because of the complexity of the applicable law. Also in patent disputes and many trade secret disputes, the presence of complex technological issues can make mediation very helpful to enable the parties to get to the heart of the dispute. If the parties think it would be useful, they can seek a mediator with knowledge of the relevant law, business field, or technology. The mediator can help to bring the parties back from the technical details of their case to examine the fundamental economic or relationship issues that drive the dispute, thus enabling a settlement beneficial to all parties.

In patent disputes, issues such as inventorship, obviousness, infringement, the doctrine of equivalents, conception, and corroboration can be very intricate both factually and legally. In trade secret disputes, issues such as the existence and scope of the alleged trade secrets and adequacy of protective measures and in trademark disputes, issues such as likelihood of confusion, dilution, and fame of a mark are complicated issues. Likewise, in copyright disputes, issues such as work made for hire, joint authorship, and fair use present difficult factual and legal scenarios. A mediator with expertise in the applicable law and business (and for patent and many trade secret disputes, in the relevant technology) can confidentially provide each party with a candid neutral assessment of the strengths and weaknesses of its case.

Because many intellectual property disputes end with a license, a mediator can help the parties fashion a relationship going forward that is suited specifically to the parties’ needs. Likewise, many intellectual property disputes arise from continuing relationships among parties who had formerly worked together as licensor/licensee, joint venturers, or even co-inventors. Mediation may be useful in preserving these existing relationships.

With help of the mediator, the parties can plan how the mediation should proceed and modify the process during the mediation itself. This flexibility can be particularly useful in intellectual property disputes in which disputes often reach across national borders—while intellectual property rights, and the ability of courts to construe those rights, do not. Intellectual property litigation typically must be conducted country by country, which for a number of reasons (cost, time, possibility of inconsistent outcomes, etc.) is generally less desirable than a dispute resolution mechanism that requires just a single forum to provide a truly global solution (such as mediation).

Intellectual property disputes frequently involve extremely expensive and protracted discovery processes. During discovery, mediation may be used to facilitate efficient and cost-effective information exchange. For example, in patent disputes, mediation may be used to resolve questions regarding experts, or the mediator may even help the parties formulate an entire discovery plan (interrogatories, depositions, production of documents, etc.). The mediator may help the parties target early discovery to the specific information the parties most need to engage in meaningful settlement discussions. Then, after an initial round of discovery, the mediator can start a mediation session to discuss possible settlement.

Similarly, in complex intellectual property disputes, a good mediator can help the parties reduce costs by narrowing the issues. Even if early mediation does not result in settlement and a suit goes forward, mediation may be helpful by better defining and/or narrowing the issues, which can reduce litigation expenses. For example, in a patent infringement dispute involving a number of patents each with multiple claims, the patentee may decide after a mediation session to go forward with litigating just one of the patents or just certain claims based upon the mediation. If the alleged infringer has strong invalidity and/or non-infringement arguments for some claims and shares those arguments with the mediator, the mediator can use that information to facilitate the patentee’s making a more objective assessment than if the alleged infringer had presented the same information directly to the patentee. Likewise, the mediator can help the accused infringer avoid raising weak defenses.
The confidential nature of mediation can also be extraordinarily beneficial for parties to intellectual property disputes. The benefits to parties in trade secret disputes are clear. At the core of trade secret disputes are the existence and details of the alleged trade secrets. The very secret the litigants are trying to protect is at substantial risk of being compromised through litigation, which invariably involves placing the secret information in the hands not just of one’s adversary, but also of the court and other parties such as expert witnesses and court reporters. Likewise, patent disputes often involve confidential technical and business information, not just of the alleged infringer but also of the patent owner. Moreover, patent disputes litigated in court can result in devastating defeat for patent holders should a patent be held invalid. A mediation can help the parties reach a business resolution without posing this risk to the patent holder.

Each of the following examples of the use of mediation for IP disputes demonstrates a number of the benefits discussed above.2

Patents

In one example, the owner of a number of patents wanted to sell its business related to the patents to a buyer, but a pending patent infringement lawsuit between the patent owner and a third party concerning one of the patents became an obstacle. The third party had staked its future on using technology that allegedly infringed one of the patents the patent owner wanted to sell. With the help of a mediator, the representatives of the patent owner and the third party were able to share information with one another, get to know and to understand one another, and craft a mutually satisfactory solution—allowing the patent owner to dispose of the patents. The parties were able to accommodate each other’s interests and needs beyond what a judge could have done.3

In a second example, a licensee licensed technology from a licensor, which held patents on a compound for treating several medical disorders and methods of using it. The licensor granted the licensee an exclusive license to use the compound to treat only one disorder. After two years, the licensor asserted that the licensee was using the compound to treat an additional disorder not covered by the license. The licensor was reluctant to grant the licensee an exclusive field of use license for the second disorder. The mediator was able to help the parties reach a solution that involved renegotiating the license agreement to add a non-exclusive license for the second disorder and a right of first refusal for an exclusive license for it.

A manufacturer of wind turbine components entered into a settlement agreement in the form of a patent license with one of its competitors. The agreement contained a dispute resolution clause that provided for mediation and then arbitration if mediation failed. Three years later, the manufacturer requested mediation, alleging infringement of its U.S. patents and claiming royalty payments for the licensed technology. The mediator held an initial session with the parties and allowed them a month to consider what they had learned during that session. Mediation then resumed and the parties held separate and joint caucus sessions with the mediator and exchanged proposals to discuss what changes would be made in the agreement, particularly with respect to royalties. At the end of the second day, the parties agreed on a term sheet containing the key points of a final agreement. This procedure allowed the parties to continue their business activities.

A start-up biotech company holding patent applications in several countries granted an option to a pharmaceutical company to take a license for platform technology. The pharmaceutical company exercised the option and negotiations commenced, but after two years the parties were unable to agree on terms. The parties then engaged a mediator who had considerable licensing experience, technical expertise, and had worked in-house for a pharmaceutical company and represented small biotech companies as outside counsel. During a one-day session, the mediator helped the parties identify key issues and more fully understand the applicable law. This enabled the parties to resume direct negotiations with enhanced prospects for reaching agreement.

Trademark

A North American company involved in a trademark dispute with two Italian companies and a Spanish company requested mediation with the goal of helping the parties avoid confusion and misappropriation of their trademarks and regulate future use of their marks. The parties selected an Italian mediator with a trademark practice. The mediator conducted an initial telephone conference with counsel, during which they scheduled the mediation session and agreed on the procedure. Two months later, the mediator met with the parties in a two-day session in Italy. The mediation was held in joint session with the exception of two brief caucuses. At the end of the second day, the parties, with the assistance of the mediator, were able to execute a settlement agreement covering all of the pending issues in dispute.

Copyright

One example of the use of mediation for copyright disputes involved an individual who recorded her lengthy interview of a famous person, who died soon afterwards. There were no writings concerning what use would be made of the recorded interview. The heirs challenged the right of the individual to use the interview for a book, film, etc. about the decedent on the basis that they owned the entire copyright because the decedent was, in their view, the sole author of the content of the interview (the decedent did virtually all of the talking during the interview and the conduct of the interview and its fixation had been done at the request/direction of the decedent). Through mediation, the parties were able to achieve a resolution that a court would not have been able to provide, to do so in a much shorter time and at much lower cost.
than litigation would have entailed, and to avoid the emotional toll that cross-examination of the parties in court would have taken.

A copyright owner licensed certain artwork to a licensee, which combined that artwork with the licensee’s own proprietary artwork. The licensee then licensed the combined artwork to a third party for use on the third party’s packaging for consumer products, assuring the third party that the licensee had the right to grant the necessary rights from the copyright owner. The copyright owner later accused the third party of copyright infringement because the copyright owner’s artwork was on the packaging. The parties differed significantly on how much profit was attributable to the alleged infringement, which led them to place very different values on the monetary aspect of any possible settlement. A mediator helped the parties more realistically assess the value of their cases and ultimately reach settlement.

“Choice—the opportunity to tailor procedures to business goals and prioritize—is the fundamental advantage of arbitration over litigation.”

II. Benefits of Arbitration in Intellectual Property Cases

Arbitration can be a particularly effective method of dispute resolution in intellectual property cases. Arbitration can reduce costs, which are often prohibitively high in intellectual property lawsuits. It can improve efficiency of resolution. It can render results for the parties that are simultaneously more narrowly tailored to the parties and less tied to any particular national jurisdiction. Each of these advantages is discussed in more detail below.

Arbitration gives parties to intellectual property disputes more flexibility regarding procedure than would be available in any national court. The parties are free to agree to almost any arbitration procedure that does not violate the law or public policy (e.g., in some jurisdictions, an arbitrator may not award punitive damages, even if the agreement to arbitrate calls for them). Thus, the parties’ agreement can specify the number of arbitrators, the amount and timing of discovery (e.g., number of and/or time limits for depositions), the type of award (e.g., ranging from a bare-bones award without any discussion of the reasoning underlying the award to detailed findings of fact and conclusions of law), a time limit for making the award (e.g., within four months of the appointment of the arbitrator), the location of the hearing, the number of hearing days, whether any motions (e.g., for summary judgment) will be allowed, the process for selecting the arbitrator, the procedural rules (e.g., the International Institute for Conflict Prevention and Resolution’s Non-Administered Arbitration Rules), and whether the arbitration is to be administered by an ADR provider (e.g., the American Arbitration Association) or is to be self-administered. In contrast, in litigation, the parties have little or no control.

The potential savings in attorneys’ fees and other litigation expenses often available in arbitration is particularly significant in the intellectual property context because such costs are often very high in intellectual property cases. Cooperative parties can use arbitration to eliminate many of these costs. Even without full cooperation, an arbitrator may still be able to significantly reduce discovery and other costs. For example, an arbitrator can limit the number of depositions, ban requests for admission, allow only a small number of interrogatories (if any), etc., which will significantly reduce costs. Time-consuming and expensive motion practice, common in intellectual property litigation, is also less common in arbitration.

The ability to choose arbitrators with specific legal or technical expertise can be particularly useful in IP disputes. In patent and trade secret cases, the subject matter is often highly technical. Arbitration allows parties to select an arbitrator having subject matter expertise in the technology of the dispute and to avoid spending time and money attempting to educate a judge or jury with no guarantee the attempt will succeed. Similarly, patent and trademark disputes can often involve complicated questions regarding practice before the U.S. Patent and Trademark Office. An arbitrator with expertise in patent or trademark prosecution can eliminate uncertainty in such cases. A three-person arbitration panel provides an opportunity to have many areas of expertise represented if no one arbitrator can be found having all of the requisite expertise/experience. One of the authors of this paper has proposed a legislative change to allow replacement of the fact-finding role of district court trial judges with tribunals of expert arbitrators in civil actions against the U.S. Patent and Trademark Office for judicial review of adverse USPTO decisions on patent applications involving complex technical fact issues.

The private nature of arbitration can also provide advantages in intellectual property disputes. In court proceedings, protective orders can provide some level of security regarding confidential information, but a trial in court, particularly in the United States, is a public process. Many court filings are readily available from the court’s file. In contrast, arbitration is private and the parties can keep the proceedings entirely confidential. The arbitrator and the provider (if any) are usually required by law and/or by the rules of the provider to maintain confidentiality. Confidentiality obligations (including with respect to documents and other evidence) are often self-imposed on the parties by agreement. Parties desiring to maintain confidentiality may opt to obtain a simple (bare bones) award and not a reasoned award because either party might go to court to confirm or vacate the award (in which case the award might become part of the public record).

The award of an arbitrator is final and binding on the parties and the grounds for court review of the award (during a proceeding to confirm or vacate it) are limited. This could be particularly useful in patent cases where
there are claim construction issues. Under Markman v. Westview Instruments, Inc.\(^8\) claim construction, the meaning of terms of a claim is a question of law. However, the Court of Appeals for the Federal Circuit does not consider claim construction determinations by district courts to be final or appropriate for interlocutory review. Therefore, when the Federal Circuit finally does review claim construction determinations, if it decides the trial court has erred, it often remands a case to the trial court for further proceedings, which may well involve a new trial on infringement and/or validity, thereby possibly delaying ultimate resolution by months (if not years) and costing the parties substantial additional sums. One of the authors of this paper has previously proposed arbitrating claim construction because such arbitral determinations would be final and unassailable, at least among the parties to the arbitration, except on narrower grounds, thereby significantly reducing the risk that the parties would have to retry infringement and validity issues because of a trial court’s erroneous claim construction.\(^9\)

Intellectual property disputes often involve parties from various countries, which can make arbitration preferable for purposes of enforcement of an award under the New York Convention. Moreover, many intellectual property rights, e.g., patents and trademarks, are national in nature. They must be separately acquired and enforced on a country-by-country basis. In contrast, intellectual property disputes often involve intellectual property cutting across national boundaries (inventions, trade secrets, works of authorship, etc. are not geographically limited) even if specific rights based upon that property are. Conducting intellectual property litigation country-by-country for a number of reasons, including cost, time, and possibility of inconsistent outcomes, may be less desirable than a dispute resolution mechanism, i.e., arbitration, that enables a single forum to provide a truly global solution for a set of parties.

In the trademark context, arbitration plays a special role. Domain name disputes are arbitrated under a policy established by ICANN (Internet Corporation for Assigned Names and Numbers), which is responsible for management of the generic top level domain names (".com," "org," etc.). ICANN adopted the UDRP (Uniform Domain Name Dispute Resolution Policy) effective December 1, 1999. Various organizations, such as WIPO (World Intellectual Property Organization), have established procedures for neutrals to decide whether to order domain name registrars to cancel, transfer, or sustain the domain names of parties accused by complainants of "cybersquatting." These arbitrations are faster and less costly than traditional litigation, and the neutrals are knowledgeable in the area. Since 1999, thousands of UDRP disputes have been adjudicated by arbitration tribunals, involving the famous and the not-so-famous. For example, the complaints of actress Julia Roberts (Julia Fiona Roberts v. Russel Boyd, WIPO Case No. D2000-0210) and of the estate of singer Jimi Hendrix (Experience Hendrix, L.L.C. v. Denny Hammerton, WIPO Case No. D2000-0364) were sustained, and the domain names “juliaroberts.com” and “jimihendrix.com” were ordered to be transferred to the respective complainants; in contrast, the complaint of singer/actor Sting was not sustained (Gordon Sumner, p/k/a Sting v. Michael Urvan, WIPO Case No. D2000-0596).

Each of the following examples of the use of arbitration for IP disputes demonstrates a number of the benefits discussed above.\(^10\)

**Patent**

In one example, a U.S. inventor held patents in several countries and had licensed them to a company based in Asia. The inventor and licensee disagreed on who should pay the annuities to keep the patents in force. After the Asian company terminated the license, the inventor filed a demand for arbitration, claiming damages and requesting a declaration that he was free to use the patents. The arbitrator, who was knowledgeable in patent and licensing law and sensitive to the cultural issues, was able to quickly render an award after the evidentiary exchange and a brief hearing.

Two companies involved in a software patent infringement dispute disagreed as to whether there was infringement and ultimately agreed to arbitrate the matter. The two companies had done business before the dispute arose and they wanted to continue to do so in the future. The parties needed a simple yes-no answer as soon as possible to a single question presented to the arbitration tribunal, namely, whether there was infringement. The parties selected three arbitrators who were knowledgeable about software and patent law. Through arbitration, the parties received their answer from people knowledgeable about the technology and the law far more quickly than they would have through traditional litigation, at far lower cost, and with complete confidentiality.

**Trademark**

A European company registered a trademark for consumer goods in several countries. An Asian company started to sell the same types of goods under a similar mark in those countries. After the European company accused it of infringement, the Asian company commenced administrative proceedings in several of the countries to cancel the trademark registrations. The parties then entered into a settlement agreement containing an arbitration clause. The agreement provided for each party to restrict its use of its mark to its part of the world. After the European company used its trademark at a trade show in Asia, the Asian company commenced arbitration, claiming violation of the settlement agreement. The Tribunal rendered its award within a few months of the close of the hearing, and, among other things, ordered the European company to refrain from using the trademark in Asia.
Copyright

The copyright holder and the accused infringer both manufactured computers. The copyright holder accused the accused infringer of infringing numerous copyrights on the copyright holder’s operating system software, but the accused infringer claimed it had developed its software using only publicly available information about the copyright holder’s operating system. After protracted negotiations, the parties entered into a settlement agreement under which the accused infringer made a lump sum payment to the copyright holder, agreed to pay future royalties, and agreed to respect the copyright holder’s intellectual property rights. Under the agreement, any disputes would first go for resolution to a group of executives from both companies and any unresolved disputes would be arbitrated. The copyright holder eventually requested arbitration, saying the accused infringer had breached its promise to respect the copyright holder’s intellectual property rights. The arbitrators, who were knowledgeable in the software and copyright fields, attended a multi-day seminar presented by the parties to educate them regarding systems software. The panel made numerous rulings that shortened the proceeding. For example, rather than examining many tens of thousands of lines of computer code, the panel asked each party to designate a relatively smaller number of code segments that it believed proved its case (i.e., infringement, or non-infringement because of, e.g., independent creation, scènes à faire, etc.).

The time from filing of the demand to issuance of the award was about two years, significantly less time than litigation would have taken. The complex award provided that: (a) the accused infringer would pay for past and future use of the copyright holder’s intellectual property; (b) the accused infringer’s system developers could examine the copyright holder’s code being used up to a specified earlier date and prepare written system specifications based on that code, which specifications would then be given to the accused infringer’s software developers to write their own system code, without any further communication between the system developers and the software developers (a modified “clean room” procedure); and (c) the panel retained jurisdiction to decide any further disputes. This proceeding demonstrates several of the advantages of arbitration, including the parties’ control over the process, reduced cost, and ability to select knowledgeable arbitrators.

Trade Secret

A licensor exclusively licensed technology to a licensee, which at the time needed to use the technology to make a product for which it was seeking governmental marketing approval. The licensee had collected substantial data from the various product trials it had run. The license agreement specified that if the licensee terminated the license, the licensor could use the technology to make its own version of the product and that the licensee could have access to and rely on the data when it sought governmental marketing approval. The licensee terminated the license but refused to allow the licensor to have access to or to use the data. Despite the complicated nature of the case, involving a number of days of hearing with substantial expert testimony and a lengthy post-hearing briefing schedule, the hearing was held only eight months after the demand was filed and the award was rendered less than four months later.

Endnotes
2. These examples are based on actual mediations and have been disguised for obvious reasons.
3. Thanks to David W. Plant, Esq. for suggesting this example.
6. In the United States, the patentee, assignee, or licensee of a patent is supposed to notify the Director of the USPTO of any arbitration award concerning the patent’s validity or its infringement and provide a copy of the award and certain other information, which are then entered in the prosecution record of the patent. 35 U.S.C. § 294(d). The award is unenforceable until such notice is received by the Director. 35 U.S.C. § 294(e). Even though the award may become part of the public record, the information it contains will likely be considerably less than the information a publicly available litigation record would contain, particularly if the award is a barebones award. Patent interferences may also be arbitrated, and notice of the award must be given to the Director or else the award is unenforceable. 35 U.S.C. § 135(d).
7. Under the Federal Arbitration Act (“FAA”), the four statutory grounds are (1) where the award was procured by corruption, fraud, or undue means; (2) where there was evident partiality or corruption in the arbitrators, or either of them; (3) where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced; or (4) where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made. 9 U.S.C. § 10(a).
Depending on the Federal Appellate Circuit, manifest disregard of the law is or is not a viable ground for vacating the award, but it too is a narrow ground. Broadly speaking, the grounds for vacating an award under state laws are similar to those in the FAA. Experienced arbitrators are not likely to provide any basis for vacating an award.
10. These examples are based on actual arbitrations and have been disguised for obvious reasons.

Cheryl H. Agris is an attorney, arbitrator, and mediator and is a principal of The Law Offices of Cheryl Agris Ph.D., P.C. Stephen P. Gilbert is an attorney, arbitrator, and mediator in his own firm, The Law Office of Stephen P. Gilbert. Charles E. Miller is Senior Counsel at Dickstein Shapiro LLP. Sherman Kahn is Of Counsel at Morrison & Foerster LLP and co-chair of the NYSBA Dispute Resolution Section Arbitration Committee.

17 Civ. 7859 (LGS)
Filed 04/10/2018

OPINION AND ORDER

LORNA G. SCHOFIELD UNITED STATES DISTRICT JUDGE

*1 LORNA G. SCHOFIELD, District Judge:

This case arises out of a Partial Arbitration Award (the “Award”) issued in a dispute between Petitioners KT Corporation and KTSAT Corporation (collectively, “KT”) and Respondents Asia Broadcast Satellite Global, Ltd. and Asia Broadcast Satellite Holdings, Ltd. (collectively, “ABS”) over title to a geostationary satellite. KT petitions to vacate the Award and seeks remand of this case to the International Chamber of Commerce. KT cross-petitions to confirm the Award and moves to recoup attorneys’ fees and costs. For the reasons stated below, KT’s Petition to vacate is denied; and ABS’s cross-petition to confirm and its motion for attorneys’ fees and costs is granted.

I. BACKGROUND

A. The Purchase and Operation Agreements and the MSIP Order

KT is a Korean satellite communications provider that manages the Korean satellite fleet. ABS is a satellite communications provider that is incorporated in Bermuda and based in Hong Kong. In 2010, ABS and KT entered into two agreements: (1) a Purchase Agreement whereby KT sold to ABS a geostationary satellite, then known as KOREASAT-3 (“KS-3”), and related baseband equipment; and (2) an Operations Agreement, which provided that KT would operate KS-3 on behalf of ABS (collectively, “Agreements”). Both agreements contain a mandatory arbitration clause, and a choice of law provision selecting New York law without giving effect to its conflict of law principles.

The Agreements contain various provisions related to governmental authorizations and approvals related to the sale and operation of KS-3. The Purchase Agreement states that KT is obligated to “obtain all necessary licenses, consents and approvals for the sale of the Satellite and the Baseband Equipment.” KT is also “responsible for obtaining and maintaining ... all governmental and regulatory licenses and authorizations required” to perform its obligations under the Purchase Agreement. Title would transfer from KT to ABS only if “any necessary approvals and licenses, including the U.S. State Department approval and the approvals and consents required for and during the Orbital Slot Use Period, have been received.”

The parties received the U.S. State Department approval in 2010. In 2011, KT delivered KS-3 to ABS in exchange for $500,000. KT also delivered Bills of Sale for KS-3 and the related baseboard equipment.

On December 18, 2013, two years after the transaction closed, Korea’s Ministry of Science, ICT and Future Planning (“MSIP”) issued an order (the “MSIP Order”) that, among other things, declared the Purchase Agreement “null and void and in violation of the mandatory law (Foreign Trade Act)” (“FTA”) because KT had failed to obtain an FTA permit; cancelled KT’s allocation of the spectrum for the KT Band; and directed KT to return the satellite to its original operating condition. In 2016, the Seoul Central District Court entered a criminal judgment against key KT executives who had been involved in the sale of KS-3.

B. The Arbitration Award

*2 The parties submitted the issue of title to KS-3 for arbitration. Neither party questioned the tribunal’s authority to issue a determination on the title issue. The arbitral proceedings were governed by New York law, seated in New York, and presided over by a three-member tribunal. The tribunal, by majority, issued the Award on the sole issue of title, finding in favor of ABS. One of the three tribunal members dissented.
In a letter dated March 14, 2016, KT explained to ABS that it had determined not to appeal the MSIP Order, stating “[w]e are of the view that the validity of the Purchase Contract is a subject matter to be conclusively determined in the arbitration proceedings between [KT] and ABS, and not in any lawsuit filed by [KT] with an administrative court in Korea.” Similarly, the Award states, “The Parties agreed in their written submissions that the Arbitral Tribunal has jurisdiction to consider claims alleging breaches of the [Agreements], including claims for ownership of the Satellite and Baseband Equipment.”

The 116-page Award is briefly summarized as follows: the panel, by majority, held that title transferred to ABS in 2011 when all the contractual conditions precedent to transfer were satisfied, and that no existing Korean mandatory law was violated when title passed to ABS. Specifically, the conditions satisfied in 2011 included the following: KT delivered KS-3 to ABS; ABS paid the purchase price of $500,000; U.S. regulatory approval for the sale of KS-3 as a U.S. export had been secured in 2010; KT represented that it had obtained all necessary approvals; and KT delivered to ABS, and ABS formally accepted, two warranty Bills of Sale, which effected the transfer of title to KS-3. No Korean mandatory law was violated when title passed in 2011 because (1) no Korean regulatory authority had questioned or required an FTA permit of the prior purchase and sale between ABS and KT of the KS-1 and KS-2 satellites, (2) no Korean authority mentioned any approval requirement in 2011 when the highly publicized transfer of KS-3 occurred, (3) the parties were unaware of any requirement for Korean approval in 2011 and (4) the MSIP Order was not issued until two years after title to KS-3 had passed. The Award observed: “It cannot forever be open to a government agency to discovery new ‘mandatory rules’ ... and invoke them long after the fact as a basis for invalidating a contract already fulfilled by the parties ... thereby rendering any such agreement illusory.” The Award further explained, “[t]he way to understand this set of facts as a matter of law is to view the FTA export permit requirement as a new rule, which was not the law when the Purchase Contract entered into force, or when the contractually required conditions for passage of title to ABS were all met ....”

The Award (1) declared that ABS holds title to, and thus owns, KS-3 and the related baseband equipment, (2) ordered KT not to interfere with the ongoing operation of KS-3 and (3) ordered KT to deliver to ABS the related baseband equipment and all associated flight data related to the operation of KS-3.

II. STANDARD

The parties cross-petition to vacate or confirm the Award pursuant to the Inter-American Convention on International Commercial Arbitration (“Inter-American Convention” or “Convention”) and the Federal Arbitration Act (“FAA”). Ordinarily, confirmation of an arbitration decision is “a summary proceeding that merely makes what is already a final arbitration award a judgment of the court.” *CitiGroup, Inc. v. Abu Dhabi Inv. Auth.*, 776 F.3d 126, 132 (2d Cir. 2015). “A court’s review of an arbitration award is ... severely limited so as not to frustrate the twin goals of arbitration, namely, settling disputes efficiently and avoiding long and expensive litigation.” *United Bhd. of Carpenters & Joiners of Am. v. Tappan Zee Constructors, LLC*, 804 F.3d 270, 274–75 (2d Cir. 2015). “The arbitrator’s rationale for an award need not be explained, and the award should be confirmed if a ground for the arbitrator’s decision can be inferred from the facts of the case.” *D.H. Blair & Co. v. Gottliener*, 462 F.3d 95, 110 (2d Cir. 2006) (internal quotation marks omitted).

*3* The Convention provides limited grounds for refusing confirmation of an award, including that (1) “the decision concerns a dispute not envisaged in the agreement between the parties to submit to arbitration,” (2) “the arbitration procedure has not been carried out in accordance with the terms of the agreement signed by the parties” and (3) “the recognition or execution of the decision would be contrary to the public policy” of the State in which recognition and execution is requested. Inter-American Convention, Art. V(1)(c)–(d), V(2)(b). The FAA expressly incorporates the terms of the Convention. See 9 U.S.C. § 301.

The Convention does not articulate a basis for vacating arbitration awards, but a court applying the Convention may vacate an arbitration award based on the grounds provided in the FAA. **#** *PDV Sweeny, Inc. v. ConocoPhillips Co.*, No. 14 Civ. 5183, 2015 WL 5144023, at *6 (S.D.N.Y. Sept. 1, 2015), aff’d, 670 F. App’x 23 (2d Cir. 2016) (summary order); cf. *Productos Mercantiles E Industriales, S.A. v. Faberge USA, Inc.*, 23 F.3d 41, 45–46 (2d Cir. 1994) (“The Inter-American Convention incorporates the FAA’s terms unless they are in conflict with the
Inter-American Convention’s terms .... Since the Inter-American Convention is silent as to the modification of an award, the court’s authority to modify an award pursuant to § 11 [of the FAA] is not in conflict with the express terms of the Inter-American Convention.”). Under Section 10 of the FAA, an arbitration award may be vacated, as relevant here, when “the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.” 9 U.S.C. § 10(a)(4).

In addition to the statutory provisions, an award “may be vacated when an arbitrator has exhibited a manifest disregard of the law.” Jock v. Sterling Jewelers Inc., 646 F.3d 113, 121 (2d Cir. 2011) (internal quotation marks and citation omitted). This doctrine requires more than “error or misunderstanding with respect to the law.” Wallace v. Buttar, 378 F.3d 182, 189 (2d Cir. 2004). An arbitration award should be confirmed as long as there is “a barely colorable justification” for the award. Gottdiener, 462 F.3d at 110. “A motion to vacate filed in a federal court is not an occasion for de novo review of an arbitral award.” Wallace, 378 F.3d at 189.

The party seeking to “vacate an arbitration award has the burden of proof, and the showing required to avoid confirmation is very high.” STMicroelectronics, N.V. v. Credit Suisse Sec. (USA) LLC, 648 F.3d 68, 74 (2d Cir. 2011). Similarly, the party opposing confirmation of an arbitral award has the burden of proving that a defense applies. Telenor Mobile Commc’ns AS v. Storm LLC, 584 F.3d 396, 405 (2d Cir. 2009).

III. DISCUSSION

A. Petition to Vacate the Award

The Panel’s factual findings and legal conclusions that title to KS-3 passed to ABS in 2011 are largely undisputed. The sole issue, in substance, is whether KT has sustained its burden to show that the Panel lacked any colorable justification for refusing to apply the MSIP Order retroactively to reverse the sale of the satellite, which had occurred two years before the MSIP Order. For the reasons stated in the Award and summarized above, the Award easily meets the standard of having “any colorable justification.” Gottdiener, 462 F.3d at 110.

KT asserts two grounds as a basis for vacating the Award: (1) the Panel exceeded its authority by holding that the MSIP Order was unauthorized and unconstitutional, and (2) the Panel acted in manifest disregard of the law by failing to recognize mandatory Korean law, and disregarding New York law concerning transfer of title and illegal contracts. For the reasons explained below, KT has failed to carry its significant burden of showing that any valid basis exists to vacate the Award.

1. Exceeding Authority

Section 10(a)(4) of the FAA allows for vacatur “where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.” 9 U.S.C. § 10(a)(4). Applying that standard, the Supreme Court has held that “[i]t is not enough for petitioners to show that the panel committed an error -- or even a serious error. It is only when [an] arbitrator strays from interpretation and application of the agreement and effectively dispense[s] his own brand of industrial justice that his decision may be unenforceable.” Stolt-Nielsen S.A. v. AnimalFeeds Int’l Corp., 559 U.S. 662, 671 (2010) (internal quotation marks and citations omitted; alterations in original). An award will not be vacated as long as the panel “is even arguably construing or applying the contract and acting within the scope of [its] authority.” E. Associated Coal Corp. v. United Mine Workers of Am., Dist. 17, 531 U.S. 57, 62 (2000).

Here, the Panel did not exceed its authority. The parties submitted the issue of title to KS-3 for arbitration. Neither party questioned the tribunal’s authority to determine title pursuant to the arbitration provisions in the parties’ agreements or for any reason. KT explicitly acknowledged and invoked the tribunal’s authority to determine title. The Panel determined only the issue of title, and no other independent claims, such as the tort claims, that the parties had raised.

KT’s quarrel is that, in deciding the issue of title, the Panel concluded that the MSIP Order was invalid, specifically that MSIP was not the Korean governmental agency with authority over export approvals, and that MSIP’s approval requirements, because they were retroactive, violated American notions of due process. In effect, KT argues that the Panel was empowered to determine which of the parties holds title to KS-3, but was not authorized to consider all of the possible reasons because certain
arguments were off limits. Regardless of the merits of this argument, it is misplaced because the Panel’s principal holding did not depend on the validity of the MSIP Order. The Panel applied New York law, as provided by the parties’ agreements, to determine that title had passed to ABS in 2011, and that a post facto regulation or decree -- whether valid or not -- did not reverse the completed passage of title, which had occurred two years earlier. The Panel found that all conditions precedent to the transfer of title had been satisfied and construed the contractual requirements for all “necessary approvals and licenses” to mean those necessary at the time title passed and not some indefinite time in the future.

The Panel held only in the alternative that, “even if Korean law governed, which it did not,” the MSIP Order was unauthorized. Similarly, the Panel’s due process discussion appears as a coda at the end of the Award, “[e]ven if it is assumed, against the weight of evidence and for the sake of the argument, that the MSIP Order” was mandatory law that overrides contractual obligations. The Panel did not exceed its authority because its principal holding was squarely one of “construing [and] applying the contract,” which was within the scope of the arbitration provisions in the parties’ agreements. See E. Associated Coal Corp., 531 U.S. at 62.

2. Manifest Disregard of the Law

A court may vacate an award based on manifest disregard of the law “only if the court finds both that (1) the arbitrators knew of a governing legal principle yet refused to apply it or ignored it altogether, and (2) the law ignored by the arbitrators was well defined, explicit, and clearly applicable to the case.” Zurich Am. Ins. Co., 811 F.3d at 589. KT’s own legal expert, Professor Kyongjin Choi, stated that the MSIP Order, which stated that the sale of KS-3 was a Korean export regulated by the FTA, was a “controversial and debatable interpretation of the [Korean] law.” Also, the MSIP Order was not “clearly applicable to the case” at the relevant time, because the order did not exist, nor was it even contemplated, when KT transferred title to the satellite. The Panel’s decision not to apply the MSIP Order retroactively was not in manifest disregard of well defined, explicit and clearly applicable governing law.

b. Presumption of Validity and Regularity in Government Action

KT argues that, in finding the MSIP Order to be invalid, the Award disregards the presumptions of validity and regularity enjoyed by agency actions. This argument fails for two reasons. First, KT has not cited any authority for the proposition that the presumption of the validity of agency action also requires its retroactive application. To the contrary, “[t]here is no principle of law better settled, than that every act of a court of competent jurisdiction, shall be presumed to have been rightly done till the contrary appears.” Voorhees v. Jackson, 35 U.S. 449, 449 (1836) (emphasis added).

Second, as discussed above, the Panel’s findings concerning the validity of the MSIP Order were not necessary to the Panel’s primary holding that all conditions precedent had been satisfied at the time title passed. To the extent that the Panel may have disregarded a presumption in reaching a secondary and alternative basis for the Award, that does not undermine the principle justification for the outcome reached. See Wallace, 378 F.3d at 190 (“[T]he award should be enforced, despite a court’s disagreement with it on the merits, if there is a barely colorable justification for the outcome reached.”)

a. Korean Law

*5 KT argues that the Panel disregarded the MSIP Order, the FTA and related Korean regulations. This argument is unpersuasive because as discussed above, the Panel did not ignore the MSIP Order, but rather determined that it was not a “governing legal principle” because it did not apply retroactively to unwind a completed transaction. Nor has KT shown that the relevant Korean law “was well defined, explicit, and clearly applicable to the case.”
c. New York Contract Law

KT argues that the Panel disregarded New York law in finding an allegedly illegal contract to be enforceable. This argument is yet another way of arguing that the MSIP Order should have been applied retroactively to render the Purchase Agreement “illegal” and reverse the transfer of title. As discussed above, KT has failed to show that the Award, and its refusal to apply the MSIP Order retroactively, lacked any colorable justification.

B. Cross-Petition to Confirm the Award

ABS cross-moves to confirm the Award. Under the Convention, “a district court must enforce an arbitral award ... unless a litigant satisfies one of the seven enumerated defenses,” Corporacion Mexicana De Mantenimiento Integral, S. De R.L. De C.V. v. Pemex-Exploracion Y Produccion, 832 F.3d 92, 106 (2d Cir. 2016), including that “the recognition or execution of the decision would be contrary to the public policy” of the State in which recognition and execution is requested. Inter-American Convention, Art. V(2)(b). Because KT has not carried its burden to establish this defense, ABS’s cross-petition to confirm the Award is granted.

The public policy defense “must be construed very narrowly to encompass only those circumstances where enforcement would violate our most basic notions of morality and justice.” Telenor, 584 F.3d at 411 (internal quotation marks omitted). “[A] judgment that tends clearly to undermine the public interest, the public confidence in the administration of the law, or security for individual rights of personal liberty or of private property is against public policy.” Corporacion, 832 F.3d at 106.

KT argues that the Award violates the public policy “of American courts to respect a valid foreign decree.” Sea Dragon, Inc. v. Gebr. Van Weede Scheepvaarkantoor B.V., 574 F. Supp. 367, 372 (S.D.N.Y. 1983). KT’s argument is unpersuasive because the policy of American courts to recognize foreign orders -- whether judicial or administrative -- is not absolute. Foreign judgments are entitled to recognition by U.S. courts, except in specified circumstances. U.S. courts may refuse to recognize foreign judgments where the defendant did not receive sufficient notice of the proceedings to enable it to defend, the judgment is repugnant to the public policy of the United States or the foreign proceeding was contrary to the parties’ agreement to submit the controversy to another forum. Restatement (Third) of Foreign Relations Law §§ 481-482 (1987); accord Restatement (Fourth) of Foreign Relations Law: Jurisdiction Appendix TD No. 1 (2014) §§ 401, 404. As foreign administrative orders may carry less force than foreign judicial orders, at least the same exceptions to enforcement must apply. See Restatement (Third) § 481, Comment f (“[N]o rule either requires or prevents recognition and enforcement of decisions of foreign tribunals that do not possess all the characteristics of courts. A number of United States decisions have ... recognized and enforced decisions of such tribunals, in circumstances where the essential fairness and reliability of the proceeding was established.”). 4

*6 The MSIP Order is an administrative and not a judicial order. It was issued without notice to ABS. KT refused ABS's request to appeal the MSIP Order in the Korean courts after it was issued, and KT instead asserted that the issue of the validity of the Purchase Contract was to be “conclusively determined” in arbitration. Now KT maintains that the arbitrators had no choice but to enforce the MSIP Order retroactively and that MSIP has the last word as to what approvals were required in 2011 for the sale of the satellite. If KT’s position were adopted, ABS would have had no avenue to protect or even assert its rights, and the parties’ agreement to arbitrate any dispute between them would be undermined. KT has failed to show that enforcement of the Award, which declined to apply the MSIP Order, “would violate our most basic notions of morality and justice.” 5 Eurocar Italia S.p.A. v. Maiellano Tours, Inc., 156 F.3d 310, 315 (2d Cir. 1998) (internal quotation marks omitted); accord PDV Sweeny, Inc., 2015 WL 5144023, at *11 (internal quotation marks and citations omitted).

That enforcement of the Award will result in KT’s being unable to comply with both the Award and the MSIP Order does not change the analysis. While KT is in an enviable position, it has not cited any persuasive authority that its dilemma is a defense to enforcement of an arbitration award. Cf. Telenor Mobile Kommunikas AS v. Storm LLC, 524 F. Supp. 2d 332, 357 (S.D.N.Y. 2007) (“[E]ven if there is a direct conflict between Ukrainian law and the Final Award, New York’s public policy does not call for vacatur here. First, it is unclear whether an established public policy against enforcement of arbitral awards that compel a violation of foreign law even exists in
New York.”), aff’d, 584 F.3d 396 (2d Cir 2009). KT relies on Sea Dragon to support the argument that the Award should be vacated because it exposes KT “to the dilemma of conflicting orders.” 574 F. Supp. at 372. The court in Telenor rejected the same argument, stating:

First, Sea Dragon is not controlling law, as it does not bind this Court, was decided over two decades ago, and has not been relied upon for the relevant proposition since it was decided. In addition, although Storm claims that the facts of this case “parallel[ ]” those in Sea Dragon, the facts of Sea Dragon vary significantly from the facts of this case. While the district court in Sea Dragon found that the petitioner in that case had been given adequate notice and an opportunity to be heard in the Dutch proceedings, Telenor had neither notice nor an opportunity to respond in the Ukrainian proceedings. Moreover, while the Sea Dragon court specifically found that the Dutch order was obtained “in compliance with ... American due process standards,” the Ukrainian litigation, which was undertaken in a collusive and vexatious manner, did not comply with those standards.

Id. at 348 (internal citations omitted). Similarly here, Sea Dragon is not controlling law, has not been relied upon for many years, and is distinguishable because ABS did not have notice or an opportunity to respond to the MSIP Order.

C. Attorneys’ Fees and Costs

ABS’s request for attorneys’ fees and costs it incurred in opposing KT’s Petition and bringing its cross-petition is granted. “In federal practice, the general rule is that each party bears his or her own attorneys’[] fees. However, the parties may agree by contract to permit recovery of attorneys’ fees. If the contract is valid under state law, the federal court will enforce the contract as to attorneys’ fees.” Regan v. Conway, 768 F. Supp. 2d 412, 415 (E.D.N.Y. 2011) (citing McGuire v. Russell Miller, Inc., 1 F.3d 1306 (2d Cir. 1993)). The parties did just that in the Purchase Agreement, which provides that “[a]ny costs, fees, or taxes incidental to enforcing the final award shall be charged against the Party resisting such enforcement.” KT resisted the enforcement of the Award through its Petition and opposition to the cross-petition. KT is contractually bound to bear attorneys’ fees and costs associated with this action.

IV. CONCLUSION

*7 For the foregoing reasons, KT’s Petition to vacate the Award is DENIED. ABS’s cross-petition to confirm the Award is GRANTED, and ABS’s motion for attorneys’ fees and costs is GRANTED.

The Clerk of Court is respectfully directed to close the motions at Docket Nos. 6 and 41, and close the case.

All Citations

Slip Copy, 2018 WL 1755485

Footnotes

1 All further references in this Opinion to the “Panel” refer to the panel acting by majority.

2 KT asserts a third ground for vacating the Award -- that it contravenes public policy. This is not grounds for vacatur of an award under the FAA, but rather a defense to confirmation of an award under the Convention. See 9 U.S.C. § 10(a) (4); Inter-American Convention, Art. V(1)(d), V(2)(b). Consequently, this argument is addressed below in the discussion of ABS’s cross-petition to confirm the Award.

3 As this provision corresponds to the defense to confirmation of an award in the Convention when “the arbitration procedure has not been carried out in accordance with the terms of the agreement signed by the parties,” that defense is not discussed again infra regarding the cross-motion to confirm the Award.

4 The most recent tentative draft of the Restatement (Fourth) of Foreign Relations Law: Jurisdiction § 401 TD No 1 (2014), similarly provides:

The general principles underlying recognition, particularly the desire to avoid unnecessary duplication of legal proceedings while protecting the rights of persons subject to an adverse foreign decision or order, apply in cases ... where the process in the administrative proceeding, including the disinterested and independent nature of the tribunal, satisfies the general criteria for judgment recognition.
The Award also addressed difficult issues that pose a greater challenge to the principle of comity underlying the recognition of foreign judgments and order -- finding, for example, that the proceedings leading to the MSIP Order were not disinterested and independent in view of the political environment, and that the proceedings violated American notions of due process. This Opinion does not need to reach those issues to conclude that KT has not sustained its burden of proving an applicable defense to confirmation of the Award.
In a global economy where patents are the lifeblood of some of the world’s largest companies and cross-border intellectual property transactions are ubiquitous, how parties decide to resolve patent disputes can have significant commercial consequences. It is critical for parties to a transaction to make informed decisions about whether to address any future patent disputes in litigation or arbitration and, if they choose arbitration, how to draft a comprehensive and precise arbitration clause in their patent license agreement.

JEFFREY M. PROKOP
PARTNER
ORRICK, HERRINGTON & SUTCLIFFE LLP

Jeff has represented industry-leading clients in commercial disputes both in US courts and before international arbitral tribunals throughout the world. He has substantial experience representing companies in arbitration proceedings held under the auspices of major arbitration agencies, as well as in non-administered proceedings conducted under the UNCITRAL Rules. Jeff has also litigated arbitration-related issues arising under the Federal Arbitration Act and the New York Convention, and has particular expertise in the enforcement of arbitration agreements. In June 2018, Jeff will join Alcon, the Eye Care Division of Novartis, as Senior Legal Counsel, Litigation and Government Investigations.

ALEX V. CHACHKES
PARTNER
ORRICK, HERRINGTON & SUTCLIFFE LLP

Alex focuses his practice on the litigation of complex intellectual property actions, primarily patent actions. His cases have involved various technologies, such as telecommunications, microprocessors, wireless devices, computer peripherals, video games, pharmaceuticals, recombinant DNA technology, chemicals, and protein science. Alex has tried numerous cases before the US district courts and the International Trade Commission, and also practices before the Patent Trial and Appeal Board.
Althoough parties to patent license agreements often agree to arbitrate disputes, they generally do not give sufficient thought to the scope of the arbitration clause and the nature of the arbitration proceedings that may arise from a dispute. Preparing an arbitration clause is one of the most important parts of planning an arbitration. Poorly drafted and ambiguously worded provisions can result in costly, time-consuming, and unnecessary litigation, as well as arbitration proceedings that do not conform to the parties’ desires and expectations.

This article examines:

- The key US case law on the interpretation of arbitration clauses in intellectual property license agreements.
- The pros and cons that parties should consider when deciding whether to arbitrate or litigate future patent disputes.
- The main provisions and strategic issues that counsel should consider when drafting an arbitration clause in a patent license agreement.

UNDERSTANDING US CASE LAW ON THE ARBITRABILITY OF PATENT DISPUTES

Practitioners drafting arbitration clauses in patent license agreements must understand whether a court or an arbitrator decides in the first instance if a patent claim is covered by an arbitration clause and how courts have interpreted the scope of arbitration clauses in license agreements.

WHO DECIDES ARBITRABILITY

The general rule in the US is that a court should decide whether a claim is arbitrable, unless there is "clear and unmistakable" evidence that the parties intended for an arbitrator to decide the issue (see Rent-A-Ctr., W., Inc. v. Jackson, 561 U.S. 63, 69-70, 72-73 (2010); First Options of Chi., Inc. v. Kaplan, 514 U.S. 938, 943-44 (1995); AT&T Techs., Inc. v. Commc’ns Workers of Am., 475 U.S. 643, 649 (1986)).

Where the parties have expressly agreed to arbitrate issues of arbitrability, courts generally honor the parties’ wishes (see, for example, Benihana, Inc. v. Benihana of Tokyo, LLC, 784 F.3d 887, 897-98 (2d Cir. 2015); HSGCHG Invs., LLC v. Time Warner Cable Enters. LLC, 2016 WL 3595504, at *2 (D.S.C. July 5, 2016); Johnson v. Santander Consumer USA Inc., 2015 WL 7567483, at *2 (D. Ariz. Nov. 25, 2015)). Accordingly, arbitrators generally have jurisdiction to determine whether a particular dispute is arbitrable where the arbitration agreement is “inclusive, categorical, unconditional and unlimited” (see Benihana, 784 F.3d at 898).

Additionally, the majority rule in the US is that the “clear and unmistakable” evidence test is satisfied where the parties incorporate rules of arbitration (such as the American Arbitration Association (AAA) Commercial Arbitration Rules, the International Centre for Dispute Resolution International Dispute Resolution Procedures, or the International Chamber of Commerce Arbitration Rules) providing that the arbitrators have the power to rule on their own jurisdiction and on the arbitrability of any claim. In these cases, a court typically refers all jurisdictional issues to the arbitrator.

To avoid unnecessary and costly litigation, counsel should consider clarifying in the arbitration clause whether issues of arbitrability will be arbitrated.

WHETHER THE CLAIM IS COVERED BY THE ARBITRATION CLAUSE

Once the issue of who decides arbitrability is settled, the key question is whether the relevant arbitration clause encompasses the patent claims at issue. Courts and arbitrators alike must consider:

- The “emphatic federal policy in favor of arbitral dispute resolution” (Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614, 631 (1985)).
- The “presumption of arbitrability” in cases where contracts contain an arbitration clause, which applies with “special force” in the field of international commerce (AT&T Techs., 475 U.S. at 650; Mitsubishi Motors Corp., 473 U.S. at 631).

Additionally, counsel should understand:

- What contractual language is likely to be broadly interpreted by the courts.
- How to exclude claims from the scope of the arbitration clause.

Broadly Construed Clauses

The reach of an arbitration clause depends on its precise wording. However, courts have broadly interpreted clauses that provide for arbitration of “all disputes” or “any controversy” “arising out of or relating to” or “arising under or in connection with” an agreement (see Andrews v. TD Ameritrade, Inc., 596 F. App’x 366, 370 (6th Cir. 2014); Collins & Aikman Prosds. Co. v. Bldg. Sys., Inc., 58 F.3d 16, 20 (2d Cir. 1995)). Therefore, parties should use this type of language if they wish to draft a broad clause.

By contrast, some cases have narrowly construed clauses covering only disputes “arising hereunder” or “arising out of” the specified agreement (see Tracer Research Corp. v. Nat’l Envtl. Servs. Co., 42 F.3d 1292, 1295 (9th Cir. 1994); Mediterranean Enters., Inc. v. Ssangyong Corp., 708 F.2d 1458, 1464 (9th Cir. 1983)). Although these cases are out of step with current case law (see, for example, Benihana, 784 F.3d at 898), they have not been expressly overruled.
A patent infringement claim “relates to” the interpretation or performance of a license agreement, and therefore is covered by an arbitration clause in the agreement, where the allegedly infringing activity is claimed to be a breach of that agreement (see, for example, Conteyer Multibag Sys. v. Bradford Co., 2006 WL 2331174, at *2 (W.D. Mich. Aug. 10, 2006); Innovative Engg’g Sols., Inc. v. Misonix, Inc., 458 F. Supp. 2d 1190, 1195-96 (D. Or. 2006); Sandata Techs., Inc. v. CareWatch, Inc., 2006 WL 1172195, at *3 (D. Conn. Apr. 20, 2006)).

Exclusion of Claims

Occasionally, courts have found that patent infringement claims do not come within the scope of an arbitration clause in a patent license agreement, but only in circumstances where the agreement at issue clearly excluded these types of claims. For example, courts have held that patent infringement claims were not arbitrable where:

- The parties’ arbitration clause stated that it “shall not apply to ... disputes relating to issues of scope, infringement, validity and/or enforceability of any Intellectual Property Rights” (Verinata Health, Inc. v. Ariosa Diagnostics, Inc., 830 F.3d 1335, 1337, 1340 (Fed. Cir. 2016) (explaining that the “pertinent language of the arbitration provision is unambiguous and makes clear that ‘disputes relating to issues of’ patent scope and infringement are not subject to mandatory arbitration’)).

- The claim at issue involved infringement of the so-called “insert” mode of cookie persistence, but the license agreement explicitly stated that it covered only “associative” or “passive” modes of cookie persistence that were disclosed and claimed in the relevant patent and clearly carved out the insert mode from the licensed patent rights (Radware, Ltd. v. F5 Networks, Inc., 2013 WL 6773799, at *1, *3 (N.D. Cal. Dec. 23, 2013)).

- The conduct at issue concerned patent infringement that occurred after the termination of the license agreement, but the parties’ settlement agreement excluded disputes concerning conduct that occurred subsequent to the license agreement’s termination (Let’s Go Aero, Inc. v. Cequent Performance Prods., Inc., 78 F. Supp. 3d 1363, 1378 (D. Colo. 2015)).

**DETERMINING WHETHER OR NOT TO ARBITRATE PATENT CLAIMS**

When negotiating a contract that addresses patent rights, each party must make a business decision concerning the appropriate forum for dispute resolution. Parties should consider the benefits and risks of arbitrating patent disputes when making this decision.

**BENEFITS OF ARBITRATING PATENT DISPUTES**

The chief benefits of arbitrating patent disputes include:

- Flexibility in the conduct of the proceedings, including the make-up of the arbitral panel.
- The potential for lower costs and a quicker resolution.
- The confidentiality of the proceedings.

**Procedural Flexibility**

If parties choose to arbitrate, they have the opportunity to:

- Select the arbitrators.
- Specify the arbitrators’ qualifications in advance (see below Arbitrator Selection and Qualifications).
- Select the governing substantive and procedural law of the case (see below Choice of Law).
- Agree on procedures for interim relief (see below Interim Measures).
- Select the language of the arbitration.
- Choose the place or seat of the arbitration (see below Seat of the Arbitration).

Procedural flexibility is often greatest at the time of contracting. After a dispute arises, there are no guarantees that a party’s adversary or the arbitral tribunal or institution will agree to conduct the proceeding in a particular way. This consideration is especially important in patent matters because many arbitral institutions do not have patent-specific rules or require patent-related disputes to be conducted in a certain way.
ARBITRATION OF PATENT DISPUTES IN THE US: STATUTORY BASIS AND BACKGROUND

Historically, many US courts were hostile towards the arbitration of patent disputes, resulting in confusion about whether these disputes were arbitrable (see, for example, Babcock & Wilcox Co. v. Pub. Serv. Co. of Ind., 1976 WL 21050, at *1 (S.D. Ind. Dec. 14, 1976) (stating that “the public interest in questions of patent validity and infringement renders them inappropriate for determination in arbitration proceedings”)). To alleviate this confusion, in 1982, Congress passed Section 294 of the Patent Act (35 U.S.C. § 294), which expressly provides that disputes concerning US patents are arbitrable. Section 294 is not limited to domestic arbitration (see Deprenyl Animal Health, 297 F.3d at 1357).

Section 294(a) provides that:

- A contract may contain a provision requiring arbitration of any dispute concerning patent validity or infringement.
- In the absence of a preexisting agreement, the parties may agree in writing to settle an existing patent validity or infringement dispute.
- Any agreement to arbitrate patent disputes is “valid, irrevocable and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.” (35 U.S.C. § 294(a).) Courts have interpreted this subsection to include disputes involving patent inventorship, in addition to disputes concerning patent validity and infringement (see, for example, Deprenyl Animal Health, 297 F.3d at 1357; Concat LP v. Unilever, PLC, 350 F. Supp. 2d 796, 808-09 (N.D. Cal. 2004)).

Section 294(b) provides that patent arbitrations, patent arbitral awards, and the confirmation of patent arbitral awards are subject to the Federal Arbitration Act (FAA) (35 U.S.C. § 294(b)). This necessarily includes the bases for vacating an award, which are set out in 9 U.S.C. § 10 (see Microchip Tech. Inc. v. US Philips Corp., 367 F.3d 1350, 1354 (Fed. Cir. 2004)). Notably, Section 294(b) also uniquely requires an arbitrator to consider any patent defenses in Section 282 of the Patent Act, which includes the defenses of non-infringement and invalidity, if raised by any party to the proceeding.

Potential Cost and Time Savings

The time and expense associated with resolving legal disputes and the inherent uncertainty of the outcome can have a significant commercial impact on a company’s business. This is especially true for intellectual property matters, where a lengthy dispute can substantially affect, or completely undermine, research and development activities and time-to-market.

Arbitration can be (but is not always) cheaper and quicker than litigation, especially if it can resolve a dispute that is otherwise likely to require litigating in multiple foreign jurisdictions. A 2013 World Intellectual Property Organization (WIPO) survey found that respondents spent more time and incurred significantly higher costs in court litigation than in arbitration and mediation (see WIPO Arbitration and Mediation Center, Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions (Mar. 2013)).

To ensure an arbitration proceeding provides the desired cost and time savings, parties should consider agreeing to:

- A sole arbitrator instead of a three-member panel, where appropriate.
- An arbitral institution with lower administrative fees relative to others.
- Restrictions on the scope of discovery (for more information, search Limiting Disclosure (Discovery) in US Arbitration Agreements on Practical Law).
- A specified type and number of merits submissions.

Confidentiality

Arbitration proceedings are usually private, and the confidentiality of pleadings, documents, and hearings can be a significant advantage of arbitration, especially for intellectual property matters. Public disclosure of the mere existence of an intellectual property dispute can cause substantial commercial harm to a party. Along with providing confidentiality, arbitration proceedings can relieve parties of the substantial burden of filing motions to seal with a court. Many judges carefully scrutinize motions to seal, and some require every motion to seal to be accompanied by a client declaration that attests to the information’s sensitivity and clearly states the consequences of a public filing.

While arbitration is typically confidential, parties should be aware that, under 35 U.S.C. § 294(c), one of the parties must provide notice of the final arbitral award, including a copy of the award, to the USPTO. If the final award contains confidential or proprietary business information, confidentiality may be compromised because the USPTO patent prosecution files are available for public inspection. However, the USPTO has
Section 294(c) provides that:

- An arbitral award is final and binding only between the parties to the arbitration.
- If the parties agree, a court may modify an arbitral award if a court later determines that the patent is invalid or unenforceable.

No legislative history or published decisions interpret or apply the somewhat unusual provision of Section 294(c) regarding modification of an arbitral award. Counsel must consider the well-developed principle that a final court judgment invalidating a patent does not permit the infringer to vacate an earlier final judgment requiring it to pay lump sum royalties for past or future infringement (see *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1340 (Fed. Cir. 2013)).

However, at least one commentator noted that Section 294(c) addresses the situation where a confirmed arbitral award provides for the payment of running royalties on a patent that a court later determines to be invalid (see Philip J. May, Jr., *Arbitration of United States Patent Validity and Infringement Under 35 USC § 294*, 17 Geo Wash. J. Int’l L. & Econ. 637, 647 (1982-1983)). Another commentator noted that any modification operates only prospectively, suggesting that if an arbitral award is modified in light of a later invalidated patent, the modification affects only future royalty obligations, not royalties that were already paid (see Harry F. Manbeck, Jr., *Voluntary Arbitration of Patent Disputes — The Background to 35 USC 294, 11 AIPLA Q.J. 268, 272 (1983)*).

The preclusive effect of an arbitral award in later disputes arising out of the same patent also is unsettled. Search the preclusive effect of arbitration awards in the US for information on the law of res judicata and collateral estoppel as it applies to arbitral awards in the US.

Section 294(d) requires a patentee to give both notice of an arbitral award and a copy of the award to the Director of the US Patent and Trademark Office (USPTO), who must then enter that information in the patent’s prosecution file. Section 294(e) states that an arbitral award is unenforceable until the USPTO Director receives the notice.

Risks of Arbitrating Patent Disputes

Arbitration carries certain risks that do not arise in US district court litigation. For example:

- Arbitrators may not be well-versed in patent law or have the experience necessary to adjudicate a highly technical dispute.
- Absent an agreement by the parties, the arbitral tribunal may not institute patent-specific procedures, such as a claim construction hearing, that many patent lawyers believe are appropriate and necessary in a patent dispute. Many arbitrators, especially international arbitrators, reflexively resist US federal court-style procedures, even if those procedures may lead to a more logically organized or expeditious resolution of the dispute.
- There are no generally applicable evidentiary rules in arbitration, and there is little opportunity to exclude evidence (particularly expert testimony) that falls short of minimum standards of reliability.
- Unless the parties otherwise agree to appellate arbitration procedures (where they are available), there is no standard process for appeals of arbitral awards. The grounds for vacating an arbitral award are limited (for more information, search Enforcing Arbitration Awards in the US on Practical Law).

However, as discussed further below, parties usually can address these risks with a carefully crafted arbitration provision.

Drafting Arbitration Clauses in Patent License Agreements

While there is no one-size-fits-all arbitration clause, counsel should carefully consider certain key elements and provisions in any patent license negotiation, including:

- The scope of the arbitration clause.
- Patent-specific arbitration rules.
- Interim measures.
- Choice of law.
- The selection and qualifications of the arbitrators.
The seat of the arbitration.

Appeal of an adverse ruling.

**SCOPE OF THE ARBITRATION CLAUSE**

It is critical to define the scope of the arbitration clause by specifying:

- **Who must arbitrate.** For example, if the parties foresee corporate affiliates or third-party entities being involved in performing the contract, they should define “parties” to include those affiliates or other third parties.

- **What types of disputes must be arbitrated.** For example, the parties must consider whether they want to arbitrate all disputes that may arise between them. The majority of arbitration clauses are drafted broadly and generally without regard to particular types of disputes. However, counsel should carefully consider how broadly an arbitration clause may sweep.

Indeed, it is important for parties negotiating a patent license agreement to understand the true scope of a broad arbitration clause that provides that the parties will arbitrate all disputes “arising out of or relating to” the agreement. In a common dispute scenario, the licensor may accuse the licensee of acting beyond the license’s scope and either terminate the agreement or assert a claim for patent infringement. The licensee typically asserts a license defense and may argue that, even if they do not have a license, the infringement claim cannot be maintained because the patents are invalid. As discussed above, under a broad arbitration clause, the infringement claim, the license defense, and the invalidity defense all would be subject to arbitration (see, for example, Polymer Tech. Sys., Inc. v. Roche Diagnostics Corp., 2010 WL 3782173, at *2 (S.D. Ind. Sept. 20, 2010); see above Broadly Construed Clauses).

**Providing for Arbitration of Patent Infringement and Invalidity Claims**

Parties that wish to arbitrate issues of patent infringement and invalidity concerning the licensed patents may simply agree to a broad arbitration clause using the “arising out of or relating to” this agreement language discussed above. However, the better practice is to explicitly state that the parties agree to arbitrate these types of disputes. For example, the arbitration clause may state:

“Any controversy or claim arising out of or related to this contract, or breach thereof, including any dispute relating to patent validity or infringement, shall be settled by arbitration administered by the American Arbitration Association under its Supplementary Rules for the Resolution of Patent Disputes and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.”

(See AAA, Supplementary Rules for the Resolution of Patent Disputes, Standard Arbitration Clause.)

**Excluding Patent Infringement and Invalidity Claims**

If the parties choose to carve out specific types of disputes, such as claims of patent infringement or invalidity, the limitation must be explicit and carefully worded. For example, in Verinata Health, Inc., the patentee tried to compel arbitration of its counterclaim for non-infringement, notwithstanding language stating that the arbitration clause “shall not apply to … disputes relating to issues of scope, infringement, validity, and/or enforceability of any Intellectual Property Rights” (830 F.3d at 1337; see above Whether the Claim Is Covered by the Arbitration Clause). The parties could have avoided the time and expense incurred in the ensuing court battle to determine the scope of the clause if they had clearly drafted the clause to specify whether these types of claims are non-arbitrable in any context (that is, whether raised as a claim, defense, or counterclaim) or only when affirmatively raised by a claimant.

Parties carving out patent infringement and invalidity claims from the arbitration clause should also be aware that if they simultaneously agree to submit contract claims to arbitration, this may result in parallel proceedings in arbitration and federal court. Parallel proceedings can be inefficient and costly, and can raise the risk of inconsistent results on important factual and
The WIPO Arbitration Rules, which provide for specialized procedures typically used in patent litigation in US federal court, such as a claim construction hearing (see AAA Patent Rule 3).

The WIPO Arbitration Rules, which provide for specialized patent procedures, such as:

- experiments;
- inspection of any appropriate site, property, machinery, facility, production line, model, film, material, product, or process;
- a technical primer setting out the background of the scientific, technical, or other specialized information; and
- models, drawings, or other materials.

(Please refer to WIPO Arbitration Rules arts. 51-53.)

Alternatively, the parties may consider describing their own patent-specific procedures in the arbitration clause. If a particular procedure, such as a claim construction hearing, is critically important to one or both parties, the parties should address it in the arbitration clause, either by incorporating patent-specific arbitration rules that provide for that procedure or including a contract provision that sets out the procedure. A party should never assume they will obtain the agreement of the opposing party or the arbitral tribunal on a procedural matter once a dispute arises.

**INTERIM MEASURES**

Parties to a patent license agreement are often concerned about the ability to obtain preliminary injunctive relief if a dispute arises. An increasing number of arbitral institutions have provisions for so-called emergency measures, such as an injunction or an order for an immediate withdrawal of infringing goods from the market, before an arbitral tribunal is selected.

However, if a party resists interim measures ordered by an emergency arbitrator, the prevailing party’s only way to enforce that order is by initiating proceedings in a court to confirm the arbitrator’s award. This may undermine the purpose of seeking emergency measures.

Given an arbitrator’s limited authority to enforce interim measures, parties should ensure that they can access a court for interim relief before (or even after) an arbitral tribunal is constituted. This can be accomplished by:

- **Incorporating any of the major institutional arbitration rules into the agreement.** These rules commonly allow parties to seek interim relief from national courts, even after an arbitral tribunal has been selected.

- **Adding specific language into the agreement.** To avoid any doubt, the parties should consider adding explicit language stating that the arbitration clause does not prohibit seeking interim relief in aid of arbitration. Parties should also consider, particularly in an international context, specifying a national court with exclusive jurisdiction over requests for interim measures. Without this type of provision, a US party may find itself on the receiving end of an injunction issued by a local court in its adversary’s jurisdiction that frustrates or otherwise undermines the arbitration proceedings.

Most US courts have held that they have the authority to issue interim relief in aid of arbitration if the parties have consented to that relief, either explicitly or by incorporating institutional arbitration rules that permit resort to national courts.

**SEARCH**

Search Emergency Arbitrators in International Arbitration and Interim, Provisional, and Conservatory Measures in US Arbitration for more on interim measures.

**CHOICE OF LAW**

Parties should clearly articulate in their patent license agreement what law governs:

- The contract.
- Patent-related issues, such as infringement and invalidity.

The law of the country that issues a patent governs issues of infringement and validity, even if the license agreement is governed by a different law (see Deprenyl Animal Health, 297 F.3d at 1358). Nonetheless, if a license agreement is governed by foreign law but involves US patents, the parties may still wish to specify that US patent law governs issues of infringement and validity, including where these issues arise in the context of defenses, counterclaims, or both. This minimizes the risk of a dispute about the applicable law.

**arbitrator selection and qualifications**

Arbitrator selection in patent cases can be difficult, not only because these cases can present highly complex technical factual and legal issues, but also because they often involve both contract and patent claims. Indeed, as noted above, patent
cases often involve allegations of breach of a license agreement, which are frequently predicates to claims of patent infringement. This difficulty is augmented where the law governing the contract is different from the law governing the patents. For example, a dispute might concern a license agreement governed by Swiss law involving US patents in the field of semiconductors. An arbitral tribunal that has facility with Swiss law may be well-positioned to address the contractual aspects of the dispute, but may be ill-suited to address the patent aspects, and vice versa.

An arbitral tribunal that lacks subject matter expertise for a particular dispute risks incorrectly adjudicating the merits and will inevitably drive up the cost of the proceeding because the arbitrators must familiarize themselves with the subject matter. Accordingly, parties should think critically at the time of contracting about the types of disputes that may arise and whether any steps can be taken to ensure that the most qualified arbitrators are chosen to decide those disputes. While most arbitration clauses do not specify the qualifications an arbitrator must possess (for example, a certain number of years of experience in a specific industry), parties should at least consider including qualifications in the clause, especially if a potential dispute could be highly technical.

Specifically, counsel should address:
- How to define and apply the arbitrator qualifications provision.
- The implications of a license agreement involving US patents where the governing law of the contract is non-US law.

Defining and Applying the Arbitrator Qualifications Provision
When considering what background and experience an arbitrator should have, parties should:
- Avoid defining arbitrator qualifications too narrowly. Requiring overly specific qualifications may risk limiting the pool of potential arbitrators to a small number of candidates. This could be particularly troublesome in an insular industry where potential arbitrators may have conflicts with one or more parties.
- Consider limiting the application of the qualifications provision. To provide flexibility, parties may consider agreeing to a set of arbitrator qualifications that apply to some disputes but not others. For example, parties may specify that certain qualifications apply if a dispute implicates issues of patent infringement or invalidity, but do not apply in a non-technical dispute over calculation of a royalty. These provisions should be drafted carefully and precisely to avoid disputes concerning the formation of the arbitral tribunal.

Considering the Impact of Governing Non-US Law
If parties to a patent license agreement involving US patents agree to non-US law as the governing law of the contract, they should consider the implications of a clause that requires the arbitrator to possess certain technical qualifications. In a dispute involving both contract and patent issues, potential difficulties may arise in appointing appropriate arbitrators.

For example, in the scenario set out above concerning a license agreement involving US patents in the field of semiconductors that is governed by Swiss law, a requirement that the arbitrators be lawyers with experience in the field of semiconductors may make matters difficult for all parties if a dispute involves issues of Swiss contract law and US patent law. The universe of US patent lawyers with both electrical engineering experience and facility with Swiss law is likely to be extraordinarily small. A possible solution to this issue is for the parties to forgo a requirement that arbitrators be experienced in the field of semiconductors, and consent or agree in advance to the appointment of a patent law expert or technical advisor to assist the arbitral tribunal.

SEAT OF THE ARBITRATION
Many jurisdictions do not permit arbitration of disputes concerning patent invalidity. For example, invalidity claims are not arbitrable in China, Brazil, Canada, Finland, or Italy. In Japan, disputes involving the invalidity, enforceability, and infringement of patents are arbitrable, but awards “declaring a patent utility model, design, or trademark invalid cannot be enforced absent an invalidity decision by the Japanese Patent Office” (see Kenneth R. Adamo, Overview of International Arbitration in the Intellectual Property Context, 2 Global Bus. L. Rev. 7, 18 (2011)).

Parties should carefully consider the implications of agreeing to arbitrate disputes concerning US patents in a jurisdiction that does not permit arbitration of those disputes. For example, the parties should investigate whether the laws of the jurisdiction prohibit arbitration of:
- Patent disputes only where the patents were issued in that jurisdiction.
- Any patent dispute, regardless of the patent’s origin.
Arbitrating a patent dispute in one of these jurisdictions may result in an unenforceable award at the seat of the arbitration. This, in turn, may lead to difficulty enforcing the award in the US.

Parties also should consider the arbitrability of patent disputes in the jurisdiction of the opposing party or in any jurisdiction where the opposing party may seek to enforce an award because adverse local law may frustrate enforcement efforts as well. The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards provides that enforcement of an arbitral award may be refused if the award “deals with a difference not contemplated by or not falling within the terms of the submission to arbitration” and the “subject matter of the difference is not capable of settlement by arbitration under the law of [the country where recognition and enforcement is sought]” (New York Convention, art. V(1)(c), (2)(a)). While this provision is rarely successfully invoked, it presents a risk that counsel should consider when drafting an arbitration clause.

For some intellectual property practitioners, the prospect of losing a case involving significant rights to technology without the right or ability to appeal is enough to foreclose even the possibility of arbitrating a dispute. For parties negotiating a license to technology that is critical to their business, but prefer to arbitrate disputes relating to the license, counsel should consider agreeing to appellate arbitration procedures as part of the arbitration agreement.

Under the AAA Optional Appellate Arbitration Rules (AAA Appellate Rules), for example, an appellate tribunal can do any of the following:

- Adopt the underlying award as its own.
- Issue a new award, adopting those portions of the underlying award that it chooses to accept.
- Request additional information from the parties and extend the period for issuing a final decision by 30 days.

(AAA Appellate Rule A-19(a).)

The grounds for review of an arbitral award under optional appellate rules are either equivalent, or roughly approximate, to the grounds that are available if a case is litigated in court. For example:

- Under the JAMS Optional Arbitration Appeal Procedure, the standard of review is the same as the standard that applies in the first-level appellate court in the jurisdiction at the seat of the arbitration (Rule (d)).
- Under the AAA Appellate Rules and CPR Appellate Arbitration Procedure, an award may be reversed where it was based on a material and prejudicial error of law or factual findings that were clearly erroneous (AAA Appellate Rule A-10; CPR Appellate Arbitration Procedure Rule 8).

While appellate arbitration procedures undoubtedly detract from the time and cost savings associated with arbitration, for parties whose commercial lifeblood is tied to the licensed patents, the value of an appellate option almost certainly outweighs the loss of those savings.
Inter partes review authorizes the United States Patent and Trademark Office (PTO) to reconsider and cancel an already-issued patent claim in limited circumstances. See 35 U. S. C. §§311–319. Any person who is not the owner of the patent may petition for review. §311(a). If review is instituted, the process entitles the petitioner and the patent owner to conduct certain discovery, §316(a)(5); to file affidavits, declarations, and written memoranda, §316(a)(8); and to receive an oral hearing before the Patent Trial and Appeal Board, §316(a)(10). A final decision by the Board is subject to Federal Circuit review. §§318, 319.

Petitioner Oil States Energy Services, LLC, obtained a patent relating to technology for protecting wellhead equipment used in hydraulic fracturing. It sued respondent Greene’s Energy Group, LLC, in Federal District Court for infringement. Greene’s Energy challenged the patent’s validity in the District Court and also petitioned the PTO for inter partes review. Both proceedings progressed in parallel. The District Court issued a claim-construction order favoring Oil States, while the Board issued a decision concluding that Oil States’ claims were unpatentable. Oil States appealed to the Federal Circuit. In addition to its patentability arguments, it challenged the constitutionality of inter partes review, arguing that actions to revoke a patent must be tried in an Article III court before a jury. While the case was pending, the Federal Circuit issued a decision in a separate case, rejecting the same constitutional arguments raised by Oil States. The court then summarily affirmed the Board’s decision in this case.

Held:
1. Inter partes review does not violate Article III. Pp. 5–17.

(a) Under this Court's precedents, Congress has significant latitude to assign adjudication of public rights to entities other than Article III courts. *Executive Benefits Ins. Agency v. Arkison*, 573 U. S. ___, ___. Inter partes review falls squarely within the public-rights doctrine. The decision to grant a patent is a matter involving public rights. Inter partes review is simply a reconsideration of that grant, and Congress has permissibly reserved the PTO's authority to conduct that reconsideration. Pp. 5–10.


(ii) Inter partes review involves the same basic matter as the grant of a patent. It is “a second look at an earlier . . . grant,” *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. ___, ___, and it involves the same interests as the original grant, *Duell*, *supra*, at 586. That inter partes review occurs after the patent has issued does not make a difference here. Patents remain “subject to [the Board's] authority” to cancel outside of an Article III court, *Crowell*, *supra*, at 50, and this Court has recognized that franchises can be qualified in this manner, see, e.g., *Louisville Bridge Co. v. United States*, 242 U. S. 409, 421. Pp. 8–10.

(b) Three decisions that recognize patent rights as the “private property of the patentee,” *United States v. American Bell Telephone Co.*, 128 U. S. 315, 370, do not contradict this conclusion. See also *McCormick Harvesting Machine Co. v. Aultman*, 169 U. S. 606, 609; *Brown v. Duchesne*, 19 How. 183, 197. Nor do they foreclose the kind of post-issuance administrative review that Congress has authorized here. Those cases were decided under the Patent Act of 1870 and are best read as describing the statutory scheme that existed at that time. Pp. 10–11.

(c) Although patent validity was often decided in 18th-century English courts of law, that history does not establish that inter partes review violates the “general” principle that “Congress may not 'withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law,'” *Stern v. Marshall*, 564 U. S. 462, 484. Another means of canceling a patent at that time—a petition to the Privy Council to vacate a patent—closely re-
Syllabus

sembles inter partes review. The parties have cited nothing to suggest that the Framers were not aware of this common practice when writing the Patent Clause, or that they excluded the practice from the scope of the Clause. Relatedly, the fact that American courts have traditionally adjudicated patent validity in this country does not mean that they must forever do so. See post, at 8–10. Historical practice is not decisive here because matters governed by the public-rights doctrine may be assigned to the Legislature, the Executive, or the Judiciary. *Ex parte Bakelite Corp.*, supra, at 451. That Congress chose the courts in the past does not foreclose its choice of the PTO today. Pp. 12–15.

(d) Finally, the similarities between the various procedures used in inter partes review and procedures typically used in courts does not lead to the conclusion that inter partes review violates Article III. This Court has never adopted a “looks like” test to determine if an adjudication has improperly occurred outside an Article III court. See, e.g., *Williams v. United States*, 289 U. S. 553, 563. Pp. 15–16.

(e) This holding is narrow. The Court addresses only the constitutionality of inter partes review and the precise constitutional challenges that Oil States raised here. The decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause. Pp. 16–17.

2. Inter partes review does not violate the Seventh Amendment. When Congress properly assigns a matter to adjudication in a non-Article III tribunal, “the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder.” *Granfinanciera, S. A. v. Nordberg*, 492 U. S. 33, 52–53. Thus, the rejection of Oil States’ Article III challenge also resolves its Seventh Amendment challenge. P. 17.


THOMAS, J., delivered the opinion of the Court, in which KENNEDY, GINSBURG, BREYER, ALITO, SOTOMAYOR, and KAGAN, JJ., joined. BREYER, J., filed a concurring opinion, in which GINSBURG and SOTOMAYOR, JJ., joined. GORSUCH, J., filed a dissenting opinion, in which ROBERTS, C. J., joined.
Opinion of the Court

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

SUPREME COURT OF THE UNITED STATES

No. 16–712

OIL STATES ENERGY SERVICES, LLC, PETITIONER
v. GREENE’S ENERGY GROUP, LLC, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

[April 24, 2018]

JUSTICE THOMAS delivered the opinion of the Court.

The Leahy-Smith America Invents Act, 35 U. S. C. §100 et seq., establishes a process called “inter partes review.” Under that process, the United States Patent and Trademark Office (PTO) is authorized to reconsider and to cancel an issued patent claim in limited circumstances. In this case, we address whether inter partes review violates Article III or the Seventh Amendment of the Constitution. We hold that it violates neither.

I

A

Under the Patent Act, the PTO is “responsible for the granting and issuing of patents.” 35 U. S. C. §2(a)(1). When an inventor applies for a patent, an examiner reviews the proposed claims and the prior art to determine if the claims meet the statutory requirements. See §§112, 131. Those requirements include utility, novelty, and nonobviousness based on the prior art. §§101, 102, 103. The Director of the PTO then approves or rejects the application. See §§131, 132(a). An applicant can seek judicial review of a final rejection. §§141(a), 145.
Over the last several decades, Congress has created administrative processes that authorize the PTO to reconsider and cancel patent claims that were wrongly issued. In 1980, Congress established “ex parte reexamination,” which still exists today. See Act To Amend the Patent and Trademark Laws, 35 U. S. C. §301 et seq. Ex parte reexamination permits “[a]ny person at any time” to “file a request for reexamination.” §302. If the Director determines that there is “a substantial new question of patentability” for “any claim of the patent,” the PTO can reexamine the patent. §§303(a), 304. The reexamination process follows the same procedures as the initial examination. §305.

In 1999, Congress added a procedure called “inter partes reexamination.” See American Inventors Protection Act, §§4601–4608, 113 Stat. 1501A–567 to 1501A–572. Under this procedure, any person could file a request for reexamination. 35 U. S. C. §311(a) (2006 ed.). The Director would determine if the request raised “a substantial new question of patentability affecting any claim of the patent” and, if so, commence a reexamination. §§312(a), 313 (2006 ed.). The reexamination would follow the general procedures for initial examination, but would allow the third-party requester and the patent owner to participate in a limited manner by filing responses and replies. §§314(a), (b) (2006 ed.). Inter partes reexamination was phased out when the America Invents Act went into effect in 2012. See §6, 125 Stat. 299–305.

The America Invents Act replaced inter partes reexamination with inter partes review, the procedure at issue here. See id., at 299. Any person other than the patent owner can file a petition for inter partes review. 35 U. S. C. §311(a) (2012 ed.). The petition can request can-
cellation of “1 or more claims of a patent” on the grounds that the claim fails the novelty or nonobviousness standards for patentability. §311(b). The challenges must be made “only on the basis of prior art consisting of patents or printed publications.” Ibid. If a petition is filed, the patent owner has the right to file a preliminary response explaining why inter partes review should not be instituted. §313.

Before he can institute inter partes review, the Director must determine “that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged.” §314(a). The decision whether to institute inter partes review is committed to the Director’s discretion. See Cuozzo Speed Technologies, LLC v. Lee, 579 U. S. ___, ___ (2016) (slip op., at 9). The Director’s decision is “final and nonappealable.” §314(d).¹

Once inter partes review is instituted, the Patent Trial and Appeal Board—an adjudicatory body within the PTO created to conduct inter partes review—examines the patent’s validity. See 35 U. S. C. §§6, 316(c). The Board sits in three-member panels of administrative patent judges. See §6(c). During the inter partes review, the petitioner and the patent owner are entitled to certain discovery, §316(a)(5); to file affidavits, declarations, and written memoranda, §316(a)(8); and to receive an oral hearing before the Board, §316(a)(10). The petitioner has the burden of proving unpatentability by a preponderance of the evidence. §316(e). The owner can file a motion to amend the patent by voluntarily canceling a claim or by “propos[ing] a reasonable number of substitute claims.” §316(d)(1)(B). The owner can also settle with the petitioner by filing a written agreement prior to the Board’s final decision, which terminates the proceedings with respect to

¹The Director has delegated his authority to the Patent Trial and Appeal Board. See 37 CFR §42.108(c) (2017).
that petitioner. §317. If the settlement results in no petitioner remaining in the inter partes review, the Board can terminate the proceeding or issue a final written decision. §317(a).

If the proceeding does not terminate, the Board must issue a final written decision no later than a year after it notices the institution of inter partes review, but that deadline can be extended up to six months for good cause. §§316(a)(11), 318(a). If the Board’s decision becomes final, the Director must “issue and publish a certificate.” §318(b). The certificate cancels patent claims “finally determined to be unpatentable,” confirms patent claims “determined to be patentable,” and incorporates into the patent “any new or amended claim determined to be patentable.” Ibid.

A party dissatisfied with the Board’s decision can seek judicial review in the Court of Appeals for the Federal Circuit. §319. Any party to the inter partes review can be a party in the Federal Circuit. Ibid. The Director can intervene to defend the Board’s decision, even if no party does. See §143; Cuozzo, supra, at ___ (slip op., at 15). When reviewing the Board’s decision, the Federal Circuit assesses “the Board’s compliance with governing legal standards de novo and its underlying factual determinations for substantial evidence.” Randall Mfg. v. Rea, 733 F. 3d 1355, 1362 (CA Fed. 2013).

II

Petitioner Oil States Energy Services, LLC, and respondent Greene’s Energy Group, LLC, are both oilfield services companies. In 2001, Oil States obtained a patent relating to an apparatus and method for protecting wellhead equipment used in hydraulic fracturing. In 2012, Oil States sued Greene’s Energy in Federal District Court for infringing that patent. Greene’s Energy responded by challenging the patent’s validity. Near the close of discov-
ery, Greene’s Energy also petitioned the Board to institute inter partes review. It argued that two of the patent’s claims were unpatentable because they were anticipated by prior art not mentioned by Oil States in its original patent application. Oil States filed a response opposing review. The Board found that Greene’s Energy had established a reasonable likelihood that the two claims were unpatentable and, thus, instituted inter partes review.

The proceedings before the District Court and the Board progressed in parallel. In June 2014, the District Court issued a claim-construction order. The order construed the challenged claims in a way that foreclosed Greene’s Energy’s arguments about the prior art. But a few months later, the Board issued a final written decision concluding that the claims were unpatentable. The Board acknowledged the District Court’s contrary decision, but nonetheless concluded that the claims were anticipated by the prior art.

Oil States sought review in the Federal Circuit. In addition to its arguments about patentability, Oil States challenged the constitutionality of inter partes review. Specifically, it argued that actions to revoke a patent must be tried in an Article III court before a jury. While Oil States’ case was pending, the Federal Circuit issued an opinion in a different case, rejecting the same constitutional arguments. *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F. 3d 1284, 1288–1293 (2015). The Federal Circuit summarily affirmed the Board’s decision in this case. 639 Fed. Appx. 639 (2016).

We granted certiorari to determine whether inter partes review violates Article III or the Seventh Amendment. 582 U. S. __ (2017). We address each issue in turn.

III

Article III vests the judicial power of the United States “in one supreme Court, and in such inferior Courts as the
Congress may from time to time ordain and establish.” §1. Consequently, Congress cannot “confer the Government’s ‘judicial Power’ on entities outside Article III.” *Stern v. Marshall*, 564 U. S. 462, 484 (2011). When determining whether a proceeding involves an exercise of Article III judicial power, this Court’s precedents have distinguished between “public rights” and “private rights.” *Executive Benefits Ins. Agency v. Arkison*, 573 U. S. ___, ___ (2014) (slip op., at 6) (internal quotation marks omitted). Those precedents have given Congress significant latitude to assign adjudication of public rights to entities other than Article III courts. See *ibid.; Stern, supra*, at 488–492.

This Court has not “definitively explained” the distinction between public and private rights, *Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U. S. 50, 69 (1982), and its precedents applying the public-rights doctrine have “not been entirely consistent,” *Stern*, 564 U. S., at 488. But this case does not require us to add to the “various formulations” of the public-rights doctrine. *Ibid.* Our precedents have recognized that the doctrine covers matters “which arise between the Government and persons subject to its authority in connection with the performance of the constitutional functions of the executive or legislative departments.” *Crowell v. Benson*, 285 U. S. 22, 50 (1932). In other words, the public-rights doctrine applies to matters “‘arising between the government and others, which from their nature do not require judicial determination and yet are susceptible of it.’” *Ibid.* (quoting *Ex parte Bakelite Corp.*, 279 U. S. 438, 451 (1929)). Inter partes review involves one such matter: reconsideration of the Government’s decision to grant a public franchise.

A

Inter partes review falls squarely within the public-rights doctrine. This Court has recognized, and the par-
ties do not dispute, that the decision to grant a patent is a matter involving public rights—specifically, the grant of a public franchise. Inter partes review is simply a reconsideration of that grant, and Congress has permissibly reserved the PTO’s authority to conduct that reconsideration. Thus, the PTO can do so without violating Article III.

1

This Court has long recognized that the grant of a patent is a “‘matte[r] involving public rights.’” United States v. Duell, 172 U. S. 576, 582–583 (1899) (quoting Murray’s Lessee v. Hoboken Land & Improvement Co., 18 How. 272, 284 (1856)). It has the key features to fall within this Court’s longstanding formulation of the public-rights doctrine.

Ab initio, the grant of a patent involves a matter “arising between the government and others.” Ex parte Bakelite Corp., supra, at 451. As this Court has long recognized, the grant of a patent is a matter between “the public, who are the grantors, and . . . the patentee.” Duell, supra, at 586 (quoting Butterworth v. United States ex rel. Hoe, 112 U. S. 50, 59 (1884)). By “issuing patents,” the PTO “take[s] from the public rights of immense value, and bestow[s] them upon the patentee.” United States v. American Bell Telephone Co., 128 U. S. 315, 370 (1888). Specifically, patents are “public franchises” that the Government grants “to the inventors of new and useful improvements.” Seymour v. Osborne, 11 Wall. 516, 533 (1871); accord, Pfaff v. Wells Electronics, Inc., 525 U. S. 55, 63–64 (1998). The franchise gives the patent owner “the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States.” 35 U. S. C. §154(a)(1). That right “did not exist at common law.” Gayler v. Wilder, 10 How. 477, 494 (1851). Rather, it is a “creature of statute law.” Crown
Additionally, granting patents is one of “the constitutional functions” that can be carried out by “the executive or legislative departments” without “‘judicial determination.’” Crowell, supra, at 50–51 (quoting Ex parte Bakelite Corp., supra, at 452). Article I gives Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” §8, cl. 8. Congress can grant patents itself by statute. See, e.g., Bloomer v. McQuewan, 14 How. 539, 548–550 (1853). And, from the founding to today, Congress has authorized the Executive Branch to grant patents that meet the statutory requirements for patentability. See 35 U. S. C. §§2(a)(1), 151; see also Act of July 8, 1870, §31, 16 Stat. 202; Act of July 4, 1836, §7, 5 Stat. 119–120; Act of Apr. 10, 1790, ch. 7, §1, 1 Stat. 109–110. When the PTO “adjudicate[s] the patentability of inventions,” it is “exercising the executive power.” Freytag v. Commissioner, 501 U. S. 868, 910 (1991) (Scalia, J., concurring in part and concurring in judgment) (emphasis deleted).

Accordingly, the determination to grant a patent is a “matter involving public rights.” Murray’s Lessee, supra, at 284. It need not be adjudicated in Article III court.

Inter partes review involves the same basic matter as the grant of a patent. So it, too, falls on the public-rights side of the line.

Inter partes review is “a second look at an earlier administrative grant of a patent.” Cuozzo, 579 U. S., at ___ (slip op., at 16). The Board considers the same statutory requirements that the PTO considered when granting the patent. See 35 U. S. C. §311(b). Those statutory requirements prevent the “issuance of patents whose effects are
to remove existent knowledge from the public domain.” *Graham v. John Deere Co. of Kansas City*, 383 U. S. 1, 6 (1966). So, like the PTO’s initial review, the Board’s inter partes review protects “the public’s paramount interest in seeing that patent monopolies are kept within their legitimate scope,” *Cuozzo*, *supra*, at ___ (slip op., at 16) (internal quotation marks and alterations omitted). Thus, inter partes review involves the same interests as the determination to grant a patent in the first instance. See *Duell*, *supra*, at 586.

The primary distinction between inter partes review and the initial grant of a patent is that inter partes review occurs after the patent has issued. But that distinction does not make a difference here. Patent claims are granted subject to the qualification that the PTO has “the authority to reexamine—and perhaps cancel—a patent claim” in an inter partes review. See *Cuozzo*, *supra*, at ___ (slip op., at 3). Patents thus remain “subject to [the Board’s] authority” to cancel outside of an Article III court. *Crowell*, 285 U. S., at 50.

This Court has recognized that franchises can be qualified in this manner. For example, Congress can grant a franchise that permits a company to erect a toll bridge, but qualify the grant by reserving its authority to revoke or amend the franchise. See, e.g., *Louisville Bridge Co. v. United States*, 242 U. S. 409, 421 (1917) (collecting cases). Even after the bridge is built, the Government can exercise its reserved authority through legislation or an administrative proceeding. See, e.g., id., at 420–421; *Hannibal Bridge Co. v. United States*, 221 U. S. 194, 205 (1911); *Bridge Co. v. United States*, 105 U. S. 470, 478–482 (1882). The same is true for franchises that permit companies to build railroads or telegraph lines. See, e.g., *United States v. Union Pacific R. Co.*, 160 U. S. 1, 24–25, 37–38 (1895).

Thus, the public-rights doctrine covers the matter resolved in inter partes review. The Constitution does not
prohibit the Board from resolving it outside of an Article III court.

B

Oil States challenges this conclusion, citing three decisions that recognize patent rights as the “private property of the patentee.” American Bell Telephone Co., 128 U. S., at 370; see also McCormick Harvesting Machine Co. v. Aultman, 169 U. S. 606, 609 (1898) (“[A granted patent] has become the property of the patentee”); Brown v. Duchesne, 19 How. 183, 197 (1857) (“[T]he rights of a party under a patent are his private property”). But those cases do not contradict our conclusion.

Patents convey only a specific form of property right—a public franchise. See Pfaff, 525 U. S., at 63–64. And patents are “entitled to protection as any other property, consisting of a franchise.” Seymour, 11 Wall. at 533 (emphasis added). As a public franchise, a patent can confer only the rights that “the statute prescribes.” Gayler, supra, at 494; Wheaton v. Peters, 8 Pet. 591, 663–664 (1834) (noting that Congress has “the power to prescribe the conditions on which such right shall be enjoyed”). It is noteworthy that one of the precedents cited by Oil States acknowledges that the patentee’s rights are “derived altogether” from statutes, “are to be regulated and measured by these laws, and cannot go beyond them.” Brown, supra, at 195.2

One such regulation is inter partes review. See Cuozzo,
Opinion of the Court


Nor do the precedents that Oil States cites foreclose the kind of post-issuance administrative review that Congress has authorized here. To be sure, two of the cases make broad declarations that “[t]he only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.” McCormick Harvesting Machine Co., supra, at 609; accord, American Bell Telephone Co., 128 U. S., at 364. But those cases were decided under the Patent Act of 1870. See id., at 371; McCormick Harvesting Machine Co., supra, at 611. That version of the Patent Act did not include any provision for post-issuance administrative review. Those precedents, then, are best read as a description of the statutory scheme that existed at that time. They do not resolve Congress’ authority under the Constitution to establish a different scheme.3

———

3 The dissent points to McCormick’s statement that the Patent Office Commissioner could not invalidate the patent at issue because it would “‘deprive the applicant of his property without due process of law, and would be in fact an invasion of the judicial branch.’” Post, at 10 (quoting McCormick Harvesting Machine Co. v. Aultman, 169 U. S. 606, 612 (1898)). But that statement followed naturally from the Court’s determination that, under the Patent Act of 1870, the Commissioner “was functus officio” and “had no power to revoke, cancel, or annul” the patent at issue. 169 U. S., at 611–612.

Nor is it significant that the McCormick Court “equated invention patents with land patents.” Post, at 10. McCormick itself makes clear that the analogy between the two depended on the particulars of the
Oil States and the dissent contend that inter partes review violates the “general” principle that “Congress may not ‘withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty.’” Stern, 564 U. S., at 484 (quoting Murray’s Lessee, 18 How., at 284). They argue that this is so because patent validity was often decided in English courts of law in the 18th century. For example, if a patent owner brought an infringement action, the defendant could challenge the validity of the patent as an affirmative defense. See Lemley, Why Do Juries Decide If Patents Are Valid? 99 Va. L. Rev. 1673, 1682, 1685–1686, and n. 52 (2013). Or, an individual could challenge the validity of a patent by filing a writ of scire facias in the Court of Chancery, which would sit as a law court when adjudicating the writ. See id., at 1683–1685, and n. 44; Bottomley, Patent Cases in the Court of Chancery, 1714–58, 35 J. Legal Hist. 27, 36–37, 41–43 (2014).

But this history does not establish that patent validity is a matter that, “from its nature,” must be decided by a court. Stern, supra, at 484 (quoting Murray’s Lessee, supra, at 284). The aforementioned proceedings were between private parties. But there was another means of

canceling a patent in 18th-century England, which more closely resembles inter partes review: a petition to the Privy Council to vacate a patent. See Lemley, supra, at 1681–1682; Hulme, Privy Council Law and Practice of Letters Patent for Invention From the Restoration to 1794, 33 L. Q. Rev. 63 (1917). The Privy Council was composed of the Crown’s advisers. Lemley, supra, at 1681. From the 17th through the 20th centuries, English patents had a standard revocation clause that permitted six or more Privy Counsellors to declare a patent void if they determined the invention was contrary to law, “prejudicial” or “inconvenient,” not new, or not invented by the patent owner. See 11 W. Holdsworth, A History of English Law 426–427, and n. 6 (1938); Davies, The Early History of the Patent Specification, 50 L. Q. Rev. 86, 102–106 (1934). Individuals could petition the Council to revoke a patent, and the petition was referred to the Attorney General. The Attorney General examined the petition, considered affidavits from the petitioner and patent owner, and heard from counsel. See, e.g., Bull v. Lydall, PC2/81, pp. 180–181 (1706). Depending on the Attorney General’s conclusion, the Council would either void the patent or dismiss the petition. See, e.g., Darby v. Betton, PC2/99, pp. 358–359 (1745–1746) (voiding the patent); Baker v. James, PC2/103, pp. 320–321, 346–347 (1752) (dismissing the petition).

The Privy Council was a prominent feature of the English system. It had exclusive authority to revoke patents until 1753, and after that, it had concurrent jurisdiction with the courts. See Hulme, 33 L. Q. Rev., at 189–191, 193–194. The Privy Council continued to consider revocation claims and to revoke patents throughout the 18th century. Its last revocation was in 1779. See id., at 192–193. It considered, but did not act on, revocation claims in 1782, 1794, and 1810. See id.; Board of Ordinance v. Parr, PC1/3919 (1810).
The Patent Clause in our Constitution “was written against the backdrop” of the English system. *Graham*, 383 U. S., at 5. Based on the practice of the Privy Council, it was well understood at the founding that a patent system could include a practice of granting patents subject to potential cancellation in the executive proceeding of the Privy Council. The parties have cited nothing in the text or history of the Patent Clause or Article III to suggest that the Framers were not aware of this common practice. Nor is there any reason to think they excluded this practice during their deliberations. And this Court has recognized that, “[w]ithin the scope established by the Constitution, Congress may set out conditions and tests for patentability.” *Id.*, at 6. We conclude that inter partes review is one of those conditions.4

For similar reasons, we disagree with the dissent’s assumption that, because courts have traditionally adjudicated patent validity in this country, courts must forever continue to do so. See *post*, at 8–10. Historical practice is not decisive here because matters governed by the public-rights doctrine “from their nature” can be resolved in multiple ways: Congress can “reserve to itself the power to

4Oil States also suggests that inter partes review could be an unconstitutional condition because it conditions the benefit of a patent on accepting the possibility of inter partes review. *Cf. Koontz v. St. Johns River Water Management Dist.*, 570 U. S. 595, 604 (2013) (“[T]he government may not deny a benefit to a person because he exercises a constitutional right” (internal quotation marks omitted)). Even assuming a patent is a “benefit” for purposes of the unconstitutional-conditions doctrine, that doctrine does not apply here. The doctrine prevents the Government from using conditions “to produce a result which it could not command directly.” *Perry v. Sindermann*, 408 U. S. 593, 597 (1972) (internal quotation marks and alterations omitted). But inter partes review is consistent with Article III, see Part III–A, *supra*, and falls within Congress’ Article I authority, see Part III–C, *supra*, so it is something Congress can “command directly,” *Perry, supra*, at 597.
decide,” “delegate that power to executive officers,” or “commit it to judicial tribunals.” Ex parte Bakelite Corp., 279 U. S., at 451. That Congress chose the courts in the past does not foreclose its choice of the PTO today.

D

Finally, Oil States argues that inter partes review violates Article III because it shares “every salient characteristic associated with the exercise of the judicial power.” Brief for Petitioner 20. Oil States highlights various procedures used in inter partes review: motion practice before the Board; discovery, depositions, and cross-examination of witnesses; introduction of evidence and objections based on the Federal Rules of Evidence; and an adversarial hearing before the Board. See 35 U. S. C. §316(a); 77 Fed. Reg. 48758, 48761–48763 (2012). Similarly, Oil States cites PTO regulations that use terms typically associated with courts—calling the hearing a “trial,” id., at 48758; the Board members “judges,” id., at 48763; and the Board’s final decision a “judgment,” id., at 48761, 48766–48767.

But this Court has never adopted a “looks like” test to determine if an adjudication has improperly occurred outside of an Article III court. The fact that an agency uses court-like procedures does not necessarily mean it is exercising the judicial power. See Freytag, 501 U. S., at 910 (opinion of Scalia, J.). This Court has rejected the notion that a tribunal exercises Article III judicial power simply because it is “called a court and its decisions called judgments.” Williams v. United States, 289 U. S. 553, 563 (1933). Nor does the fact that an administrative adjudication is final and binding on an individual who acquiesces in the result necessarily make it an exercise of the judicial power. See, e.g., Murray’s Lessee, 18 How., at 280–281 (permitting the Treasury Department to conduct “final and binding” audits outside of an Article III court). Al-
though inter partes review includes some of the features of adversarial litigation, it does not make any binding determination regarding “the liability of [Greene’s Energy] to [Oil States] under the law as defined.” Crowell, 285 U. S., at 51. It remains a matter involving public rights, one “between the government and others, which from [its] nature do[es] not require judicial determination.” Ex parte Bakelite Corp., 279 U. S., at 451.5

E

We emphasize the narrowness of our holding. We address the constitutionality of inter partes review only. We do not address whether other patent matters, such as infringement actions, can be heard in a non-Article III forum. And because the Patent Act provides for judicial review by the Federal Circuit, see 35 U. S. C. §319, we need not consider whether inter partes review would be constitutional “without any sort of intervention by a court at any stage of the proceedings,” Atlas Roofing Co. v. Occupational Safety and Health Review Comm’n, 430 U. S. 442, 455, n. 13 (1977). Moreover, we address only the precise constitutional challenges that Oil States raised

5 Oil States also points out that inter partes review “is initiated by private parties and implicates no waiver of sovereign immunity.” Brief for Petitioner 30–31. But neither of those features takes inter partes review outside of the public-rights doctrine. That much is clear from United States v. Duell, 172 U. S. 576 (1899), which held that the doctrine covers interference proceedings—a procedure to “determin[e] which of two claimants is entitled to a patent”—even though interference proceedings were initiated by “‘private interests compet[ing] for preference’” and did not involve a waiver of sovereign immunity. Id., at 582, 586 (quoting Butterworth v. United States ex rel. Hoe, 112 U. S. 50, 59 (1884)). Also, inter partes review is not initiated by private parties in the way that a common-law cause of action is. To be sure, a private party files the petition for review. 35 U. S. C. §311(a). But the decision to institute review is made by the Director and committed to his unreviewable discretion. See Cuozzo Speed Technologies, LLC v. Lee, 579 U. S. ___, ___ (2016) (slip op., at 9).
Oil States does not challenge the retroactive application of inter partes review, even though that procedure was not in place when its patent issued. Nor has Oil States raised a due process challenge. Finally, our decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause. See, e.g., *Florida Prepaid Postsecondary Ed. Expense Bd. v. College Savings Bank*, 527 U. S. 627, 642 (1999); *James v. Campbell*, 104 U. S. 356, 358 (1882).

IV

In addition to Article III, Oil States challenges inter partes review under the Seventh Amendment. The Seventh Amendment preserves the “right of trial by jury” in “Suits at common law, where the value in controversy shall exceed twenty dollars.” This Court’s precedents establish that, when Congress properly assigns a matter to adjudication in a non-Article III tribunal, “the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder.” *Granfinanciera, S. A. v. Nordberg*, 492 U. S. 33, 53–54 (1989); accord, *Atlas Roofing Co.*, supra, at 450–455. No party challenges or attempts to distinguish those precedents. Thus, our rejection of Oil States’ Article III challenge also resolves its Seventh Amendment challenge. Because inter partes review is a matter that Congress can properly assign to the PTO, a jury is not necessary in these proceedings.

V

Because inter partes review does not violate Article III or the Seventh Amendment, we affirm the judgment of the Court of Appeals.

*It is so ordered.*
JUSTICE BREYER, with whom JUSTICE GINSBURG and JUSTICE SOTOMAYOR join, concurring.

I join the Court’s opinion in full. The conclusion that inter partes review is a matter involving public rights is sufficient to show that it violates neither Article III nor the Seventh Amendment. But the Court’s opinion should not be read to say that matters involving private rights may never be adjudicated other than by Article III courts, say, sometimes by agencies. Our precedent is to the contrary. **Stern v. Marshall**, 564 U. S. 462, 494 (2011); **Commodity Futures Trading Comm’n v. Schor**, 478 U. S. 833, 853–856 (1986); see also **Stern, supra**, at 513 (BREYER, J., dissenting) (“The presence of ‘private rights’ does not automatically determine the outcome of the question but requires a more ‘searching’ examination of the relevant factors”).
GORSUCH, J., dissenting

SUPREME COURT OF THE UNITED STATES

No. 16–712

OIL STATES ENERGY SERVICES, LLC, PETITIONER
v. GREENE’S ENERGY GROUP, LLC, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

[April 24, 2018]

JUSTICE GORSUCH, with whom THE CHIEF JUSTICE joins, dissenting.

After much hard work and no little investment you devise something you think truly novel. Then you endure the further cost and effort of applying for a patent, devoting maybe $30,000 and two years to that process alone. At the end of it all, the Patent Office agrees your invention is novel and issues a patent. The patent affords you exclusive rights to the fruits of your labor for two decades. But what happens if someone later emerges from the woodwork, arguing that it was all a mistake and your patent should be canceled? Can a political appointee and his administrative agents, instead of an independent judge, resolve the dispute? The Court says yes. Respectfully, I disagree.

We sometimes take it for granted today that independent judges will hear our cases and controversies. But it wasn’t always so. Before the Revolution, colonial judges depended on the crown for their tenure and salary and often enough their decisions followed their interests. The problem was so serious that the founders cited it in their Declaration of Independence (see ¶11). Once free, the framers went to great lengths to guarantee a degree of judicial independence for future generations that they themselves had not experienced. Under the Constitution,
judges “hold their Offices during good Behaviour” and their “Compensation . . . shall not be diminished during the[ir] Continuance in Office.” Art. III, §1. The framers knew that “a fixed provision” for judges’ financial support would help secure “the independence of the judges,” because “a power over a man’s subsistence amounts to a power over his will.” The Federalist No. 79, p. 472 (C. Rossiter ed. 1961) (A. Hamilton) (emphasis deleted). They were convinced, too, that “[p]eriodical appointments, however regulated, or by whomsoever made, would, in some way or other, be fatal to [the courts’] necessary independence.” The Federalist No. 78, at 471 (A. Hamilton).

Today, the government invites us to retreat from the promise of judicial independence. Until recently, most everyone considered an issued patent a personal right—no less than a home or farm—that the federal government could revoke only with the concurrence of independent judges. But in the statute before us Congress has tapped an executive agency, the Patent Trial and Appeal Board, for the job. Supporters say this is a good thing because the Patent Office issues too many low quality patents; allowing a subdivision of that office to clean up problems after the fact, they assure us, promises an efficient solution. And, no doubt, dispensing with constitutionally prescribed procedures is often expedient. Whether it is the guarantee of a warrant before a search, a jury trial before a conviction—or, yes, a judicial hearing before a property interest is stripped away—the Constitution’s constraints can slow things down. But economy supplies no license for ignoring these—often vitally inefficient—protections. The Constitution “reflects a judgment by the American people that the benefits of its restrictions on the Government outweigh the costs,” and it is not our place to replace that judgment with our own. United States v. Stevens, 559 U. S. 460, 470 (2010).

Consider just how efficient the statute before us is. The
Director of the Patent Office is a political appointee who serves at the pleasure of the President. 35 U.S.C. §§3(a)(1), (a)(4). He supervises and pays the Board members responsible for deciding patent disputes. §§1(a), 3(b)(6), 6(a). The Director is allowed to select which of these members, and how many of them, will hear any particular patent challenge. See §6(c). If they (somehow) reach a result he does not like, the Director can add more members to the panel—including himself—and order the case reheard. See §§6(a), (c); In re Alappat, 33 F. 3d 1526, 1535 (CA Fed. 1994) (en banc); Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co. Ltd., 868 F. 3d 1013, 1020 (CA Fed. 2013) (Dyk, J., concurring), cert. pending, No. 17–751. Nor has the Director proven bashful about asserting these statutory powers to secure the “‘policy judgments’” he seeks. Brief for Petitioner 46 (quoting Patent Office Solicitor); see also Brief for Shire Pharmaceuticals LLC as Amicus Curiae 22–30.

No doubt this efficient scheme is well intended. But can there be any doubt that it also represents a retreat from the promise of judicial independence? Or that when an independent Judiciary gives ground to bureaucrats in the adjudication of cases, the losers will often prove the unpopular and vulnerable? Powerful interests are capable of amassing armies of lobbyists and lawyers to influence (and even capture) politically accountable bureaucracies. But what about everyone else?

Of course, all this invites the question: how do we know which cases independent judges must hear? The Constitution’s original public meaning supplies the key, for the Constitution cannot secure the people’s liberty any less today than it did the day it was ratified. The relevant constitutional provision, Article III, explains that the federal “judicial Power” is vested in independent judges. As originally understood, the judicial power extended to “suit[s] at the common law, or in equity, or admiralty.”
Murray’s Lessee v. Hoboken Land & Improvement Co., 18 How. 272, 284 (1856). From this and as we’ve recently explained, it follows that, “[w]hen a suit is made of the stuff of the traditional actions at common law tried by the courts at Westminster in 1789 . . . and is brought within the bounds of federal jurisdiction, the responsibility for deciding that suit rests with” Article III judges endowed with the protections for their independence the framers thought so important. Stern v. Marshall, 564 U. S. 462, 484 (2011) (internal quotation marks omitted). The Court does not quarrel with this test. See ante, at 12–14. We part ways only on its application.1

As I read the historical record presented to us, only courts could hear patent challenges in England at the time of the founding. If facts were in dispute, the matter first had to proceed in the law courts. See, e.g., Newsham v. Gray, 2 Atk. 286, 26 Eng. Rep. 575 (Ch. 1742). If successful there, a challenger then had to obtain a writ of scire facias in the law side of the Court of Chancery. See, e.g., Pfander, Jurisdiction-Stripping and the Supreme Court’s Power To Supervise Inferior Tribunals, 78 Texas L. Rev. 1433, 1446, n. 53 (2000); Lemley, Why Do Juries Decide If Patents Are Valid? 99 Va. L. Rev. 1673, 1686–1687 (2013) (Lemley, Juries). The last time an executive body (the King’s Privy Council) invalidated an invention patent on an ordinary application was in 1746, in Darby v. Betton, PC2/99, pp. 358–359; and the last time the Privy Council

1 Some of our concurring colleagues see it differently. See ante, at 1 (Breyer, J., concurring). They point to language in Commodity Futures Trading Comm’n v. Schor, 478 U. S. 833 (1986), promoting the notion that the political branches may “depart from the requirements of Article III” when the benefits outweigh the costs. Id., at 851. Color me skeptical. The very point of our written Constitution was to prevent the government from “depart[ing]” from its protections for the people and their liberty just because someone later happens to think the costs outweigh the benefits. See United States v. Stevens, 559 U. S. 469, 470 (2010).

This shift to courts paralleled a shift in thinking. Patents began as little more than feudal favors. *Id.*, at 1261. The crown both issued and revoked them. Lemley, Juries 1680–1681. And they often permitted the lucky recipient the exclusive right to do very ordinary things, like operate a toll bridge or run a tavern. *Ibid.* But by the 18th century, inventors were busy in Britain and invention patents came to be seen in a different light. They came to be viewed not as endowing accidental and anticompetitive monopolies on the fortunate few but as a procompetitive means to secure to individuals the fruits of their labor and ingenuity; encourage others to emulate them; and promote

---

2 See also Brief for H. Tomás Gómez-Arostegui et al. as Amici Curiae 6–37; Brief for Alliacense Limited LLC as Amicus Curiae 10–11; Gómez-Arostegui & Bottomley, Privy Council and Scire Facias 1700–1883, p. 2 (Nov. 6, 2017) (Addendum), https://ssrn.com/abstract=3054989 (all Internet materials as last visited Apr. 20, 2018); Observations on the Utility of Patents, and on the Sentiments of Lord Kenyon Respecting That Subject 23 (2d ed. 1791) (“If persons of the same trade find themselves aggrieved by Patents taken for any thing already in use, their remedy is at hand. It is by a writ of *Scire Facias*”); *Mancius v. Lawton*, 10 Johns. 23, 24 (NY Sup. Ct. 1813) (Kent, C. J.) (noting the “settled English course” that “[l]etters-patent . . . can only be avoided in chancery, by a writ of *scire facias* sued out on the part of the government, or by some individual prosecuting in its name” (emphasis deleted)).
public access to new technologies that would not otherwise exist. Mossoff, Rethinking Patents 1288–1289. The Constitution itself reflects this new thinking, authorizing the issuance of patents precisely because of their contribution to the “Progress of Science and useful Arts.” Art. I, §8, cl. 8. “In essence, there was a change in perception—from viewing a patent as a contract between the crown and the patentee to viewing it as a ‘social contract’ between the patentee and society.” Waltersheid, The Early Evolution of the United States Patent Law: Antecedents (Part 3), 77 J. Pat. & T. Off. Soc. 771, 793 (1995). And as invention patents came to be seen so differently, it is no surprise courts came to treat them more solicitously.3

Unable to dispute that judges alone resolved virtually all patent challenges by the time of the founding, the Court points to three English cases that represent the Privy Council’s dying gasp in this area: Board of Ordnance v. Wilkinson, PC2/123 (1779); Grill [Grice] v. Waters, PC2/127 (1782); and Board of Ordnance v. Parr, PC1/3919 (1810).4 Filed in 1779, 1782, and 1810, each involved an

3See also, e.g., Mossoff, Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent “Privilege” in Historical Context, 92 Cornell L. Rev. 953, 967–968 (2007) (Mossoff, Reevaluating the Patent Privilege) (“[A]n American patent in the late eighteenth century was radically different from the royal monopoly privilege dispensed by Queen Elizabeth or King James in the early seventeenth century. Patents no longer created, and sheltered from competition, manufacturing monopolies—they secured the exclusive control of an inventor over his novel and useful scientific or mechanical invention” (footnote omitted)); Mossoff, Rethinking Patents 1286–1287; H. Fox, Monopolies and Patents: A Study of the History and Future of the Patent Monopoly 4 (1947).

4The 1794 petition the Court invokes, ante, at 13, involved a Scottish patent. Simpson v. Cunningham, PC2/141, p. 88 (1794). The English and Scottish patents systems, however, were distinct and enforced by different regimes. Gómez-Arostegui, Patent and Copyright Exhaustion in England Circa 1800, pp. 10–16, 37, 49–50 (Feb. 9, 2017), https://ssrn.com/abstract=2905847. Besides, even in that case the
effort to override a patent on munitions during wartime, no doubt in an effort to increase their supply. But even then appealing to the Privy Council was seen as a last resort. The 1779 petition (the last Privy Council revocation ever) came only after the patentee twice refused instructions to litigate the patent’s validity in a court of law. Gómez-Arostegui & Bottomley, Privy Council and Scire Facias 1700–1883, p.6 (Nov. 6, 2017) https://ssrn.com/abstract=3054989 (citing Board of Ordnance v. Wilkinson, PC2/123 (1779), and PC1/11/150 (1779)). The Council did not act on the 1782 petition but instead referred it to the Attorney General where it appears to have been abandoned. Gómez-Arostegui & Bottomley, Privy Council and Scire Facias, supra, at 17–18. Meanwhile, in response to the 1810 petition the Attorney General admitted that scire facias was the “usual manner” of revoking a patent and so directed the petitioner to proceed at law even as he suggested the Privy Council might be available in the event of a “very pressing and imminent” danger to the public. Id., at 20 (citing PC1/3919 (1810)).

In the end, these cases do very little to support the Court’s holding. At most, they suggest that the Privy Council might have possessed some residual power to revoke patents to address wartime necessities. Equally, they might serve only as more unfortunate evidence of the maxim that in time of war, the laws fall silent. 5 But

Scottish Lord Advocate “‘was of opinion, that the question should be tried in a court of law.’” Gómez-Arostegui & Bottomley, Addendum, supra, at 23 (citing Petition of William Cunningham, p. 5, Cunningham v. Simpson, Signet Library Edinburgh, Session Papers 207:3 (Ct. Sess. Feb. 23, 1796)).

5 After all, the English statute of monopolies appeared to require the “force and validitie” of all patents to be determined only by “the Comon Lawes of this Realme & not otherwise.” 21 Jac. 1, c. 3, §2 (1624). So the Privy Council cases on which the Court relies may not reflect the best understanding of the British constitution.
whatever they do, these cases do not come close to proving that patent disputes were routinely permitted to proceed outside a court of law.

Any lingering doubt about English law is resolved for me by looking to our own. While the Court is correct that the Constitution’s Patent Clause “was written against the backdrop” of English practice, ante, at 14 (quoting Graham v. John Deere Co. of Kansas City, 383 U. S. 1, 5 (1966)), it’s also true that the Clause sought to reject some of early English practice. Reflecting the growing sentiment that patents shouldn’t be used for anticompetitive monopolies over “goods or businesses which had long before been enjoyed by the public,” the framers wrote the Clause to protect only procompetitive invention patents that are the product of hard work and insight and “add to the sum of useful knowledge.” Id., at 5–6. In light of the Patent Clause’s restrictions on this score, courts took the view that when the federal government “grants a patent the grantee is entitled to it as a matter of right, and does not receive it, as was originally supposed to be the case in England, as a matter of grace and favor.” James v. Campbell, 104 U. S. 356, 358 (1882) (emphasis added). As Chief Justice Marshall explained, courts treated American invention patents as recognizing an “inchoate property” that exists “from the moment of invention.” Evans v. Jordan, 8 F. Cas. 872, 873 (No. 4,564) (CC Va. 1813). American patent holders thus were thought to “hol[d] a property in [their] invention[s] by as good a title as the farmer holds his farm and flock.” Hovey v. Henry, 12 F. Cas. 603, 604 (No. 6,742) (CC Mass. 1846) (Woodbury, J.). And just as with farm and flock, it was widely accepted that the government could divest patent owners of their rights only through proceedings before independent judges.

This view held firm for most of our history. In fact, from the time it established the American patent system in 1790 until about 1980, Congress left the job of invalidating
GORSUCH, J., dissenting

patents at the federal level to courts alone. The only apparent exception to this rule cited to us was a 4 year period when foreign patentees had to “work” or commercialize their patents or risk having them revoked. Hovenkamp, The Emergence of Classical American Patent Law, 58 Ariz. L. Rev. 263, 283–284 (2016). And the fact that for almost 200 years “earlier Congresses avoided use of [a] highly attractive”—and surely more efficient—means for extinguishing patents should serve as good “reason to believe that the power was thought not to exist” at the time of the founding. Printz v. United States, 521 U. S. 898, 905 (1997).

One more episode still underscores the point. When the Executive sought to claim the right to cancel a patent in the 1800s, this Court firmly rebuffed the effort. The Court explained:

“It has been settled by repeated decisions of this court that when a patent has [been issued by] the Patent Office, it has passed beyond the control and jurisdiction of that office, and is not subject to be revoked or cancelled by the President, or any other officer of the Government. It has become the property of the patentee, and as such is entitled to the same legal protection as other property.” McCormick Harvesting Machine Co. v. Aultman, 169 U. S. 606, 608–609 (1898) (citations omitted).

As a result, the Court held, “[t]he only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.” Id., at 609.

The Court today replies that McCormick sought only to interpret certain statutes then in force, not the Constitution. Ante, at 11, and n. 3. But this much is hard to see. Allowing the Executive to withdraw a patent, McCormick
said, “would be to deprive the applicant of his property without due process of law, and would be in fact an invasion of the judicial branch of the government by the executive.” 169 U. S., at 612. McCormick also pointed to “repeated decisions” in similar cases that themselves do not seem to rest merely on statutory grounds. See id., at 608–609 (citing United States v. Schurz, 102 U. S. 378 (1880), and United States v. American Bell Telephone Co., 128 U. S. 315 (1888)). And McCormick equated invention patents with land patents. 169 U. S., at 609. That is significant because, while the Executive has always dispensed public lands to homesteaders and other private persons, it has never been constitutionally empowered to withdraw land patents from their recipients (or their successors-in-interest) except through a “judgment of a court.” United States v. Stone, 2 Wall. 525, 535 (1865); Wellness Int'l Network, Ltd. v. Sharif, 575 U. S. ___ (2015) (THOMAS, J., dissenting) (slip op., at 11) (“Although Congress could authorize executive agencies to dispose of public rights in lands—often by means of adjudicating a claimant’s qualifications for a land grant under a statute—the United States had to go to the courts if it wished to revoke a patent” (emphasis deleted)).

With so much in the relevant history and precedent against it, the Court invites us to look elsewhere. Instead of focusing on the revocation of patents, it asks us to abstract the level of our inquiry and focus on their issuance. Because the job of issuing invention patents traditionally belonged to the Executive, the Court proceeds to argue, the job of revoking them can be left there too. Ante, at 6–10. But that doesn’t follow. Just because you give a gift doesn’t mean you forever enjoy the right to reclaim it. And, as we’ve seen, just because the Executive could issue an invention (or land) patent did not mean the Executive could revoke it. To reward those who had proven the social utility of their work (and to induce others to follow suit),
the law long afforded patent holders more protection than that against the threat of governmental intrusion and dispossession. The law requires us to honor those historical rights, not diminish them.

Still, the Court asks us to look away in yet another direction. At the founding, the Court notes, the Executive could sometimes both dispense and revoke public franchises. And because, it says, invention patents are a species of public franchises, the Court argues the Executive should be allowed to dispense and revoke them too. *Ante*, at 9–10. But labels aside, by the time of the founding the law treated patents protected by the Patent Clause quite differently from ordinary public franchises. Many public franchises amounted to little more than favors resembling the original royal patents the framers expressly refused to protect in the Patent Clause. The Court points to a good example: the state-granted exclusive right to operate a toll bridge. *Ante*, at 9. By the founding, courts in this country (as in England) had come to view anticompetitive monopolies like that with disfavor, narrowly construing the rights they conferred. See *Proprietors of Charles River Bridge v. Proprietors of Warren Bridge*, 11 Pet. 420, 544 (1837). By contrast, courts routinely applied to invention patents protected by the Patent Clause the “liberal common sense construction” that applies to other instruments creating private property rights, like land deeds. *Davis v. Palmer*, 7 F. Cas. 154, 158 (No. 3,645) (CC Va. 1827) (Marshall, C. J.); see also Mossoff, Reevaluating the Patent Privilege 990 (listing more differences in treatment). As Justice Story explained, invention patents protected by the Patent Clause were “not to be treated as mere monopolies odious in the eyes of the law, and therefore not to be favored.” *Ames v. Howard*, 1 F. Cas. 755, 756 (No. 326) (CC Mass. 1833). For precisely these reasons and as we’ve seen, the law traditionally treated patents issued under the Patent Clause very differently than
monopoly franchises when it came to governmental invasions. Patents alone required independent judges. Nor can simply invoking a mismatched label obscure that fact. The people’s historic rights to have independent judges decide their disputes with the government should not be a “constitutional Maginot Line, easily circumvented” by such “simpl[e] maneuver[s].” *Bank Markazi v. Peterson*, 578 U. S. ___, ___ (2016) (ROBERTS, C. J., dissenting) (slip op., at 12).

Today’s decision may not represent a rout but it at least signals a retreat from Article III’s guarantees. Ceding to the political branches ground they wish to take in the name of efficient government may seem like an act of judicial restraint. But enforcing Article III isn’t about protecting judicial authority for its own sake. It’s about ensuring the people today and tomorrow enjoy no fewer rights against governmental intrusion than those who came before. And the loss of the right to an independent judge is never a small thing. It’s for that reason Hamilton warned the judiciary to take “all possible care . . . to defend itself against” intrusions by the other branches. The Federalist No. 78, at 466. It’s for that reason I respectfully dissent.
Inter partes review allows private parties to challenge previously issued patent claims in an adversarial process before the Patent Office. At the outset, a party must file a petition to institute review, 35 U. S. C. §311(a), that identifies the challenged claims and the grounds for challenge with particularity, §312(a)(3). The patent owner, in turn, may file a response. §313. If the Director of the Patent Office determines “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition,” §314(a), he decides “whether to institute . . . review . . . pursuant to [the] petition,” §314(b). “If . . . review is instituted and not dismissed,” at the end of the litigation the Patent Trial and Appeal Board “shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” §318(a).

Petitioner SAS sought review of respondent ComplementSoft’s software patent, alleging that all 16 of the patent’s claims were unpatentable. Relying on a Patent Office regulation recognizing a power of “partial institution,” 37 CFR §42.108(a), the Director instituted review on some of the claims and denied review on the rest. The Board’s final decision addressed only the claims on which the Director had instituted review. On appeal, the Federal Circuit rejected SAS’s argument that §318(a) required the Board to decide the patentability of every claim challenged in the petition.

Held: When the Patent Office institutes an inter partes review, it must decide the patentability of all of the claims the petitioner has challenged. The plain text of §318(a) resolves this case. Its directive is both mandatory and comprehensive. The word “shall” generally imposes a nondiscretionary duty, and the word “any” ordinarily implies
Syllabus

every member of a group. Thus, §318(a) means that the Board must address every claim the petitioner has challenged. The Director’s “partial institution” power appears nowhere in the statutory text. And both text and context strongly counsel against inferring such a power.

The statute envisions an inter partes review guided by the initial petition. See §312(a)(3). Congress structured the process such that the petitioner, not the Director, defines the proceeding’s contours. The ex parte reexamination statute shows that Congress knew exactly how to authorize the Director to investigate patentability questions “[o]n his own initiative, and at any time,” §303(a). The inter partes review statute indicates that the Director’s decision “whether” to institute review “pursuant to [the] petition” is a yes-or-no choice. §314(b).

Section 314(a)’s requirement that the Director find “a reasonable likelihood” that the petitioner will prevail on “at least 1 of the claims challenged in the petition” suggests, if anything, a regime where a reasonable prospect of success on a single claim justifies review of them all. Again, if Congress had wanted to adopt the Director’s claim-by-claim approach, it knew how to do so. See §304. Nor does it follow that, because §314(a) invests the Director with discretion on the question whether to institute review, it also invests him with discretion regarding what claims that review will encompass. The rest of the statute confirms, too, that the petitioner’s petition, not the Director’s discretion, should guide the life of the litigation. See, e.g., §316(a)(8).

The Director suggests that a textual discrepancy between §314(a)—which addresses whether to institute review based on claims found “in the petition”—and §318(a)—which addresses the Board’s final resolution of the claims challenged “by the petitioner”—means that the Director enjoys the power to institute a review covering fewer than all of the claims challenged in the petition. However, the statute’s winnowing mechanism—which allows a patent owner to concede one part of a petitioner’s challenge and “[c]ancel any challenged patent claim,” §316(d)(1)(A)—fully explains why Congress adopted the slightly different language.

The Director’s policy argument—that partial institution is efficient because it permits the Board to focus on the most promising challenges and avoid spending time and resources on others—is properly addressed to Congress, not this Court. And the Director’s asserted “partial institution” power, which is wholly unmentioned in the statute, is not entitled to deference under Chevron U. S. A. Inc. v. Natural Resources Defense Council, Inc., 467 U. S. 837. Finally, notwithstanding §314(d)—which makes the Director’s determination

825 F. 3d 1341, reversed and remanded.

GORSUCH, J., delivered the opinion of the Court, in which ROBERTS, C. J., and KENNEDY, THOMAS, and ALITO, JJ., joined. GINSBURG, J., filed a dissenting opinion, in which BREYER, SOTOMAYOR, and KAGAN, JJ., joined. BREYER, J., filed a dissenting opinion, in which GINSBURG and SOTOMAYOR, JJ., joined, and in which KAGAN, J., joined except as to Part III–A.
A few years ago Congress created “inter partes review.” The new procedure allows private parties to challenge previously issued patent claims in an adversarial process before the Patent Office that mimics civil litigation. Recently, the Court upheld the inter partes review statute against a constitutional challenge. Oil States Energy Services, LLC v. Greene’s Energy Group, LLC, ante, p. ___. Now we take up a question concerning the statute’s operation. When the Patent Office initiates an inter partes review, must it resolve all of the claims in the case, or may it choose to limit its review to only some of them? The statute, we find, supplies a clear answer: the Patent Office must “issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” 35 U. S. C. §318(a) (emphasis added). In this context, as in so many others, “any” means “every.” The agency cannot curate the claims at issue but must decide them all.

“To promote the Progress of Science and useful Arts,”
Congress long ago created a patent system granting inventors rights over the manufacture, sale, and use of their inventions. U.S. Const., Art. I, §8, cl. 8; see 35 U.S.C. §154(a)(1). To win a patent, an applicant must (among other things) file “claims” that describe the invention and establish to the satisfaction of the Patent Office the invention’s novelty and nonobviousness. See §§102, 103, 112(b), 131; Cuozzo Speed Technologies, LLC v. Lee, 579 U.S. ___, ___–___ (2016) (slip op., at 2–3).

Sometimes, though, bad patents slip through. Maybe the invention wasn’t novel, or maybe it was obvious all along, and the patent owner shouldn’t enjoy the special privileges it has received. To remedy these sorts of problems, Congress has long permitted parties to challenge the validity of patent claims in federal court. See §§282(b)(2)–(3). More recently, Congress has supplemented litigation with various administrative remedies. The first of these was ex parte reexamination. Anyone, including the Director of the Patent Office, can seek ex parte reexamination of a patent claim. §§302, 303(a). Once instituted, though, an ex parte reexamination follows essentially the same inquisitorial process between patent owner and examiner as the initial Patent Office examination. §305. Later, Congress supplemented ex parte reexamination with inter partes reexamination. Inter partes reexamination (since repealed) provided a slightly more adversarial process, allowing a third party challenger to submit comments throughout the proceeding. §314(b)(2) (2006 ed.) (repealed). But otherwise it too followed a more or less inquisitorial course led by the Patent Office. §314(a). Apparently unsatisfied with this approach, in 2011 Congress repealed inter partes reexamination and replaced it with inter partes review. See 35 U. S. C. §§311–319 (2012 ed.).

The new inter partes review regime looks a good deal more like civil litigation. At its outset, a party must file “a petition to institute an inter partes review of [a] patent.”
§311(a). The petition “may request to cancel as unpatentable 1 or more claims of [the] patent” on the ground that the claims are obvious or not novel. §311(b); see §§102 and 103. In doing so, the petition must identify “each claim challenged,” the grounds for the challenge, and the evidence supporting the challenge. §312(a)(3). The patent owner, in turn, may respond with “a preliminary response to the petition” explaining “why no inter partes review should be instituted.” §313. With the parties’ submissions before him, the Director then decides “whether to institute an inter partes review . . . pursuant to [the] petition.” §314(b). (In practice, the agency’s Patent Trial and Appeal Board exercises this authority on behalf of the Director, see 37 CFR §42.4(a) (2017).) Before instituting review, the Director must determine, based on the parties’ papers, “that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” 35 U. S. C. §314(a).

Once the Director institutes an inter partes review, the matter proceeds before the Board with many of the usual trappings of litigation. The parties conduct discovery and join issue in briefing and at an oral hearing. §§316(a)(5), (6), (8), (10), (13). During the course of the case, the patent owner may seek to amend its patent or to cancel one or more of its claims. §316(d). The parties may also settle their differences and seek to end the review. §317. But “[i]f an inter partes review is instituted and not dismissed,” at the end of the litigation the Board “shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” §318(a).

Our case arose when SAS sought an inter partes review of ComplementSoft’s software patent. In its petition, SAS alleged that all 16 of the patent’s claims were unpatentable for various reasons. The Director (in truth the Board acting on the Director’s behalf) concluded that SAS was likely to succeed with respect to at least one of the claims
and that an inter partes review was therefore warranted. But instead of instituting review on all of the claims challenged in the petition, the Director instituted review on only some (claims 1 and 3–10) and denied review on the rest. The Director did all this on the strength of a Patent Office regulation that purported to recognize a power of “partial institution,” claiming that “[w]hen instituting inter partes review, the [Director] may authorize the review to proceed on all or some of the challenged claims and on all or some or the grounds of unpatentability asserted for each claim.” 37 CFR §42.108(a). At the end of litigation, the Board issued a final written decision finding claims 1, 3, and 5–10 to be unpatentable while upholding claim 4. But the Board’s decision did not address the remaining claims on which the Director had refused review.

That last fact led SAS to seek review in the Federal Circuit. There SAS argued that 35 U. S. C. §318(a) required the Board to decide the patentability of every claim SAS challenged in its petition, not just some. For its part, the Federal Circuit rejected SAS’s argument over a vigorous dissent by Judge Newman. SAS Institute, Inc. v. ComplementSoft, LLC, 825 F. 3d 1341 (2016). We granted certiorari to decide the question ourselves. 581 U. S. ___ (2017).

We find that the plain text of §318(a) supplies a ready answer. It directs that “[i]f an inter partes review is instituted and not dismissed under this chapter, the [Board] shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner . . . .” §318(a) (emphasis added). This directive is both mandatory and comprehensive. The word “shall” generally imposes a nondiscretionary duty. See Lexecon Inc. v. Milberg Weiss Bershad Hynes & Lerach, 523 U. S. 26, 35 (1998). And the word “any” naturally carries “an expansive meaning.” United States v. Gonzales, 520 U. S.
When used (as here) with a “singular noun in affirmative contexts,” the word “any” ordinarily “refer[s] to a member of a particular group or class without distinction or limitation” and in this way “impl[ies] every member of the class or group.” Oxford English Dictionary (3d ed., Mar. 2016), www.oed.com/view/Entry/8973 (OED) (emphasis added) (all Internet materials as last visited Apr. 20, 2018). So when §318(a) says the Board’s final written decision “shall” resolve the patentability of “any patent claim challenged by the petitioner,” it means the Board must address every claim the petitioner has challenged.

That would seem to make this an easy case. Where a statute’s language carries a plain meaning, the duty of an administrative agency is to follow its commands as written, not to supplant those commands with others it may prefer. Social Security Bd. v. Nierotko, 327 U. S. 358, 369 (1946). Because SAS challenged all 16 claims of ComplementSoft’s patent, the Board in its final written decision had to address the patentability of all 16 claims. Much as in the civil litigation system it mimics, in an inter partes review the petitioner is master of its complaint and normally entitled to judgment on all of the claims it raises, not just those the decisionmaker might wish to address.

The Director replies that things are not quite as simple as they seem. Maybe the Board has to decide every claim challenged by the petitioner in an inter partes review. But, he says, that doesn’t mean every challenged claim gains admission to the review process. In the Director’s view, he retains discretion to decide which claims make it into an inter partes review and which don’t. The trouble is, nothing in the statute says anything like that. The Director’s claimed “partial institution” power appears nowhere in the text of §318, or anywhere else in the statute for that matter. And what can be found in the statutory text and context strongly counsels against the Director’s view.
Opinion of the Court

Start where the statute does. In its very first provision, the statute says that a party may seek inter partes review by filing “a petition to institute an inter partes review.” §311(a). This language doesn’t authorize the Director to start proceedings on his own initiative. Nor does it contemplate a petition that asks the Director to initiate whatever kind of inter partes review he might choose. Instead, the statute envisions that a petitioner will seek an inter partes review of a particular kind—one guided by a petition describing “each claim challenged” and “the grounds on which the challenge to each claim is based.” §312(a)(3).

From the outset, we see that Congress chose to structure a process in which it’s the petitioner, not the Director, who gets to define the contours of the proceeding. And “[j]ust as Congress’ choice of words is presumed to be deliberate” and deserving of judicial respect, “so too are its structural choices.” University of Tex. Southwestern Medical Center v. Nassar, 570 U. S. 338, 353 (2013).

It’s telling, too, to compare this structure with what came before. In the ex parte reexamination statute, Congress embraced an inquisitorial approach, authorizing the Director to investigate a question of patentability “[o]n his own initiative, and at any time.” §303(a). If Congress had wanted to give the Director similar authority over the institution of inter partes review, it knew exactly how to do so—it could have simply borrowed from the statute next door. But rather than create (another) agency-led, inquisitorial process for reconsidering patents, Congress opted for a party-directed, adversarial process. Congress’s choice to depart from the model of a closely related statute is a choice neither we nor the agency may disregard. See Nassar, supra, at 353–354.

More confirmation comes as we move to the point of institution. Here the statute says the Director must decide “whether to institute an inter partes review . . . pursuant to a petition.” §314(b). The Director, we see, is
given only the choice “whether” to institute an inter partes review. That language indicates a binary choice—either institute review or don’t. And by using the term “pursuant to,” Congress told the Director what he must say yes or no to: an inter partes review that proceeds “[i]n accordance with” or “in conformance to” the petition. OED, www.oed.com/view/Entry/155073. Nothing suggests the Director enjoys a license to depart from the petition and institute a different inter partes review of his own design.

To this the Director replies by pointing to another part of §314. Section 314(a) provides that the Director may not authorize an inter partes review unless he determines “there is a reasonable likelihood” the petitioner will prevail on “at least 1 of the claims challenged in the petition.” The Director argues that this language requires him to “evaluate claims individually” and so must allow him to institute review on a claim-by-claim basis as well. Brief for Federal Respondent 28. But this language, if anything, suggests just the opposite. Section 314(a) does not require the Director to evaluate every claim individually. Instead, it simply requires him to decide whether the petitioner is likely to succeed on “at least 1” claim. Once that single claim threshold is satisfied, it doesn’t matter whether the petitioner is likely to prevail on any additional claims; the Director need not even consider any other claim before instituting review. Rather than contemplate claim-by-claim institution, then, the language anticipates a regime where a reasonable prospect of success on a single claim justifies review of all.

Here again we know that if Congress wanted to adopt the Director’s approach it knew exactly how to do so. The ex parte reexamination statute allows the Director to assess whether a request raises “a substantial new question of patentability affecting any claim” and (if so) to institute reexamination limited to “resolution of the question.” §304 (emphasis added). In other words, that stat-
Opinion of the Court

ute allows the Director to institute proceedings on a claim-by-claim and ground-by-ground basis. But Congress didn’t choose to pursue that known and readily available approach here. And its choice to try something new must be given effect rather than disregarded in favor of the comfort of what came before. See Nassar, supra, at 353–354.

Faced with this difficulty, the Director tries another tack. He points to the fact that §314(a) doesn’t require him to institute an inter partes review even after he finds the “reasonable likelihood” threshold met with respect to one claim. Whether to institute proceedings upon such a finding, he says, remains a matter left to his discretion. See Cuozzo, 579 U. S., at ___ (slip op., at 9). But while §314(a) invests the Director with discretion on the question whether to institute review, it doesn’t follow that the statute affords him discretion regarding what claims that review will encompass. The text says only that the Director can decide “whether” to institute the requested review—not “whether and to what extent” review should proceed. §314(b).

The rest of the statute confirms, too, that the petitioner’s petition, not the Director’s discretion, is supposed to guide the life of the litigation. For example, §316(a)(8) tells the Director to adopt regulations ensuring that, “after an inter partes review has been instituted,” the patent owner will file “a response to the petition.” Surely it would have made little sense for Congress to insist on a response to the petition if, in truth, the Director enjoyed the discretion to limit the claims under review. What’s the point, after all, of answering claims that aren’t in the proceeding? If Congress had meant to afford the Director the power he asserts, we would have expected it to instruct him to adopt regulations requiring the patent owner to file a response to the Director’s institution notice or to the claims on which the Director instituted review. Yet we have nothing like that here. And then and again there is
§318(a). At the end of the proceeding, §318(a) categorically commands the Board to address in its final written decision “any patent claim challenged by the petitioner.” In all these ways, the statute tells us that the petitioner’s contentions, not the Director’s discretion, define the scope of the litigation all the way from institution through to conclusion.

The Director says we can find at least some hint of the discretion he seeks by comparing §314(a) and §318(a). He notes that, when addressing whether to institute review at the beginning of the litigation, §314(a) says he must focus on the claims found “in the petition”; but when addressing what claims the Board must address at the end of the litigation, §318(a) says it must resolve the claims challenged “by the petitioner.” According to the Director, this (slight) linguistic discrepancy means the claims the Board must address in its final decision are not necessarily the same as those identified in the petition. And the only possible explanation for this arrangement, the Director submits, is that he must enjoy the (admittedly implicit) power to institute an inter partes review that covers fewer than all of the claims challenged in the petition.

We just don’t see it. Whatever differences they might display, §314(a) and §318(a) both focus on the petitioner’s contentions and, given that, it’s difficult to see how they might be read to give the Director power to decide what claims are at issue. Particularly when there’s a much simpler and sounder explanation for the statute’s wording. As we’ve seen, a patent owner may move to “[c]ancel any challenged patent claim” during the course of an inter partes review, effectively conceding one part of a petitioner’s challenge. §316(d)(1)(A). Naturally, then, the claims challenged “in the petition” will not always survive to the end of the case; some may drop out thanks to the patent owner’s actions. And in that light it is plain enough why Congress provided that only claims still challenged “by the
petitioner” at the litigation’s end must be addressed in the Board’s final written decision. The statute’s own winnowing mechanism fully explains why Congress adopted slightly different language in §314(a) and §318(a). We need not and will not invent an atextual explanation for Congress’s drafting choices when the statute’s own terms supply an answer. See United States v. Ron Pair Enterprises, Inc., 489 U. S. 235, 240–241 (1989) (“[A]s long as the statutory scheme is coherent and consistent, there generally is no need for a court to inquire beyond the plain language of the statute”).

Moving past the statute’s text and context, the Director attempts a policy argument. He tells us that partial institution is efficient because it permits the Board to focus on the most promising challenges and avoid spending time and resources on others. Brief for Federal Respondent 35–36; see also post, at 1 (GINSBURG, J., dissenting); post, at 7–8 (BREYER, J., dissenting). SAS responds that all patent challenges usually end up being litigated somewhere, and that partial institution creates inefficiency by requiring the parties to litigate in two places instead of one—the Board for claims the Director chooses to entertain and a federal court for claims he refuses. Indeed, SAS notes, the government itself once took the same view, arguing that partial institution “‘undermine[s] the Congressional efficiency goal’” for this very reason. Brief for Petitioner 30. Each side offers plausible reasons why its approach might make for the more efficient policy. But who should win that debate isn’t our call to make. Policy arguments are properly addressed to Congress, not this Court. It is Congress’s job to enact policy and it is this Court’s job to follow the policy Congress has prescribed. And whatever its virtues or vices, Congress’s prescribed policy here is clear: the petitioner in an inter partes review is entitled to
a decision on all the claims it has challenged.*

That leaves the Director to suggest that, however this Court might read the statute, he should win anyway because of *Chevron U. S. A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U. S. 837 (1984). Even though the statute says nothing about his asserted “partial institution” power, the Director says the statute is at least ambiguous on the propriety of the practice and so we should leave the matter to his judgment. For its part, SAS replies that we might use this case as an opportunity to abandon *Chevron* and embrace the “‘impressive body’” of pre-*Chevron* law recognizing that “‘the meaning of a statutory term’” is properly a matter for “‘judicial [rather than] administrative judgment.’” *Brief for Petitioner 41 (quoting *Pittston Stevedoring Corp. v. Dellaventura*, 544 F. 2d 35, 49 (CA2 1976) (Friendly, J.).)

But whether *Chevron* should remain is a question we may leave for another day. Even under *Chevron*, we owe an agency’s interpretation of the law no deference unless, after “employing traditional tools of statutory construction,” we find ourselves unable to discern Congress’s

*JUSTICE GINSBURG suggests the Director might yet avoid this command by refusing to review a petition he thinks too broad while signaling his willingness to entertain one more tailored to his sympathies. *Post*, at 1 (dissenting opinion). We have no occasion today to consider whether this stratagem is consistent with the statute’s demands. See *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. ____ (2016) (slip op., at 11) (noting that courts may invalidate “‘shenanigans’” by the Director that are “outside [his] statutory limits”); *CAB v. Delta Air Lines, Inc.*, 367 U. S. 316, 328 (1961) (questioning an agency’s “power to do indirectly what it cannot do directly”). But even assuming (without granting) the law would tolerate this tactic, it would show only that a lawful means exists for the Director to achieve his policy aims—not that he “should be allowed to improvise on the powers granted by Congress” by devising an extralegal path to the same goal. *Id.*, at 330. That an agency’s improvisation might be thought by some more expedient than what the law allows, *post*, at 1, does nothing to commend it either, for lawful ends do not justify unlawful means.
meaning. 467 U. S., at 843, n. 9. And after applying traditional tools of interpretation here, we are left with no uncertainty that could warrant deference. The statutory provisions before us deliver unmistakable commands. The statute hinges inter partes review on the filing of a petition challenging specific patent claims; it makes the petition the centerpiece of the proceeding both before and after institution; and it requires the Board’s final written decision to address every claim the petitioner presents for review. There is no room in this scheme for a wholly unmentioned “partial institution” power that lets the Director select only some challenged claims for decision. The Director may (today) think his approach makes for better policy, but policy considerations cannot create an ambiguity when the words on the page are clear. See SEC v. Sloan, 436 U. S. 103, 116–117 (1978). Neither may we defer to an agency official’s preferences because we imagine some “hypothetical reasonable legislator” would have favored that approach. Post, at 9 (BREYER, J., dissenting).

Our duty is to give effect to the text that actual legislators (plus one President) enacted into law. At this point, only one final question remains to resolve. Even if the statute forbids his partial institution practice, the Director suggests we lack the power to say so. By way of support, he points to §314(d) and our decision in Cuozzo, 579 U. S. ___.

Section 314(d) says that the “determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.” In Cuozzo, we held that this provision prevented courts from entertaining an argument that the Director erred in instituting an inter partes review of certain patent claims. Id., at ___–___ (slip op., at 7–12). The Director reads these authorities as foreclosing judicial review of any legal question bearing on the institution of inter partes review—including whether the statute permits his “partial institution” practice.
But this reading overreads both the statute and our precedent. As Cuozzo recognized, we begin with “the ‘strong presumption’ in favor of judicial review.” *Id.*, at ___ (slip op., at 9). To overcome that presumption, Cuozzo explained, this Court’s precedents require “clear and convincing indications” that Congress meant to foreclose review. *Id.*, at ___ (slip op., at 10) (internal quotation marks omitted). Given the strength of this presumption and the statute’s text, Cuozzo concluded that §314(d) precludes judicial review only of the Director’s “initial determination” under §314(a) that “there is a ‘reasonable likelihood’ that the claims are unpatentable on the grounds asserted” and review is therefore justified. *Id.*, at ___ (slip op., at 9); see *id.*, at ___ (slip op., at 12) (review unavailable “where a patent holder merely challenges the Patent Office’s ‘determin[ation] that the information presented in the petition . . . shows that there is a reasonable likelihood’ of success ‘with respect to at least 1 of the claims challenged’”); *ibid.* (claim that a “petition was not pleaded ‘with particularity’ under §312 is little more than a challenge to the Patent Office’s conclusion, under §314(a), that the ‘information presented in the petition’ warranted review”). In fact, Cuozzo proceeded to emphasize that §314(d) does not “enable the agency to act outside its statutory limits.” *Id.*, at ___ (slip op., at 11). If a party believes the Patent Office has engaged in “‘shenanigans’” by exceeding its statutory bounds, judicial review remains available consistent with the Administrative Procedure Act, which directs courts to set aside agency action “not in accordance with law” or “in excess of statutory jurisdiction, authority, or limitations.” *Ibid.*; 5 U. S. C. §§706(2)(A), (C).

And that, of course, is exactly the sort of question we are called upon to decide today. SAS does not seek to challenge the Director’s conclusion that it showed a “reasonable likelihood” of success sufficient to warrant “insti-
Opinion of the Court

tut[ing] an inter partes review.” 35 U. S. C. §§314(a), (d). No doubt SAS remains very pleased with the Director’s judgment on that score. Instead, SAS contends that the Director exceeded his statutory authority by limiting the review to fewer than all of the claims SAS challenged. And nothing in §314(d) or Cuozzo withdraws our power to ensure that an inter partes review proceeds in accordance with the law’s demands.

Because everything in the statute before us confirms that SAS is entitled to a final written decision addressing all of the claims it has challenged and nothing suggests we lack the power to say so, the judgment of the Federal Circuit is reversed and the case is remanded for further proceedings consistent with this opinion.

So ordered.
JUSTICE GINSBURG, with whom JUSTICE BREYER, JUSTICE SOTOMAYOR, and JUSTICE KAGAN join, dissenting.

Given the Court’s wooden reading of 35 U. S. C. §318(a), and with “no mandate to institute [inter partes] review” at all, Cuozzo Speed Technologies, LLC v. Lee, 579 U. S. ___, ___ (2016) (slip op., at 9), the Patent Trial and Appeal Board could simply deny a petition containing challenges having no “reasonable likelihood” of success, §314(a). Simultaneously, the Board might note that one or more specified claims warrant reexamination, while others challenged in the petition do not. Petitioners would then be free to file new or amended petitions shorn of challenges the Board finds unworthy of inter partes review. Why should the statute be read to preclude the Board’s more rational way to weed out insubstantial challenges? For the reasons stated by JUSTICE BREYER, the Court’s opinion offers no persuasive answer to that question, and no cause to believe Congress wanted the Board to spend its time so uselessly.
This case requires us to engage in a typical judicial exercise, construing a statute that is technical, unclear, and constitutes a minor procedural part of a larger administrative scheme. I would follow an interpretive technique that judges often use in such cases. Initially, using “traditional tools of statutory construction,” INS v. Cardoza-Fonseca, 480 U. S. 421, 446 (1987), I would look to see whether the relevant statutory phrase is ambiguous or leaves a gap that Congress implicitly delegated authority to the agency to fill. Chevron U. S. A. Inc. v. Natural Resources Defense Council, Inc., 467 U. S. 837, 842–843 (1984). If so, I would look to see whether the agency’s interpretation is reasonable. Id., at 843. Because I believe there is such a gap and because the Patent Office’s interpretation of the ambiguous phrase is reasonable, I would conclude that the Patent Office’s interpretation is lawful.

The majority sets out the statutory framework that establishes “inter partes review.” See ante, at 2–3; 35
An example will help the reader keep that framework in mind. Suppose the Patent Office issues a patent containing, say, 16 different claims. A challenger, believing the patent is invalid, seeks to invoke the inter partes review procedure.

The statutory chapter entitled “Inter partes review” explains just how this is to be done. See §§311–319. First, the challenger files a petition requesting “cancel[lation]” of one or more of the patent claims as “unpatentable” because “prior art” shows, for example, that they are not “novel.” §311(b); see §§102, 103. That petition must detail the grounds for the challenge and the supporting evidence, along with providing certain technical information. §312. Second, the patent owner may file a “preliminary response” to the petition. §313.

Third, the Director of the Patent Office will decide whether to “institute” inter partes review. §314. The statute specifies that the Director “may not authorize an inter partes review to be instituted unless the Director determines . . . that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” §314(a). Thus, in my example, if the Director determines that none of the 16 challenges in the petition has likely merit, he cannot institute an inter partes review. Even if there is one potentially meritorious challenge, we have said that the statute contains “no mandate to institute review,” so the Director still has discretion to deny a petition. *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. ___, ___ (2016) (slip op., at 9). We have also held that the Director’s decision whether to institute review is normally not reviewable. *Id.,* at ____–____ (slip op., at 11–12).

The Director, by regulation, has delegated the power to institute review to the Patent Trial and Appeal Board. 37 CFR §42.4(a) (2017). And the Director has further provided by regulation that where a petition challenges several
BREYER, J., dissenting

patent claims (say, all 16 claims in my example), “the Board may authorize the review to proceed on all or some of the challenged claims.” §42.108(a) (emphasis added). Thus, where some, but not all, of the challenges have likely merit (say, 1 of the 16 has likely merit and the others are close to frivolous), the Board is free to conduct inter partes review only as to the challenge with likely merit.

Fourth, the statute next describes the relation of a petition for review and an instituted review to other proceedings involving the challenged patent. §315. Fifth, the statute describes what happens once the Board begins its inter partes review, including how the Board is to take evidence and make its decisions, §316, and the nature and effect of settlements, §317.

Sixth, the statute sets forth the section primarily at issue here, which describes what happens at the end of the process. It says:

“Final Written Decision. If an inter partes review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner and any new claim added under section 316(d).” §318(a) (emphasis added).

Finally, the chapter says that a “party dissatisfied with the final written decision . . . may appeal the decision” to the U. S. Court of Appeals for the Federal Circuit. §319; see §141(c).

Thus, going through this process, if a petitioner files a petition challenging 16 claims and the Board finds that the challenges to 15 of the claims are frivolous, the Board may then, as it interprets the statute, begin and proceed through the inter partes review process as to the remaining claim, number 16, but not in respect to the other 15
claims. Eventually the Board will produce a “final written
decision” as to the patentability of claim number 16, which
decision the challenger (or the patentee) can appeal to the
Federal Circuit.

II

Now let us return to the question at hand, the meaning
of the phrase “any patent claim challenged by the peti-
tioner” in §318(a). Do those words unambiguously refer,
as the majority believes, to “any patent claim challenged
by the petitioner” in the petitioner’s original petition? The
words “in the petitioner’s original petition” do not appear
in the statute. And the words that do appear, “any patent
claim challenged by the petitioner,” could be modified by
using different words that similarly do not appear, for
example, the words “in the inter partes review proceed-
ing.” But without added words, the phrase “challenged by
the petitioner” does not tell us whether the relevant chal-
lenge is one made in the initial petition or only one made
in the inter partes review proceeding itself. And, linguis-
tically speaking, there is as much reason to fill that gap
with reference to the claims still being challenged in the
proceeding itself as there is to fill it with reference to
claims that were initially challenged in the petition but
which the Board weeded out before the inter partes review
proceeding began.

Which reading we give the statute makes a difference.
The first reading, the majority’s reading, means that in
my example, the Board must consider and write a final,
and appealable, see §319, decision in respect to the chal-
lenges to all 16 claims, including the 15 frivolous challenges.
The second reading requires the Board to write a final,
appealable decision only in respect to the challenge to the
claim (number 16 in my example) that survived the
Board’s initial screening, namely, in my example, the one
challenge in respect to which the Board found a “reason-
I cannot find much in the statutory context to support the majority’s claim that the statutory words “claim challenged by the petitioner” refer unambiguously to claims challenged initially in the petition. After all, the majority agrees that they do not refer to claims that initially were challenged in the petition but were later settled or withdrawn. *Ante*, at 9–10; see §316(d)(1)(A) (allowing the patent owner to cancel a challenged patent claim during inter partes review); §317 (addressing settlement). The majority says that weeded-out challenges, unlike settled matters or canceled claims, involve claims that are still being “challenged ‘by the petitioner’ at the litigation’s end.” *Ante*, at 9–10. But weeded-out challenges are the same as settled matters and canceled claims in this respect. The petitioner cannot continue to challenge a claim once that challenge is weeded out by the Board at the institution phase. He cannot pursue it before the Board in the inter partes review, and normally he cannot pursue it in a court of appeals. See *Cuozzo*, 579 U. S., at ___–___ (slip op., at 11–12). The petitioner might bring a totally separate case in court in which he challenges the claim, but that is a different matter that is not the subject of this statutory chapter.

Nor does the chapter’s structure help fill the statutory gap. I concede that if we examine the “final written decision” section, §318(a), just after reading the three initial sections of the statute, §§311, 312, and 313, we may be tempted to believe that the words “any patent claim challenged” in §318(a) must refer to the claims challenged in the petition, just as the words “each claim challenged” in §312(a)(3) unmistakably do. But once we look at the whole statute, this temptation disappears. The first section, §311, describing the inter partes review process, does not use the word “challenge.” The next section, §312, describes the requirements for the initial petition, which is
filed before any inter partes proceeding has been instituted. It is about the petition, so it is not surprising that it refers to the claims challenged in the petition. The next section, §313, concerns the preliminary response, which is similarly filed before the inter partes review proceeding has been instituted and is thus similarly focused on the petition, although it does not use the word “challenged.”

The very next section, however, §314, along with part of §315, describes preliminary screening and the institution of the inter partes review proceeding. The remainder of §315, and the following sections, §§316 and 317, then describe how that proceeding, once instituted, will be conducted (and provide for settlements). Only then does §318 appear. That statutory provision tells the Board that, at the conclusion of the inter partes review proceeding, it must “issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” §318(a). And in this context, a context about the inter partes review proceeding itself, it is more than reasonable to think that the phrase “patent claim challenged by the petitioner” refers to challenges made in the proceeding, not challenges made in the petition but never made a part of the proceeding.

I am not helped by examining, as the majority examines, what Congress might have done had it used other language. Ante, at 6–8. The majority points out that had Congress meant anything other than “challenged in the petition,” it might have said so more clearly. Ibid. But similarly, if Congress had meant “challenged in the petition,” it might have used the words “in the petition.” After all, it used those very words only four sections earlier. See §314(a) (referring to “claims challenged in the petition”). This argument, like many such arguments, is a wash.

Neither am I helped by analogizing the inter partes review proceeding to civil litigation. Cf. ante, at 2–3, 5. That is because, as this Court said in Cuozzo, inter partes
review is a “hybrid proceeding.” 579 U. S., at ___ (slip op., at 16). It has some adversarial characteristics, but “in other significant respects, inter partes review is less like a judicial proceeding and more like a specialized agency proceeding.” Id., at ___ (slip op., at 15). Its purposes are not limited to “helping resolve concrete patent-related disputes among parties,” but extend to “reexam[ining] . . . an earlier administrative grant of a patent” and “pro- tect[ing] the public’s ‘paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.’” Ibid. (quoting Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co., 324 U. S. 806, 816 (1945); ellipsis in original); see also Oil States Energy Services, LLC v. Greene’s Energy Group, LLC, ___ U. S. ___, ___–___ (2018) (slip op., at 8–9).

Finally, I would turn to the likely purposes of the statutory provision. As the majority points out, §314(a) makes clear that the “Director” (now his delegate, the Board) is to determine whether there is a “reasonable likelihood” of success as to at least one of the claims the petition challenges. If not, he cannot initiate an inter partes review proceeding. If so, §314(a) “invests the Director with discretion on the question whether to institute review.” Ante, at 8 (emphasis deleted); Cuozzo, supra, at ___ (slip op., at 9). As I have said, Patent Office regulations allow the Board to proceed with inter partes review of some of the claims a petitioner challenges (say, only those where there is a reasonable likelihood of success), but not of others. 37 CFR §42.108(a).

The majority points out that it does not follow from §314(a) that the statute affords the Director discretion regarding what claims that review will encompass. The text says only that the Director can decide “whether” to institute the requested review, not “whether and to what extent” review should proceed. Ante, at 8 (emphasis deleted). That is certainly so. But I think that when we, as
judges, face a difficult text, it is often helpful to ask not just “whether” or “what” but also “why.” Why, asks the Patent Office, would Congress have intended to require the Board to proceed with an inter partes review, take evidence, and hear argument in respect to challenges to claims that the Board had previously determined had no “reasonable likelihood” of success? The statute would seem to give the Director discretion to achieve the opposite, namely, to avoid wasting the Board’s time and effort reviewing challenges that it has already decided have no “reasonable likelihood of success.” In my example, why make the Board do further work on the challenges to claims 1 through 15, which the Board has already decided are near frivolous?

More than that, to read §318(a) as requiring a “final written decision” in respect to those 15 perhaps frivolous challenges would seem to lead to judicial review of the Board’s decision about those frivolous challenges. After all, §319 of the statute says that a “party dissatisfied with the final written decision of the [Board] under section 318(a),” the provision before us, “may appeal the decision” to the Federal Circuit. And the majority’s interpretation is anomalous in that it is difficult to imagine why Congress, with one hand, would make the agency’s weeding-out decision nonreviewable, see Cuozzo, supra, at ___–___ (slip op., at 11–12), yet at the same time would make the decision reviewable via the requirement that the Board issue a “final written” appealable “decision” with respect to that weeded-out challenge.

III

I end up where I began. Section 318(a) contains a gap just after the words “challenged by the petitioner.” Considerations of context, structure, and purpose do not close the gap. And under Chevron, “where a statute leaves a ‘gap’ or is ‘ambigu[ous],’ we typically interpret it as grant-
BREYER, J., dissenting

ing the agency leeway to enact rules that are reasonable in light of the text, nature, and purpose of the statute.” Cuozzo, supra, at ___ (slip op., at 13) (quoting United States v. Mead Corp., 533 U. S. 218, 229 (2001); alteration in original).

A

In referring to Chevron, I do not mean that courts are to treat that case like a rigid, black-letter rule of law, instructing them always to allow agencies leeway to fill every gap in every statutory provision. See Mead Corp., supra, at 229–231. Rather, I understand Chevron as a rule of thumb, guiding courts in an effort to respect that leeway which Congress intended the agencies to have. I recognize that Congress does not always consider such matters, but if not, courts can often implement a more general, virtually omnipresent congressional purpose—namely, the creation of a well-functioning statutory scheme—by using a canon-like, judicially created construct, the hypothetical reasonable legislator, and asking what such legislators would likely have intended had Congress considered the question of delegating gap-filling authority to the agency.

B

To answer this question, we have previously held that a “statute’s complexity, the vast number of claims that it engenders, and the consequent need for agency expertise and administrative experience” normally “lead us to read [a] statute as delegating to the Agency considerable authority to fill in, through interpretation, matters of detail related to its administration.” Barnhart v. Walton, 535 U. S. 212, 225 (2002). These considerations all favor such a reading here. Indeed, the question before us is one of agency administration in respect to detailed matters that an agency working with the statute is particularly likely
to understand. In addition, the agency filled the gap here through the exercise of rulemaking authority explicitly given it by Congress to issue regulations “setting forth the standards for the showing of sufficient grounds to institute a review” and “establishing and governing inter partes review.” §§316(a)(2), (4); Cuozzo, 579 U. S., at ___–___ (slip op., at 12–13); cf. Mead Corp., supra, at 227. Thus, there is a gap, the agency possesses gap-filling authority, and it filled the gap with a regulation that, for reasons I have stated, is a reasonable exercise of that authority.

* * *

I consequently would affirm the judgment of the Federal Circuit. And, with respect, I dissent from the Court’s contrary conclusion.