

International Arbitration Provisions Allow State Court Litigation on International Agreements to be Moved to U.S. Federal Courts

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Companies increasingly enter into license agreements that are international in nature. While this expanding global marketplace brings new opportunities, it also raises significant legal issues, such as how to resolve disputes arising out of these agreements. In an international deal, the parties may have some aversion to agreeing to litigate disputes in the country of the other party. For example, many foreign entities view the prospect of U.S. litigation with some trepidation due to the expansive discovery rules in U.S. litigation.

The most common alternative to litigating disputes is the use of some form of alternative dispute resolution, such as arbitration. In an arbitration, the parties can agree in advance on the location of the trial, the rules and language that will apply, and how a decision will be rendered. This often allows the parties to choose a forum and mechanism that both parties agree is somewhat neutral. Agreeing to arbitrate disputes, however, is only one of the hurdles in international dispute resolution. Another is the ability to go to a court and enforce an award made by an arbitrator.

Courts in the United States generally approve of and enforce foreign arbitration awards. In addition, many foreign courts enforce US arbitration awards under international conventions, such as the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, also known as the New York Convention. The Supreme Court of the United States has explained that the purpose of the Convention is "to encourage the recognition and enforcement of commercial arbitration agreements in international contracts and to unify the standards by which agreements to arbitrate are observed and arbitral awards are enforced in the signatory countries." *Scherk v. Alberto-Culver Co.*, 417 U.S. 506, 520 n.15 (1974).

Actions brought under the New York Convention are deemed to arise under the laws and treaties of the United States, which allows them to be brought in a US federal district court. See, e.g., *Invista S.à.r.l. v. Rhodia, S.A.*, 625 F.3d 75, 84 (3d Cir. 2010) (citing 9 U.S.C. § 203). This is significant as contract disputes are often considered state law issues and thus, are often heard in state courts. In a recent case, *Infutura Global Ltd. v. Sequus Pharmaceuticals, Inc.*, No. 09-16378 (9th Cir. Feb. 7, 2011),¹ the United

States Court of Appeals for the Ninth Circuit held that a defendant could remove an action from U.S. state court to U.S. federal district court when the defendant raised an affirmative defense that "related to" an arbitration agreement or award falling under the New York Convention. Thus, at least in this instance, including an arbitration provision in an international IP licensing agreement created a future path for removing a state court action to federal court.

The *Infuturia* Decision

In *Infuturia*, a dispute over licensing rights arose between two companies, Infuturia Global Ltd. ("Infuturia") from the British Virgin Islands and Sequus Pharmaceuticals, Inc. ("Sequus") from California. Infuturia had entered into a license agreement with Yissum Research and Development Co. ("Yissum") giving Infuturia exclusive worldwide rights to certain patents. The agreement included an arbitration provision that required arbitration of any dispute "connected in any way to the implementation of [the] Agreement." Years later, Sequus entered into its own license agreement with Yissum for rights to Yissum's technology. Infuturia then sued Sequus in California state court for tortious inference, alleging that Sequus had encouraged Yissum to license technology to which Infuturia already had exclusive rights.

Given that its agreement with Infuturia was implicated by the dispute, Yissum initiated an arbitration with Infuturia in Israel to resolve the issue of whether Yissum had breached its agreement by licensing Sequus. In addition, although not a party to the California proceedings, Yissum won a stay of that case pending the result of that arbitration. The arbitrator determined that Yissum had not breached the Infuturia license and that Infuturia did not have rights to any patents and products relating to the Sequus license.

Given the arbitration decision, the California court lifted the stay in the California proceeding. At that time, Sequus successfully sought removal of the case to federal court. The federal district court determined that removal was proper because the litigation "relates to" the arbitration provision and the arbitration provision falls under the New York Convention. In particular, Sequus was asserting that the issues raised in the pending lawsuit had already been resolved against Infuturia in the Israeli arbitration. The district court subsequently granted Sequus' motion to dismiss the case, agreeing that these issues had been resolved in the prior arbitration.

On appeal, Infuturia asserted, among other things, that removal of the case from state court to federal court was improper. Infuturia argued a state court action can be removed to federal court only if the parties in the case have entered into an arbitration agreement and the action relates to that agreement. Thus, according to Infuturia, its action against Sequus could not be removed because the two companies did not have an arbitration agreement. The Court disagreed, finding that an affirmative defense relating to an arbitration agreement or award that falls under the New York Convention gives the federal district court removal jurisdiction.

Strategy and Conclusion

The court's findings in *Infuturia* emphasize the importance of considering an arbitration clause when negotiating and drafting international contracts for IP rights. An arbitration provision under the New York Convention offers a way to potentially avoid costly litigation should a dispute arise. And as *Infuturia* demonstrates, it can also ensure that even collateral litigation relating to the agreement will at least take place in federal court.

There are a number of reasons why this might be favorable. Federal courts are often viewed as being more neutral to out-of-state parties than state courts. In addition, Federal Courts have a more uniform set of rules across jurisdictions and often offer a faster pace that allows the parties to resolve their disputes more quickly.

Endnotes

¹ The *Infutura* decision: <http://www.ca9.uscourts.gov/datastore/opinions/2011/02/07/09-16378.pdf>.

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