Section VIII: Model Rules for Non-Administered Arbitration of Trademark and Unfair Competition Disputes

[It is important to read Section V prior to using this section.]

These Rules for Non-Administered Arbitration of Trademark and Unfair Competition Disputes (the "Rules") are adapted from the Center for Public Resources ("CPR") "Rules for Non-Administered Arbitration of Business Disputes, Amended 1993." Under the Rules, CPR's responsibilities are limited to acting as the appointing authority in certain circumstances (see Rule 6) and deciding challenges to an arbitrator and certain other matters (see Rule 7.7).

The Rules are intended in particular for use in arbitration of trademark and unfair competition disputes. The Rules are designed to assure the expeditious and economical conduct of proceedings. The Rules may be adopted by parties wishing to do so by using the suggested agreement provisions discussed in Section IX, with model forms in the Appendix.

A. General and Introductory Rules

Rule 1. Scope of Application

1.1 Where the parties to a contract have provided for arbitration under the Rules, they shall be deemed to have made these Rules a part of their arbitration agreement, except to the extent that they have agreed in writing, or on the record during the course of the

arbitral proceeding, to modify these Rules. These Rules, and any amendment thereof adopted by CPR, shall apply in the form obtaining at the time the arbitration is commenced.

1.2 These Rules shall govern the arbitration except that where any of these Rules is in conflict with a mandatory provision of applicable law, that provision of law shall prevail.

Rule 2. Notices

2.1 Notices shall be given in writing at the address specified in writing by the recipient or, if no address has been specified, to the then business or residence address of the recipient. Notices may be given by mail, telex or facsimile transmission. Notices shall be deemed to have been received on the date of delivery.

2.2 Time periods specified by these Rules or established by the Arbitral Tribunal (the "Tribunal") shall start to run on the day a notice is received, unless the Tribunal shall specifically provide otherwise.

Rule 3. Commencement of Arbitration

3.1 The party commencing arbitration (the "Claimant") shall address to the other party (the "Respondent") a notice of arbitration.

3.2 The arbitration shall be deemed commenced on the date on which the notice of arbitration is received by the Respondent.

3.3 The notice of arbitration shall include in the text or in attachments thereto:

(a) The full names, descriptions and addresses of the parties;

(b) A demand that the dispute be referred to arbitration pursuant to the Rules;

(c) The verbatim text of the arbitration clause or the separate arbitration agreement that is involved;

(d) A statement of the general nature of the claimant's claim;

(e) The relief or remedy sought; and

(f) The name and address of the arbitrator appointed by the Claimant, if the parties have agreed that each shall appoint an arbitrator.

3.4 Within twenty days after receipt of the notice of arbitration, the Respondent shall deliver to the Claimant a notice of defense. Failure to deliver a notice of defense shall not delay the arbitration; in the event of such failure, all claims set forth in the demand shall be deemed denied.

3.5 The notice of defense shall include:

(a) Any comment on items (a), (b), and (c) of the notice of arbitration that the Respondent may deem appropriate;

(b) A statement of the general nature of the Respondent's defense; and

(c) The name and address of the arbitrator appointed by the Respondent, unless the parties have agreed that neither shall appoint an arbitrator.

3.6 The Respondent may include in its notice of defense any counterclaim within the scope of the arbitration clause. If it does so, the counterclaim in the notice of defense shall include items (a), (b), (c), (d) and (e) of Rule 3.3.

3.7 If a counterclaim is asserted, within twenty days after receipt of the notice of defense, the Claimant shall deliver to the Respondent a reply to counterclaim which shall have the same elements as provided in Rule 3.5 for the notice of defense.

3.8 Claims or counterclaims may be freely added or amended prior to the establishment of the Tribunal and thereafter with the consent of the Tribunal. Notices of defense or replies to amended claims or counterclaims shall be delivered within twenty days after the addition or amendment.

3.9 If a dispute is submitted to arbitration pursuant to a Submission Agreement, Rule 3 shall apply to the extent that it is not inconsistent with the Submission Agreement.

Rule 4. Representation

4.1 The parties may be represented or assisted by persons of their choice.

4.2 Each party shall communicate the name, address and function of such persons in writing to the other party and to the Tribunal.

B. Rules With Respect to the Tribunal

Rule 5. Selection of Arbitrators by the Parties

5.1 Unless the parties have agreed otherwise in writing, the Tribunal shall consist of a sole arbitrator, selected as provided in Rule 5.2.

5.2 If the parties have agreed on a Tribunal consisting of a sole arbitrator or of three arbitrators none of whom shall be appointed by either party, as soon as possible after delivery of the notice of defense provided for in Rule 3.4 and in any event within twenty days thereafter, the parties' representatives shall discuss potential candidates for the arbitrator(s) and shall proceed to select the arbitrator(s). They shall attempt to make their selection within twenty days of their initial discussion, but they may extend their selection process until one or both of them have concluded that a deadlock has been reached. In this event, the arbitrator(s) shall be selected as provided in Rule 6.

5.3 As soon as possible after the appointment of two party-appointed arbitrators and delivery of the notice of defense provided for in Rule 3.4 and in any event within fifteen days thereafter, the party-appointed arbitrators shall discuss potential candidates for the third arbitrator and shall proceed to select the third arbitrator. They shall attempt to make their selection within twenty days of their initial discussion, but they may extend their selection process until one or both of them have concluded, and have so advised the appointing parties, that a deadlock has been reached. In this event, the third arbitrator shall be selected as provided in Rule 6.

Rule 6. Selection of Arbitrator(s) by CPR

6.1 Whenever (i) a party has failed to appoint the arbitrator to be appointed by it; (ii) the parties have failed to appoint the arbitrators to be appointed by them acting jointly; (iii) the party appointed arbitrators have failed to appoint the third arbitrator; or (iv) the parties have provided that one or more arbitrators shall be appointed by CPR, the arbitrator(s) required to complete the Tribunal shall be selected as provided in Rule 6, and either party may request CPR in writing, with copy to the other party, to proceed pursuant to Rule 6.

6.2 The written request may be made as follows:

(a) If a party has failed to appoint the arbitrator to be appointed by it, or the parties have failed to appoint the arbitrator(s) to be appointed by them through agreement, at any time after such failure has occurred.

(b) If the party-appointed arbitrators have failed to appoint the third arbitrator, as soon as the procedure contemplated by Rule 5.2 has been completed.

(c) If the arbitrator(s) are to be appointed by CPR, as soon as the arbitration has been commenced.

6.3 The written request shall include complete copies of the notice of arbitration and the notice of defense or, if the dispute is submitted under a Submission Agreement, a copy of the agreement supplemented by the notice of arbitration and notice of defense if they are not part of the agreement.

6.4 CPR shall then proceed as follows:

(a) Promptly following receipt by it of the request provided for in Rule 6.3, CPR shall convene the parties in person or by telephone one or more times to attempt to select the arbitrator(s) by agreement of the parties.

(b) If the procedure provided for in (a) does not result in the selection of the required number of arbitrators, CPR shall submit to the parties a list of not less than five candidates if one arbitrator remains to be selected, and of not less than seven candidates if two or three arbitrators are to be selected. Such list shall include a brief statement of each candidate's qualifications. Each party shall number the

candidates in order of preference, shall note any objection it may have to any candidate, and shall deliver the list so marked to CPR. Any party failing without good cause to return the candidate list so marked within ten days after receipt shall be deemed to have assented to all candidates listed thereon. CPR shall designate as arbitrator(s) the nominee(s) willing to serve for whom the parties collectively have indicated the highest preference and who does not appear to have a conflict of interest. If a tie should result between two candidates, CPR may designate either candidate. If this procedure for any reason should fail to result in designation of the required number of arbitrators, CPR shall appoint a person or persons whom it deems qualified to fill any remaining vacancy.

Rule 7. Qualifications, Challenges and Replacement of Arbitrators

7.1 Each arbitrator shall be independent and impartial.

7.2 By accepting appointment, each arbitrator shall be deemed to be bound by these Rules and any modification agreed to by the parties, and to have represented that he or she has the time available to devote to the expeditious process contemplated by these Rules.

7.3 Each arbitrator shall promptly disclose in writing to the Tribunal and the parties any circumstances that might cause doubt regarding the arbitrator's independence or impartiality. Such circumstances include bias, interest in the result of the arbitration, and past or present relations with a party or its counsel.

7.4 Any arbitrator may be challenged if circumstances exist or arise that give rise to justifiable doubt regarding that arbitrator's independence or impartiality, *provided*, that a party may challenge an arbitrator whom it has appointed only for reasons of which it becomes aware after the appointment has been made.

7.5 A party may challenge an arbitrator only by a notice in writing to the Tribunal, with copy to the other party, given no later than fifteen days after (i) the parties have been notified that the Tribunal has been constituted, or (ii) the challenging party has become aware of the circumstances specified in Rule 7.4, whichever shall last occur. The notice shall state the reasons for the challenge with specificity.

7.6 When an arbitrator has been challenged by a party, the other party may agree to the challenge or the arbitrator may voluntarily withdraw. Neither of these actions implies acceptance of the validity of the challenge.

7.7 If neither agreed disqualification nor voluntary withdrawal occurs, the challenge shall be decided as follows:

(a) By unanimous vote of the remaining members of the Tribunal;

(b) If the Tribunal consists of a sole Arbitrator or fails or refuses to decide the challenge, by the President of CPR.

7.8 In the event of death, resignation or successful challenge of an arbitrator not appointed by a party, a substitute arbitrator shall be selected pursuant to the procedure by which the arbitrator being replaced was selected. In the event of the death, resignation or successful challenge of an arbitrator appointed by a party, that party may appoint a substitute arbitrator; provided, however, that should that party fail to notify the Tribunal and the other party of its appointment within twenty days from the date on which the opening arose, that party's right of appointment shall lapse and the Tribunal shall promptly request CPR to appoint a substitute arbitrator forthwith.

7.9 In the event that an arbitrator fails to act or is *de jure* or *de facto* prevented from duly performing the functions of an arbitrator, the procedures provided in Rule 7.8 shall apply to the selection of a replacement. If the Tribunal consists of a sole arbitrator and the parties do not agree on whether the arbitrator has failed to act or is prevented from performing the functions of an arbitrator, either party may request CPR to make that determination forthwith. If the Tribunal consists of three arbitrators and the parties do not so agree, such determination shall be made by a majority of the Tribunal.

7.10 If the sole arbitrator or the chairman of the Tribunal is replaced, the successor shall decide the extent to which any hearings held previously shall be repeated. If any other arbitrator is replaced, the Tribunal in its discretion may require that some or all prior hearings be repeated.

Rule 8. Challenges to the Jurisdiction of the Tribunal

8.1 The Tribunal shall have the power to hear and determine challenges to its jurisdiction.

8.2 The Tribunal shall have the power to determine the existence, validity or scope of the contract of which an arbitration clause forms a part, and/or of the arbitration clause itself. For the purposes of challenges to the jurisdiction of the Tribunal, the arbitration clause shall be considered as separable from any contract of which it forms a part.

8.3 Any challenges to the jurisdiction of the Tribunal, except challenges based on the award itself, shall be made not later than the notice of defense or, with respect to a counterclaim, the reply to the counterclaim.

C. Rules With Respect to the Conduct of the Arbitral Proceedings

Rule 9. General Provisions

9.1 Subject to these Rules, the Tribunal may conduct the arbitration in such manner as it shall deem appropriate. The Tribunal is directed promptly to assure firm control of all aspects of the proceedings, including without limitation the organization of arbitral conferences and hearings and arrangements with respect to the functioning of the Tribunal.

9.2 The proceedings shall be conducted in an expeditious manner. The Tribunal is empowered to impose time limits it considers reasonable on each phase of the proceeding, including without limitation the time allotted to each party for presentation of its case and for rebuttal. In setting time limits, the Tribunal should bear in mind its obligation to manage the proceeding firmly in order to complete proceedings as economically and expeditiously as possible.

9.3 Except as otherwise provided in these Rules or permitted by the Tribunal, no party or anyone acting on its behalf shall have any *ex parte* communication with any arbitrator with respect to any matter of substance relating to the proceeding, or on any matter with the arbitrator it appointed, except that a party and the arbitrator it appointed may confer regarding the selection of the chairman of the Tribunal.

9.4 As promptly as possible after the selection of the Tribunal, the Tribunal shall hold an initial pre-hearing conference for the planning and scheduling of the proceeding. The objective of this conference shall be to discuss all elements of the arbitration with a view to planning for its future conduct. Matters to be considered in the initial pre-hearing conference may include, *inter alia*, the following:

(a) Procedural matters such as setting specific time limits for, and manner of, any required discovery; the desirability of bifurcation or other separation of the issues in the arbitration; the scheduling of conferences and hearings; the scheduling of pre-hearing memoranda; the need for and type of record of conferences and hearings, including the need for transcripts; the amount of time allotted to each party for presentation of its case and for rebuttal; the mode, manner and order for presenting proof; the need for expert witnesses and how expert testimony should be presented; and the necessity for any on-site inspection by the Tribunal;

(b) The early identification and narrowing of the issues in the arbitration;

(c) The possibility of stipulations of fact and admissions by the parties solely for purposes of the arbitration, as well as simplification of document authentication; and

(d) The possibility of the parties engaging in settlement negotiations, with or without the assistance of a mediator.

After the initial conference, further pre-hearing or other conferences may be held as the Tribunal deems appropriate.

9.5 In order to define the issues to be heard and determined, the Tribunal may, *inter alia*, make pre-hearing orders for the arbitration and instruct the parties to file more detailed statements of claim and of defense and pre-hearing memoranda.

9.6 Unless the parties have agreed upon the place of arbitration, the Tribunal shall fix the place of arbitration. The award shall be deemed made at such place. Hearings may be held and the Tribunal may schedule meetings, including telephone meetings, wherever it deems appropriate.

Rule 10. Discovery

The Tribunal shall permit and facilitate such discovery as it shall determine is appropriate in the circumstances, taking into account the needs of the parties and the desirability of making discovery expeditious and cost-effective. The Tribunal may issue orders to protect the confidentiality of proprietary information, trade secrets and other sensitive information disclosed in discovery.

Rule 11. Evidence and Hearings

11.1 The Tribunal shall determine the manner in which the parties shall present their cases. Unless otherwise determined by the Tribunal, the presentation of a party's case shall include the submission of a pre-hearing memorandum including the following elements:

(a) A statement of facts;

(b) A statement of each claim being asserted;

(c) A statement of the applicable law upon which the party relies;

(d) A statement of the relief requested, including the basis for any damages claimed; and

(e) A statement of the evidence to be presented, including the name, capacity and subject of testimony of any witnesses to be called and an estimate of the amount of time required for the witness' direct testimony.

11.2 Evidence may be presented in written or oral form as the Tribunal may determine is appropriate. The Tribunal is not required to apply the rules of evidence used in judicial proceedings, *provided, however*, that the Tribunal shall apply the lawyer-client privilege and the work product immunity. The Tribunal shall determine the applicability of any privilege or immunity and the admissibility, relevance, materiality and weight of the evidence offered.

11.3 The Tribunal, in its discretion, may require the parties to produce evidence in addition to that initially offered. It may also appoint experts whose testimony shall be subject to cross examination and rebuttal.

11.4 The Tribunal shall determine the manner in which witnesses are to be examined. The Tribunal shall have the right to exclude witnesses from hearings during the testimony of other witnesses.

Rule 12. Interim Measures of Protection

12.1 At the request of a party, the Tribunal may take such interim measures as it deems necessary in respect of the subject matter of the dispute, including measures for the preservation of assets, the conservation of goods or the sale of perishable goods. The Tribunal may require security for the costs of such measures.

12.2 A request for interim measures by a party to a court shall not be deemed incompatible with the agreement to arbitrate or as a waiver of that agreement.

Rule 13. The Award

13.1 The Tribunal may make final, interim, interlocutory and partial awards. An award may grant any remedy or relief which the Tribunal deems just and equitable and within the scope of the agreement of the parties, including but not limited to specific performance of a contract. With respect to any interim, interlocutory or partial award, the Tribunal may state in its award whether or not it views the award as final, for purposes of any judicial proceedings in connection therewith.

13.2 All awards shall be in writing and shall state the reasoning on which the award rests unless the parties agree otherwise. When there are three arbitrators, the award shall be made and signed by at least a majority of the arbitrators; and if the award decides a number of issues, the part of the award relating to each issue shall be made and signed by at least a majority of the arbitrators.

13.3 A member of the Tribunal who does not join in an award may file a dissenting opinion. Such opinion shall not constitute part of the award.

13.4 Executed copies of awards and of any dissenting opinion shall be delivered by the Tribunal to the parties.

13.5 Within fifteen days after receipt of the award, either party, with notice to the other party, may request the Tribunal to correct in an award any errors in computation, any clerical or typographical errors, or any errors of a similar nature.

Within thirty days after the delivery of an award to the parties, the Tribunal may make corrections on its own initiative and corrections requested by either party. All such corrections shall be in writing, and the provisions of Rule 13 shall apply to them.

13.6 After expiration of the thirty-day period provided in Rule 13.5, awards shall be final and binding on the parties, and the parties undertake to carry out awards without delay.

13.7 The dispute should in most circumstances be submitted to the Tribunal for decision within six months after the initial pre-hearing conference required by Rule 9.4. The final award should in most circumstances be rendered within one month thereafter. The parties and the arbitrators shall use their best efforts to comply with this schedule.

D. Miscellaneous Rules

Rule 14. Failure to Comply with Rules

Whenever a party fails to comply with these Rules in a manner deemed material by the Tribunal, the Tribunal shall fix a reasonable period of time for compliance and, if the party does not comply within said period, the Tribunal may impose a remedy it deems just, including an award on default. Prior to entering an award on default the Tribunal may require the non-defaulting party to produce evidence and legal argument in support of its contentions, which the Tribunal may receive without the defaulting party's presence or participation.

Rule 15. Costs

15.1 Each arbitrator shall be compensated at an hourly rate determined at the time of appointment for all time spent in connection with the proceeding and shall be reimbursed for any travel and other expenses.

15.2 The Tribunal shall fix the costs of arbitration. The costs of arbitration include:

(a) The fees and expenses of members of the Tribunal;

(b) The costs of expert advice and other assistance engaged by the Tribunal;

(c) The travel and other expenses of witnesses to such extent as the Tribunal may deem appropriate;

(d) The costs for legal representation and assistance and experts of the successful party to such extent as the Tribunal may deem appropriate;

(e) The charges and expenses of CPR with respect to the arbitration;

(f) The costs of a transcript; and

(g) The costs of meeting and hearing facilities.

15.3 Subject to any agreement between the parties to the contrary, the Tribunal may apportion the costs of arbitration between or among the parties in such manner as it deems reasonable taking into account the circumstances of the case, the conduct of the parties during the proceeding, and the result of the arbitration.

15.4 The Tribunal may request each party to deposit an equal amount as an advance for the costs referred to in Rule 15.2, except those specified in subparagraph (d), and, during the course of the proceeding, it may request supplementary deposits from the parties. Any such funds shall be held and disbursed in such a manner as the Tribunal may deem appropriate.

15.5 If the requested deposits are not paid in full within twenty days after receipt of the request, the Tribunal shall so inform the parties in order that jointly or severally they may make the required payment. If such payment is not made, the Tribunal may suspend or terminate the proceedings.

15.6 After the award has been rendered, the Tribunal shall return any unexpended balance from deposits made to the parties as may be appropriate.

Rule 16. Confidentiality

The parties and the arbitrators shall treat the proceedings, any related discovery and the decisions of the Tribunal, as confidential, except in connection with a judicial challenge to, or enforcement of, an award, and unless otherwise required by law.

Rule 17. Settlement and Mediation

17.1 Either party may propose settlement negotiations to the other party at any time. The Tribunal may suggest that the parties explore settlement at such times as the Tribunal may deem appropriate and shall suggest that they do so at or before conclusion of the hearing. The Tribunal shall give such assistance in settlement negotiations as the parties may request and the Tribunal may deem appropriate.

17.2 With the consent of the parties, the Tribunal at any stage of the proceeding may arrange for mediation of the claims asserted in the arbitration by a mediator acceptable to the parties. The Mediator shall be a person other than a member of the Tribunal, unless the parties request and the Tribunal agrees that a member of the Tribunal designated by the parties may serve as Mediator. The Tribunal may provide the Mediator with whatever factual and legal material developed in the arbitration it deems appropriate and may permit the Mediator to attend conferences and hearings held in connection with the arbitration. Unless the parties agree otherwise, any such mediation shall be conducted under the *CPR-INTA Model Procedure for Mediation of Trademark Disputes.*

17.3 The Tribunal will not be informed of any settlement offers or other statements made during settlement negotiations or a mediation between the parties, unless both parties consent.

Rule 18. Actions against Neutral Parties

Neither CPR nor INTA nor any arbitrator shall be liable to any party for any act or omission in connection with any arbitration conducted under these Rules.

Rule 19. Waiver

A party knowing of a failure to comply with any provision of these Rules and neglecting to state its objections promptly waives any objection thereto.

E. Commentary on Rules

1. General Commentary on the Rules

The CPR/INTA Rules for Non-Administered Arbitration of Trademark and Unfair Competition Disputes (the "Rules") represent an adaptation of the CPR Rules for Non-Administered Arbitration of Business Disputes, which were developed in 1989 and amended in 1993 by a CPR committee of leading arbitrators and arbitration practitioners.

The Rules reflect the view that disputants should make all reasonable efforts to resolve their dispute by agreement. Rule 16 requires the Arbitral Tribunal (the "Tribunal") to suggest at or before the conclusion of the hearing that the parties engage in settlement negotiations, and authorizes the Tribunal to arrange mediation with the consent of the parties.

The standard arbitration clauses in the Rules have been drafted to make proceedings under the Rules subject to the United States Arbitration Act, 9 U.S.C. § 1 et seq. If parties desire a different law, or if the federal law does not apply (where, for example, the underlying transaction is not "in commerce"), another law should be specified. [See reference to *Volt v. Stanford* in Section IX.]

Every disputant wants to have a reasonable opportunity to develop and present its case. Parties that choose arbitration over litigation also do so in large part out of a need or desire for a proceeding that is speedy and economical, factors which go hand in hand. Delay, which in turn increases costs, is the root cause of the most frequent complaints about arbitration. Avoidance of delay is a primary concern.

The complexity of cases will vary greatly. In rules of general application it is not appropriate to fix hard and fast deadlines. Rule 13.7 commits the parties and the arbitrator(s) to use their best efforts to assure that the dispute will be submitted to the Tribunal for decision within six months after the initial pre-hearing conference, and that the final award will be rendered within one month thereafter. Rule 9.2

empowers the arbitrator(s) to establish time limits for each phase of the proceeding, including specifically the time allotted to each party for presentation of its case and for rebuttal.

Conflicting commitments of busy arbitrators can cause serious delays, particularly if a three-arbitrator Tribunal is selected. Rule 7.2 provides that by accepting appointment each arbitrator is deemed to have represented that he or she has the time available to devote to the expeditious process contemplated by the Rules.

Counsel are expected to cooperate fully with the Tribunal and with each other to assure that the proceeding will be conducted with civility in an efficient, expeditious and economical manner. Rule 15 empowers the arbitrators in apportioning costs to take into account "the circumstances of the case." This broad power is intended to permit the arbitrators to apportion a greater share of costs than they otherwise might to a party who has employed tactics the arbitrators consider dilatory, or in other ways has failed to cooperate in assuring the efficient conduct of the proceeding.

The Rules may be modified by written agreement. The Rules are designed for an arbitration between two parties but may be amended to provide for a proceeding among three or more parties.

2. *Types of Disputes*

The Rules are designed for "trademark disputes". This term is intended to encompass disputes of any nature relating to trademarks and unfair competition.

3. *Administered vs. Non-Administered Arbitration*

The principal functions normally performed by an organization administering arbitration proceedings are to:

- provide a set of rules which the parties can adopt in a pre-dispute agreement or for an existing dispute
- provide administrative staff to render impartial services required for smooth case handling and to insulate arbitrators from parties
- provide lists of persons from which arbitrators may be chosen

- appoint the arbitrator(s) if necessary
- decide arbitrator conflict of interest challenges if necessary
- determine arbitrator fees and bill the parties for such fees
- schedule hearings and send notices of hearings
- provide hearing rooms
- distribute documents
- review awards for procedural comments.

The charges of administering organizations typically are related to the amount in dispute, but rates vary.

Under these Rules, CPR will assist in the arbitrator selection process, if needed, but once selected, the sole arbitrator or chair of the panel becomes responsible for administrative matters such as scheduling hearings, sending notices, and arranging for a hearing room. Documents are distributed directly. CPR advises the parties before selection of each arbitrator's rates, and arbitrators bill the parties directly.

As attorneys become more sophisticated in arbitration practice and more cost conscious, many find the above self-administered approach more efficient than relying on an intermediary, and, of course, they avoid payment of the administrative organization's fees.

The Rules are intended primarily for disputes between responsible parties which will not attempt to obstruct the process. However, the Rules do permit the process to go forward even if a respondent fails to deliver a notice of defense, fails to participate in selection of the Tribunal, or ultimately fails to appear at a hearing.

Most arbitrations take place pursuant to the parties' binding commitment in their business agreement to submit possible future disputes to arbitration in accordance with specified rules. Once a dispute has arisen, it is usually more difficult for the parties to agree on any alternative to litigation. The Program recommends the inclusion of a dispute resolution clause in most business agreements. The parties should also consider whether to provide for administered or non-administered arbitration. Rules for administered arbitration have long been available for incorporation by reference. The availability of rules

well designed for the efficient conduct of a non-administered proceeding will facilitate the choice between these alternative procedures.

4. Salient Features of the Rules

The Rules differ in numerous respects from arbitration rules promulgated by other organizations. Features of particular significance are:

(a) The Rules call for non-administered arbitration.

(b) The Rules require the expeditious conduct of the proceeding, empowering the arbitrator(s) to establish time limits for each phase of the proceeding (Rule 9.2), and to penalize a party engaging in dilatory tactics (Rule 15.3).

(c) All arbitrators, including those appointed by either party, are required to be independent and impartial (Rule 7.1). Such a requirement enhances the acceptability of the arbitration process, albeit a departure from existing U.S. practice.

(d) The parties are given ample opportunity to select a sole arbitrator or a panel of three arbitrators without intervention of CPR. If they fail, either party may request CPR's assistance (Rule 5).

(e) CPR will first convene the parties to attempt to select the arbitrator(s) by agreement of the parties. Only if that attempt fails will CPR submit a list of candidates to the parties for ranking (Rule 6.4).

(f) The Tribunal may decide challenges to its jurisdiction (Rule 8). This should allow arbitrators to decide all issues, including arbitrability questions, without the necessity for court intervention.

(g) The chairman of the Tribunal is assigned responsibility for the organization of conferences and hearings and arrangements with respect to the functioning of the Tribunal (Rule 9.1).

(h) The Tribunal is required to hold at least one pre-hearing conference to plan and schedule the proceeding (Rule 9.4). Such conference should result in the smooth scheduling of the case, and may aid possible settlement.

(i) The Tribunal is given great leeway in matters of procedure. The Tribunal is specifically empowered, for instance, to:

- establish time limits for each phase of the proceeding (Rule 9.2)
- limit the time allotted to each party for presentation of its case (Rule 9.2)
- make pre-hearing orders (Rule 9.5)
- permit such discovery as it deems appropriate (Rule 10)
- require the submission of pre-hearing memoranda (Rule 11.1)
- require evidence to be presented in written form (Rule 11.2).

(j) The Tribunal is empowered to appoint neutral experts (Rule 11.3).

(k) The Tribunal may take interim measures for the preservation of assets or other interim measures (Rule 12.1).

(l) The Tribunal is required to state the reasoning on which its award rests unless the parties agree otherwise (Rule 13.2). The Program takes the position that the parties are entitled to know how the decision was reached.

(m) Each arbitrator is to be fully compensated at an hourly rate determined at the time of appointment for all time spent in connection with the proceeding (Rule 15.1).

(n) The Tribunal is empowered to apportion costs, including attorneys' fees and other costs incurred by the successful party, between the parties, taking into account the circumstances of the case, the conduct of the parties during the proceeding and the result (Rule 15.3).

(o) The proceedings are confidential (Rule 16).

(p) The Tribunal may suggest at any time that the parties engage in settlement negotiations and shall make that suggestion at or before conclusion of the hearing (Rule 17.1).

(q) The Tribunal may arrange for mediation of the dispute at any time with the consent of the parties (Rule 17.2).

5. *International Arbitration*

The Rules were designed in the first instance for disputes between parties located in the United States. The *CPR Rules for Non-Administered Arbitration of International Disputes*, published in 1991, represent an adaptation of the Rules for disputes involving persons or business enterprises of different nationalities or located in different countries. These are available from CPR.

6. *Commentary on Individual Rules*

(a) General and Introductory Rules

Rule 3. Commencement of Arbitration

Rule 3 sets forth the procedure to be followed when a proceeding is commenced pursuant to a pre-dispute arbitration clause. Under Rule 3.4, the arbitration will proceed even if the respondent should fail to file a timely notice of defense. If the pre-dispute clause required each party to appoint an arbitrator, and either party fails to do so, the other party may request CPR to step in pursuant to Rule 6.

A Submission Agreement entered into after a dispute has arisen may include all or some of the material called for by Rules 3.3 and 3.5 and may eliminate the need for a notice of arbitration and a notice of defense. Rule 3.9 provides that "Rule 3 shall apply to the extent that it is not inconsistent with the Submission Agreement." If the parties so desire, the Submission Agreement can provide that Rule 3 notices will not be required or will be modified.

Rule 4. Representation

It is assumed that parties normally would be represented by a law firm or an individual attorney; however, the Rules permit parties to be represented or assisted by any persons of their choice.

Under the laws of certain jurisdictions, representation of a party in an arbitration proceeding may constitute the practice of law, in which case representation by an attorney would be required.

(b) Rules With Respect to the Tribunal

Rule 5. Selection of Arbitrators by the Parties

The proceedings are likely to be substantially more expeditious and less costly if a sole arbitrator is used. Rule 5.1 provides, therefore, that the Tribunal shall consist of a sole arbitrator, unless the parties have agreed on a Tribunal consisting of three arbitrators.

For many the ability to select a Tribunal well qualified to hear and decide their dispute is a primary motivation to opt for arbitration. The selection of highly qualified, experienced arbitrators is critical. The arbitrators should be persons able and determined to control the course of the proceeding and to make definitive rulings on substantive and procedural matters. The CPR/INTA Trademark Panel represents a unique resource of experts from the trademark bar who are highly qualified to arbitrate trademark disputes.

Rule 6. Selection of Arbitrator(s) by CPR

Selection of arbitrators by the parties is the preferred course, and the parties are given ample opportunity to select a Tribunal without CPR's assistance. However, if they fail, either party may request CPR's assistance at the time and in the manner specified in Rules 6.2 and 6.3.

In accordance with Rule 6.4(a), CPR then will convene the parties and will propose candidates in an attempt to complete the Tribunal in this informal and speedy manner. If this procedure is not wholly successful, CPR will submit a list of candidates to the parties in writing. The parties are required to rank the nominees in order of preference. The nominee(s) willing to serve for whom the parties collectively have indicated the highest preference will be selected.

Rule 7. Qualifications, Challenges and Replacement of Arbitrators

The degree of independence expected of a party-appointed arbitrator in the United States is not always clear. Parties often expect the arbitrator they appoint to act as their advocate on the panel. The CPR/INTA Program does not favor this approach. It is believed that the advocacy role should be performed exclusively by each party's counsel or other representative, and that permitting arbitrators to play such a

role is prejudicial to the disinterested and candid deliberations in which the panel should engage. Consequently, Rule 7.1 states that "Each arbitrator shall be independent and impartial."

The rationale for party appointment is to enable each party to select an individual it considers well qualified and whom it expects in turn to select a capable chairman of the Tribunal. A party may discuss the case in general terms with an individual before appointment, and the appointee may discuss the selection of the chairman with that party. Once the Tribunal has been constituted, no further *ex parte* communication is permitted between a party and the arbitrator it appointed (Rule 9.3).

Rule 7.2 recognizes that other time commitments of arbitrators may well delay the proceeding, particularly if the Tribunal consists of more than one arbitrator. The Rule provides that by accepting appointment each arbitrator is deemed to represent that he or she has the time available to devote to the expeditious process contemplated by the Rules.

Rules 7.3-7.7 set forth a formal procedure for disclosure of "circumstances that might cause doubt regarding the arbitrator's independence or impartiality," and for a challenge for "justifiable doubt," after the Tribunal has been constituted. It is anticipated that normally an individual's possible conflicts of interest would be disclosed and resolved informally before selection, and that it would rarely become necessary to invoke the formal procedure. In general, it is believed all the arbitrators should be held to the standards for independent arbitrators promulgated in the ABA-AAA Code of Ethics for Arbitrators in Commercial Disputes.

Rule 8. Challenges to the Jurisdiction of the Tribunal

This Rule expresses the generally accepted principle that arbitrator(s) have the competence initially to determine their own jurisdiction. The arbitrator(s) will decide whether the arbitration proceeds in the face of a jurisdictional challenge.

(c) Rules with Respect to the Conduct of the Arbitral Proceedings

Rule 9. General Provisions

Under Rule 9.1 "The Tribunal is directed promptly to assume firm control of all aspects of the proceedings, . . ." The efficiency of the proceeding will depend in large part on the chairman's taking the lead in asserting the Tribunal's control over critical aspects of the procedure, including the setting of time limits and their enforcement.

The Rules give the Tribunal wide latitude as to the manner in which the proceeding will be conducted. It is expected that the procedure will be determined in large part during the pre-hearing conference(s) held pursuant to Rule 9.4 and that following the conference(s) the Tribunal will issue one or more orders on procedural matters.

Narrowing issues to those central to the controversy, fact stipulations and admissions should be strongly encouraged by the Tribunal in the interest of focusing on core issues and simplifying the proceeding.

Some controversies hinge on one or two key issues of law which in litigation may be decided early on motion for partial summary judgment. At the pre-hearing conference, the desirability of the Tribunal's ruling on such issues before the hearings can be considered.

Other controversies hinge on a key issue of a technical nature on which a neutral expert can be helpful in bringing about a resolution. The appointment by the Tribunal of such an expert is authorized by Rule 11.3 and also can be discussed at the pre-hearing conference.

The Tribunal may bifurcate the proceeding. If the proceeding is bifurcated to first decide the issue of liability, the parties then may well be able to agree on the remedy. Often parties have options not available to a judge or to arbitrators.

A pre-hearing conference may well give the arbitrators an opportunity to encourage settlement discussions or mediation, as contemplated by Rule 17. Simply bringing the attorneys together for purposes of a conference may lead to such discussions.

Rule 10. Discovery

These Rules specifically empower the Tribunal

> "to permit and facilitate such discovery as it shall determine is appropriate in the circumstances taking into account the needs of the parties and the desirability of making discovery expeditious and cost-effective."

Arbitration is not for the litigator who will "leave no stone unturned." Unlimited discovery is incompatible with the goals of efficiency and economy. The Federal Rules of Civil Procedure are not applicable. Discovery should be limited to that for which a party has a substantial, demonstrable need. Rule 11.2 provides for the application of the attorney-client privilege and the work product immunity. That protection is intended to apply to discovery as well as to hearings.

It is desirable for the parties' counsel to agree, preferably before the initial pre-hearing conference, on a discovery plan and schedule and to submit the same to the Tribunal for its approval.

A party may encounter difficulties if it needs to secure documents or testimony from an uncooperative third party. The arbitrators may well be of assistance in such a situation through the exercise of their subpoena power or in other ways. If the third party's location is beyond subpoena range, holding a hearing at that location may be an option.

Rule 11. Evidence and Hearings

The Rules do not establish a detailed mandatory hearing procedure but permit the Tribunal to determine the procedure. At least the main features should be established during the pre-hearing conference(s). The Tribunal need not apply rules of evidence used in judicial proceedings, except that the Tribunal is required to apply the attorney-client privilege and the work product immunity when it determines that the same are applicable (Rule 11.2).

Self-authentication of documentary exhibits the authenticity of which is not disputed is a widely used practice which reduces hearing time. In cases in which voluminous testimony is expected the hearings will be expedited considerably if the Tribunal requires the direct testimony of all or most witnesses to be submitted in written form before the witness is to appear. This procedure also enables opposing

counsel to better prepare for cross-examination. Depositions and affidavits would be admissible in evidence unless the Tribunal rules otherwise.

The Tribunal should consider at the pre-hearing conference the imposition of time limits on case presentation, as authorized by Rule 9.2. If necessary, any such limits can be extended.

The Rules do not provide specifically for the notice the parties are to be given of hearing dates and times. It is assumed that the Tribunal will give notice in such form and with such lead time as is reasonable under the circumstances.

The efficiency of the proceeding will be enhanced substantially if hearings are held consecutively. If the Tribunal heeds every schedule conflict claim and adjournment request by either counsel, the hearings may drag on quite unnecessarily.

The Tribunal and/or the parties are likely to request a hearing transcript.

Rule 11.3 empowers the Tribunal to appoint neutral experts. It is expected that this power would be exercised sparingly, and usually upon consultation with the parties as to the need for a neutral expert, the scope of the assignment, and identification of well qualified candidates. It is not intended that the expert give advice to the Tribunal *ex parte*; indeed, the Rule entitles the parties to cross examine and to rebut the expert. The conflicting views of partisan experts can lead to confusion rather than enlightenment of arbitrators. In appropriate cases the arbitrators might encourage the parties early on, e.g., at the pre-hearing conference, to agree on the joint appointment of a neutral expert.

The Rules do not automatically require the submission of post-hearing briefs, but it is likely that the Tribunal will order the submission of such briefs. Final oral argument also may be scheduled.

The Tribunal's powers with respect to subpoenas are determined by applicable law and are not dealt with specifically in the Rules.

Rule 13. The Award

Rule 13.2 provides:

> "All awards shall be in writing and shall state the reasoning on which the award rests unless the parties agree otherwise. When there are three arbitrators, the award and any part thereof shall be made and signed by at least a majority of the arbitrators; . . ."

Most parties engaging in arbitration want to know the basis on which the arbitrator(s) reached their decision. It is considered good discipline for arbitrators to require them to spell out their reasoning. Sometimes this process gives rise to second thoughts as to the soundness of the result. The Rule 13.2 mandate gives the arbitrator(s) greater leeway than would a requirement to state "conclusions of law and findings of fact."

Some parties hesitate to arbitrate out of a concern that arbitrators are prone to "split the baby", i.e., to make compromise awards. Any tendency on the part of arbitrators to reach compromise awards should be restrained by the requirement of a reasoned award.

Certain administering organizations and practitioners favor "bare" awards without explanation of any sort, in the belief that such awards are the least likely to be challenged and overturned by a court. In the view of CPR and INTA, the risk that a reasoned award will be successfully challenged normally is small and is outweighed by the other considerations mentioned above.

If an award consists of two or more parts, it is sufficient if any two out of three arbitrators approve each part, even if the same two arbitrators do not approve each part.

Unless the parties shall have agreed in their business agreement or otherwise as to which law shall govern, the Tribunal is free to determine the law which is to govern the award.

Rule 13.7 requires the parties and the arbitrators to use their best efforts to submit the dispute to the Tribunal for decision within six months of the initial pre-hearing conference, and to render the final award within one month following such submission.

The Rules do not deal expressly with confirmation of an award, as the matter is covered by the United States Arbitration Act, 9 U.S.C. § 9 and its state counterparts.

Rule 14. Failure to Comply with Rules

Rule 14 empowers the Tribunal to impose a remedy it deems just whenever a party materially fails to comply with the Rules. The power to make an award on default is specifically included. Pursuant to Rule 15.3 the Tribunal also may take a party's conduct during the proceeding into account in assessing costs.

Rule 15. Costs

CPR and INTA believe that highly qualified arbitrators are entitled to be fully compensated for all time devoted to the arbitration. If an arbitrator is a member of a law firm, he/she is likely to expect compensation at approximately the hourly rates normally charged for his services. The rates payable to party-appointed arbitrators should be agreed to between the appointee and the appointing party. The rates of other arbitrators should be established by agreement with both parties. The members of a three member Tribunal are likely to be compensated at different rates, but gross variations may present problems.

Normally, the parties are expected to make advances for costs to a fund pursuant to Rule 15.4, and the arbitrators' fees, as well as other expenses, would be paid from such fund.

The "costs of arbitration" enumerated in Rule 15.2 include the costs for legal representation and assistance and experts of the successful party to such extent as the Tribunal may deem appropriate.

In accordance with Rule 15.3, unless the parties otherwise agreed, the Tribunal may apportion the costs of arbitration between the parties "in such manner as it deems reasonable taking into account the circumstances of the case, the conduct of the parties during the proceeding, and the result of the arbitration." As stated above, the arbitrator(s) may take into account tactics by either party which unreasonably interfered with the expeditious conduct of the proceeding.

Rule 17. Settlement and Mediation

Over ninety percent of civil lawsuits and a high percentage of business arbitration proceedings are disposed of before a trial or hearings take place, most by settlement. Yet often each party is

reluctant to propose settlement negotiations, if only out of concern that the proposal will be seen as a sign of weakness. A proposal to that effect by the Tribunal at one or more appropriate junctures in the proceeding should launch negotiations, without either party's bearing the onus of being the proposer.

A skilled mediator can play a critical role in bringing about agreement between adversaries, even if bilateral negotiations did not bring them within reach of agreement. If the Tribunal believes that mediation may result in a settlement, the Tribunal is encouraged to urge the parties to engage in such a process and to assist in arranging the same. As a rule, arbitration proceedings should be suspended while mediation is in progress, at least for a limited time.

It may well be desirable for senior executives to play an active role in a mediation proceeding. Often, the parties have settlement options that are business oriented and less onerous than the payment of money. Business executives are likely to be best able to explore such options.

The members of the Tribunal will be thoroughly familiar with the case, and an arbitrator not appointed by either party may well be able to serve as mediator. However, the parties may hesitate to confide in an arbitrator, and an arbitrator would be inhibited in making settlement proposals or giving advice to the parties. As a rule, therefore, it would be preferable for an individual who is not an arbitrator in the case to serve as mediator. The Tribunal can be helpful by proposing well qualified candidates and by familiarizing the mediator with the case.

If a settlement does not come about, the terms of any settlement offers many not be admitted into evidence at the hearings. If the parties enter into a settlement agreement, they may wish to request the Tribunal to issue an award incorporating the settlement terms.