

## PARTIES SHOULD THINK TWICE BEFORE SAYING “I DO” TO COPYRIGHT ARBITRATION

Laurent Carrière and Lorraine Laquerre\*  
**LEGER ROBIC RICHARD, L.L.P.**  
Lawyers, Patent and Trademark Agents  
Centre CDP Capital  
1001 Square-Victoria- Bloc E – 8th Floor  
Montreal, Quebec, Canada H2Z 2B7  
Tel. (514) 987 6242 - Fax (514) 845 7874  
info@robic.com - www.robic.ca

PRECIS: An Ontario court has ruled that judicial review of an arbitral award in a copyright dispute was limited to challenging the jurisdiction of the panel, maintaining the principle that parties who agree to arbitration should be held to that bargain. This sets the bar for the review of an award of international commercial arbitration very high.

In *Xerox Canada Ltd v MPI Technologies Inc* the Superior Court of Ontario has rejected a claim to set aside an arbitral award granted under the International Commercial Arbitration Act and the Model Law on International Commercial Arbitration in a copyright infringement action. The court held that the panel had not exceeded its jurisdiction in awarding damages for breach of copyright and unpaid royalties.

In 1994 Xerox Canada Ltd and MPI Technologies Inc entered into a software and hardware development and licensing agreement. Under the terms of the agreement, Xerox was licensed to use the software as a component of Xerox printing systems in return for a royalty fee of \$5,000 for each unit sold. A dispute arose when MPI claimed that royalties were not limited to one payment per Xerox customer, but should also include upgrade installations. MPI also claimed that Xerox breached its copyright in the software by developing and selling a piece of software that, according to MPI, was only an upgraded version of MPI's software.

---

© CIPS, 2007.

\* Lawyer and trade-mark agent, Laurent Carrière, is a senior partner with LEGER ROBIC RICHARD, L.L.P., a multidisciplinary firm of lawyers, and patent and trademark agents. Lorraine Laquerre is an articling student with the firm. Published in World Copyright Law Report. Publication 328.030.

Following MPI's complaint, the parties formalized the proceedings in a written arbitration agreement. The three-person arbitration panel accepted MPI's claim and ordered Xerox to:

- pay MPI \$50,448,100 for unpaid royalties;
- deliver the Version 7.4 software and any earlier versions to MPI;
- pay MPI \$38.828 million in damages for the unauthorized use of its confidential information to create Version 8 or, alternatively, for breach of copyright; and
- reimburse MPI for the cost of an audit.

Xerox sought to quash or set aside the award made against it, alleging that the panel had exceeded its jurisdiction by fundamentally misconstruing its powers and duties under the Model Law, improperly conducting the hearing and allowing the misuse of knowledge gained by one panel member without proper disclosure to the parties.

The Superior Court acknowledged Xerox's complaint that the panel had exceeded its jurisdiction by adding MPI Tech SA, the French parent corporation of MPI US (MPI France) as a party to the action, even though MPI France was not a signatory to the 1994 licence agreement. However, while the court conceded that the panel did not give sufficient weight to the 1994 agreement, it refused to interpret the addition of MPI France as an excess of jurisdiction, reminding parties that an arbitration agreement should give as much weight as possible to the parties' intent. The fact that Xerox had dealt with MPI and MPI France without making any distinction between them was considered implied consent to add MPI France as a party to the proceedings, even though Xerox had entered into a written agreement with MPI alone.

The court also rejected the allegation by Xerox that the panel acted outside of its jurisdiction by adopting non-judicial conduct. One member of the panel, who had technical expertise, investigated the expert's findings relating to code productivity. He created two draft tables, based on his review of the code, listing the people who had worked on both versions. Xerox claimed this amounted to the introduction of new evidence in favour of MPI after the completion of its case. The court found that the panel should be given ample discretion in assessing the relevant facts to a dispute and that fact gathering by an independent arbitrator could only be helpful, as long as he did not cross the boundary to offer expert evidence. The court found he was not acting as an expert but rather as an individual whose

background could help the panel to understand technical difficulties. Further, when the charts were presented by the panel member, the panel clearly disclosed what was being considered as evidence and gave Xerox every opportunity to comment and object to its process.

Xerox also alleged that the source code had lost its confidential aspect once the entire code was filed by MPI with the US Copyright Office. The court agreed with the panel that Xerox had not met its evidentiary burden of establishing that the confidentiality in the source code was lost as a result.

As to the allegation of the improper award of damages against Xerox, the court also agreed with the panel's decision that there was evidence to support the award of damages to MPI on its royalty claim. This was a decision based solely on facts presented to the panel and the following decision remained well within the scope of the panel's powers.

The court finally reiterated that:

under Article 34 of the Model Law for international arbitration, there simply is no power at all for a court to set aside an arbitral award for an error of fact or even an error of law.

The challenge is limited to a jurisdictional claim which sets the bar very high for a party to an international commercial arbitration agreement looking to quash an award made against it. The will of the parties, even if it later becomes only the will of the winner, should prevail.

