January 3, 2017

Dear Tri-State Region IP Workshop attendees,

This draft is still rough both organizationally and substantively. Among other things, it is in the process of evolving from a focus on arbitration in particular to one on confidentiality more generally. But I think what I am trying to argue will be clear enough, and I hope none of my last-minute changes is really ill-considered. In any event, I look forward to your comments.
Confidential FRAND Dispute Resolution and Antitrust Law

Mark R. Patterson*

Dispute resolution in patent law is problematic. Settlements, in particular, can present problems. As the Supreme Court said in *F.T.C. v. Actavis, Inc.*, 1 “this Court’s precedents make clear that patent-related settlement agreements can sometimes violate the antitrust laws.” 2 Such agreements can both preserve patents that would be declared invalid if litigated and suppress information even about patents would not be invalidated. 3 The U.S. Supreme Court has pointed to the importance of challenging the validity of patents, 4 and courts and agencies in multiple jurisdictions have treated various approaches to preventing such challenges as antitrust violations. 5

This article focuses on the suppression of information about the resolution of patent disputes, rather than the avoidance of such disputes through settlement. Many settlements and licensing agreements are confidential, of course, but agreements to arbitrate patent disputes can present problems similar to those of settlements when the result of the arbitration is confidential, as it often is. If the arbitral tribunal determines that a patent is invalid, 6 and that information is not available to the public, the patent will continue to be enforced, just as it would if the dispute were settled. Perhaps equally importantly in the context of the ongoing “patent wars,” where the key issue is whether patents are licensed on “fair, reasonable, and non-discriminatory” (FRAND) terms, even if an arbitration determines that a patentee has valid patents and therefore awards royalties, royalty terms determined in arbitration will typically be confidential. As a result, it will be more difficult to determine royalty rates for other licensees that will satisfy the non-discriminatory (ND) aspect of FRAND licensing.

Indeed, the effect of suppressing invalidity information through arbitration may be even greater than the similar effect of settlements or other private licensing arrangements that prevent invalidity decisions. The economic literature suggests that cases that proceed to trial, and thus

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1 133 S. Ct. 2223 (2013)

2 *Id.* at 2232 (citing United States v. Singer Mfg. Co., 374 U. S. 174; United States v. New Wrinkle, Inc., 342 U. S. 371; Standard Oil Co. (Indiana) v. United States, 283 U. S. 163). *Actavis* was of course unusual, involving a “reverse-payment” settlement of litigation between brand-name and generic pharmaceutical manufacturers in the context of the Hatch-Waxman Act, but the cases cited by the Court were more typical, as is discussed below.


presumably those that are arbitrated, are the ones in which the result is more uncertain. Hence, the cases in which parties agree on a license agreement in the absence of a litigation are likely to be those for which results are more clear. For those cases, then, even if the license precludes, say, an invalidity decision or royalty determination, affected parties may well be able to assess with some confidence the value of the patent at issue. In contrast, when parties proceed to arbitration or litigation, there is likely more uncertainty—uncertaint that would be lessened with the disclosure that confidentiality prevents.

The absence of transparency in the settlement context has been recognized for many years, most notably in Owen Fiss’s 1984 article “Against Settlement.” The issue has been taken up more recently both in the patent context and in others. The primary concern of Fiss and others has been the legitimacy of confidential dispute resolution, however, and the focus in the present article is different. The focus here is on the competitive implications of confidentiality, given the importance of information to the functioning of markets. In this case, the markets at issue are those for the licensing of patents, and particularly patents with FRAND licensing obligations.

Evidence of the competitive significance of confidentiality is the legal requirement in U.S. patent law that arbitration awards be publicly filed. Section 294 of U.S. patent law permits arbitration of “any dispute relating to patent validity or infringement,” but it requires that a notice including a copy of the award “shall” be given to the Director of the Patent and Trademark Office. The Director then “shall” enter the notice in the prosecution history of “each patent involved in such proceeding.” This requirement that a notice of an arbitration award be filed with the award is, however, widely ignored. The fact that neither party typically complies with this disclosure requirement should give us pause. Although there are private benefits to the parties from keeping the resolution of patent disputes confidential, that confidentiality does not necessarily benefit the public.

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9 Patterson, supra; La Belle, supra.


13 Id.

14 An inquiry to the PTO’s Office of the Solicitor produced the information that “one, or two, or maybe three” such filings are made each year. The only apparent sanction for noncompliance is that “[t]he award shall be unenforceable until the notice required . . . is received by the Director.” 35 U.S.C. § 294(e).

An example of such a filing can be seen in the prosecution history of U.S. Patent No. 5,648,477; the arbitration award there is redacted.

Of course, it is difficult to know. Nokia, RIM Nov. 28, 2012

15 Patterson, supra; La Belle, supra.
Part I of this article outlines the problem of confidentiality in patent dispute resolution, emphasizing particularly the FRAND context. This portion of the article describes the confidentiality context of arbitration and the importance of information about patents, and it draws an analogy between agreements to arbitrate and reverse-payment settlements in the pharmaceutical industry. Part II then analyzes how antitrust law would treat agreements on confidentiality and unilateral suppression of information about patent disputes, with the focus here on patent information as the relevant market. Part III outlines some approaches for eliminating the confidentiality concerns while still retaining the benefits of avoiding litigation.

I. CONFIDENTIALITY AND PATENT INFORMATION

Litigation of patent disputes provides the market with information about the patent or patents at issue. Although it is sometimes possible to seal court records, the presumption is that litigation is a public process. Conversely, avoiding litigation keeps information from the public. The information may become available in subsequent litigation because courts are often willing to allow discovery of license and settlement agreements and even arbitration awards, though there they are sometimes more reluctant. Many cases addressing the confidentiality of arbitration, settlements, and licenses have not, however, been faced with explicit confidentiality agreements. As will be discussed below, the courts’ likely treatment of such circumstances is less clear.

Even if parties can obtain access to arbitration awards, settlements, or licenses by initiating subsequent litigation, the need for litigation to overcome confidentiality imposes a considerable cost and burden. And it is not clear that this burden is justified. One could argue that confidentiality is an inherent part of purely private resolutions like licensing agreements. But that is less clear for processes that are not so clearly private. Settlements of disputes after the initiation of litigation raise somewhat different issues, as the courts have recognized. And turning to arbitration for dispute resolution does not necessarily justify confidentiality, at least for disputes like those of patent law, where there is a public interest in information.

A. Confidentiality in Arbitration, Settlement, and Licensing

Although confidentiality is often offered as one of the fundamental attributes of arbitration, the rules of most arbitration bodies do not require confidentiality. As many commentators point out, it is privacy that is an essential part of arbitration, not confidentiality.18

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16 Judicial Center; Fisch.
17 High Point SARL v. Sprint Nextel Corp., No. 09-2269-CM-DJW (D. Kan. April 30, 2012); SPH America, LLC v. Acer, Inc., Civil No. 09cv2535 JAH (AJB) (S.D. Cal., Dec. 10, 2010). John Kenneth Felter & Samuel Brenner, Settlement Evidence and Patent Damages, Trial Evidence (“Although the federal courts have not spoken unanimously, the trend is to allow discovery of both settlement license agreements and settlement license negotiations. There is less agreement regarding whether and in what circumstances agreements and negotiations are admissible at trial.”).
18 But see E.Gaillard, Le principe de confidentialité de l’arbitrage commercial international, in Recueil Dalloz, 1987, 153 (arguing that confidentiality, deriving from the private nature of arbitration, is a natural component of it, regardless of any deal among the parties or any piece of public law). By following this approach, then, antitrust law should focus not on the agreement to keep the arbitration secret, but on the very same arbitration agreement.
That is, although the process takes place behind closed doors, the parties must generally enter into a separate agreement to keep the proceedings confidential. In the absence of such an agreement, either of the parties would typically be permitted to reveal information from the arbitration, though the tribunal itself is generally bound to confidentiality. [citations: Marrs & Hance survey]

Moreover, some commentators argue that confidentiality is not an essential goal of many parties that turn to arbitration.19 A study by the Queen Mary School of International Arbitration found that 38% of respondents would still use arbitration even if results were not confidential, and 65% said that a lack of confidentiality in court was not a principal reason for choosing arbitration.20 On the other hand, the respondents appeared to consider information related to intellectual property as particularly sensitive.21 But of course there are benefits to transparency as well, and those benefits are particularly relevant in the FRAND context:

Furthermore, confidentiality of arbitral decisions may lead to inconsistent resolution of disputes arising out of the same business transaction but decided by different arbitral tribunals. This carries the risk of conflicting awards. In these circumstances, more transparency is desirable, especially for the stakeholders in order to benefit of documents and information relevant to each of the disputes.22

Arbitration proceedings are confidential, then, when the parties agree to keep them confidential. But does an agreement by the parties to keep an arbitration confidential really keep it confidential? Or, more to the point, does such an agreement keep it more confidential than it would be if the parties litigated or if they simply agreed privately on license terms? To answer this question, it is helpful to consider a typical confidentiality provision in an arbitration agreement. Because such provisions themselves are confidential, however, it is easier to focus on a recommended, rather than an actual, provision:

The parties shall maintain the confidential nature of the arbitration proceeding and the Award, including the Hearing, except as may be necessary to prepare for or conduct the arbitration hearing on the merits, or as may be necessary in connection with a court application for a preliminary remedy, a judicial challenge to an Award or its enforcement, or unless otherwise required by law or judicial decision.23

Under this provision, neither party would be permitted, in the absence of a court order, to disclose information about the arbitration to others without the permission of the other party.

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21 Id. at 31.

22 Azzali, supra.

Even with such permission, disclosure might be problematic if the arbitration tribunal itself ordered that the proceedings remain confidential. [discuss rules: Jaffe v. Household]

One question, then, is whether a court would order discovery of the arbitration award or other materials. Some courts make sweeping statements about the availability of arbitration documents in discovery, as did the Seventh Circuit in *Gotham Holdings, LP v. Health Grades, Inc.*:

Contracts bind only the parties. No one can “agree” with someone else that a stranger's resort to discovery under the Federal Rules of Civil Procedure will be cut off. We applied this principle in *Jepson, Inc. v. Makita Electric Works, Ltd.*, 30 F.3d 854 (7th Cir.1994), to confidentiality agreements reached during litigation. That conclusion is equally applicable to confidentiality agreements that accompany arbitration. Indeed, we have stated more broadly that a person's desire for confidentiality is not honored in litigation. Trade confidentsials, privileges, and statutes or rules requiring confidentiality must be respected, see Fed.R.Civ.P. 45(c)(3)(A)(iii), but litigants' preference for confidentiality does not create a legal bar to disclosure.24

However, context matters. In *Gotham Holdings*, one of the parties, Health Grades had introduced some of the documents from a previous arbitration to which it had been party but opposed the introduction of others, even though the other party to the arbitration was willing to produce them. Under those circumstances, it is hardly surprising that the court upheld the district court’s subpoena.

[discuss also Baxter International, Inc. v. Abbott Laboratories25]

Beyond the federal courts in the U.S., the issues gets even more murky. Some U.S. state laws purport to impose absolute confidentiality on arbitration proceedings. A 2005 English decision, *Glidepath BV v. Thompson*,26 sets out a position very protective of confidentiality:

There can be no doubt that arbitration proceedings and materials produced in the course of them are treated as confidential to the parties and the arbitrator subject to certain exceptions. The result of the most recent Court of Appeal authority, *Ali Shipping Corporation v. Shipyard Trogir* [1999] 1 WLR 316, is that the exceptions to the general rule of arbitral confidentiality include disclosure by leave or order of the court which may be given when and to the extent that it is reasonably necessary to protect or establish the legal rights of a party to the arbitration by a third party or otherwise in the interests of justice. There appears to be no authority for the proposition that a third party can outside the ambit of disclosure by a party to an arbitration obtain an order from the court for access to materials in an arbitration to which he is not a party so that he can deploy them as evidence in other proceedings in which he is a party.27

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24 *Gotham Holdings, LP v. Health Grades, Inc.*, 580 F.3d 664, 665 (7th Cir. 2009).
25 297 F.3d 544 (7th Cir. 2002).
26 [2005] EWHC 818 (Comm).
27 Id., ¶ 15.
As *Baxter International* suggests, the issue of the confidentiality of arbitration in the patent context is closely related to concerns about trade secrets. In that respect, the principles applicable may not be so very different from those for settlements and licensing agreements. At least some commentators claim, though, that courts are more willing to allow discovery of license agreements and also of settlements in many circumstances.

Some commentators also suggest obtaining an order of confidentiality from the arbitral tribunal and using that order to seek to enforce confidentiality. For example, one suggested provision:

1. The parties agree, and the arbitrator shall issue an order providing, that all pleadings, motions, discovery responses, depositions, testimony, and documents exchanged or filed in relation to the arbitration be kept strictly confidential;
2. The parties agree, and the arbitrator shall issue an order providing, that any award issued by the arbitrator shall be entered under seal in a court of competent jurisdiction; and
3. The parties agree that any party may seek a separate order from a court of competent jurisdiction enforcing the arbitrator’s order protecting the disclosure of pleadings, motions, discovery responses, depositions, testimony, and documents exchanged or filed in the arbitration, provided that such motion and responses thereto shall be filed under seal.28

Of course, as with the similar issues discussed above, it is not clear that a court would in fact enforce such a provision.

[also discuss confidentiality of settlement agreements]

In the end, then, it is not clear whether and to what extent an arbitration confidentiality agreement would be enforced in litigation. In that respect, it is likely that private licenses and settlements, like arbitration materials, might not be disclosed outside of litigation discovery. The patentee and licensee would often have no reason to disclose that information outside the negotiations (and perhaps even inside the negotiations). One might argue, therefore, that at least outside of litigation arbitration is no more confidential than other circumstances. There are two reasons why the right baseline is not licensing but litigation, though.

First, arbitration is of course an alternative to litigation. In that respect, an arbitration award is the reasoned conclusion of a disinterested third party, the tribunal, in the same way that a court decision is. As such, it is arguably more valuable than private negotiations, at least where there is an objective measure, such as FRAND, at issue.

Second, as noted above, the cases that parties litigate or arbitrate are those on which parties have not been able to reach agreement.

Furthermore, as Thomas Lee has described, there are advantages to using arbitration rather than litigation to resolve patent claims.29 Even if materials from prior arbitrations could be available in litigation, with the order of a court, it is less likely that they would be available in subsequent arbitrations between different parties, since an arbitral tribunal generally has no power to enforce discovery orders. So, if a patentee arbitrated a royalty dispute with licensee A

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29 Lee, supra.
and then subsequently agreed to another arbitration with alleged infringer/potential licensee B, the royalty that resulted from the first arbitration might not be available in the second. Of course, B might refuse to agree to arbitration without the availability of the materials from the prior arbitration, but the patentee would not be able to disclose those materials unilaterally, without the consent of A, and perhaps the prior arbitral tribunal.

The upshot is that even if the degree of confidentiality in arbitration proceedings is not much greater than the confidentiality of private license agreements, the harm can be considerably greater. That is so both because the information at issue—a third-party determination—is more valuable and because the cases are likely to be those in which the reduction of uncertainty is most valuable.

The availability of information from one proceeding in subsequent proceedings is summarized in the table below:

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<thead>
<tr>
<th>original proceeding</th>
<th>private agreement</th>
<th>arbitration</th>
<th>litigation</th>
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<tr>
<td>private agreement</td>
<td>parties’ discretion</td>
<td>possibly available</td>
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<tr>
<td>arbitration</td>
<td>likely unavailable</td>
<td>possibly unavailable</td>
<td>likely available</td>
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<tr>
<td>litigation</td>
<td>presumptively public</td>
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As will be discussed below, from an antitrust point of view the key question can be viewed as one of the cost of obtaining information about patent validity. To the extent that such information is difficult or costly to obtain, it can give the patentee or a licensee a competitive advantage that can be the source of market power. In that respect, the question is not a binary one of whether the information is or is not available but instead a question of the cost of obtaining it. In that respect, it appears, despite the uncertainty regarding the availability of arbitration materials in subsequent proceedings, such materials are less available than would be purely private settlements or licensing agreements.

B. *The Importance of Patent Information*

The information that is kept confidential in patent dispute resolution will differ from case to case. Sometimes, when an arbitration makes specific determinations of validity, the suppressed information will be that which would become public in litigation over validity. In case where the determination is of FRAND licensing rates for the patentee’s patent portfolio, there might be no explicit validity determination, but royalty rates, too, are often the subject of litigation. The determination of FRAND royalty rates has in fact been the subject of recent court decisions.30

The Supreme Court has affirmed the value of patent litigation, making clear that its value lies not only in the resolution of the dispute for the parties, but also in benefits to society. In *Lear, Inc. v. Adkins*,31 the Court invalidated the doctrine of licensee estoppel, under which the

30 Microsoft v. Motorola; In re Innovatio.

licensee of a patent was estopped from challenging the patent’s validity. The Court pointed specifically to the important public policy and competition issues at stake:

Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued.32

In MedImmune, Inc. v. Genentech, Inc.,33 the Court extended this approach, holding that even a licensee under a current license agreement could challenge patent validity while continuing to pay royalties under the license, thus avoiding the possibility of paying treble damages and attorney’s fees if it lost.

Although these cases focused on patent validity, the difference between validity information and royalty information is one more of degree than of kind. Particularly in the context of standard-essential patents (SEPs), where much of this arbitration takes place, royalty information is key. The FRAND licensing that is required for most SEPs incorporates a requirement of non-discriminatory (ND) licensing. Just as patent validity is essential information for potential licensees in archetypical licensing contexts, so is royalty-rate information for potential licensees of SEPs. Indeed, because licensing in the SEP context typically involves the licensing of portfolios, not individual patents, and because in a given portfolio it is almost certain that some patents will be valid and others will not, the royalty rate is in fact a reflection of or proxy for validity information.34 In that respect, it is a key determinant of competition among potential licensees.

Furthermore, many of the societal benefits that the Court was vindicating in these cases would be lost if the results of litigation were kept confidential. Indeed, the 2007 report of the Department of Justice and Federal Trade Commission on antitrust and intellectual property refers to the Solicitor General’s brief in MedImmune in stating that “public policy strongly favors ridding the economy of invalid patents, which impede efficient licensing, hinder competition, and undermine incentives for innovation.”35 With respect to efficient licensing, at least, confidential dispute resolution can be as much of an obstacle as is the avoidance of dispute resolution.

32 Id. at 670-71.
34 Actavis, 133 S. Ct. at 2336-37 (“In a word, the size of the unexplained reverse payment can provide a workable surrogate for a patent’s weakness, all without forcing a court to conduct a detailed exploration of the validity of the patent itself.”).
The anticompetitive potential of confidential patent information can be further illustrated by noting parallels between the reverse-payment settlements that the Supreme Court considered in *F.T.C. v. Actavis, Inc.*36 and confidential arbitration agreements. As compared to litigation, both prevent patent validity information from reaching the public. Reverse-payment settlements do so by foreclosing the litigation arguably contemplated by the Hatch-Waxman Act, and confidential arbitrations do so by replacing public litigation with a process that the parties agree to keep confidential.

Moreover, in both instances there are federal statutes requiring disclosure of the information at issue, even if with arbitrations the statute is rarely complied with. The Medicare Modernization Act of 2003 introduced a requirement that parties settling patent infringement litigation brought pursuant to the Hatch-Waxman Act file copies of their agreements with the F.T.C. and the Department of Justice. And as discussed above, U.S. patent law requires the public filing of patent arbitration awards.

It is true that one interpretation of *Actavis*—admittedly, the most straightforward one in light of the Court’s opinion, is that its concern is the suppression of competition in the pharmaceutical market covered by the patents at issue in settlements. But I have suggested another harm that reverse-payment settlements cause: that of suppressing information about patent validity. And there is some language in *Actavis* that points in that direction:

The patent here may or may not be valid, and may or may not be infringed. . . . And that exclusion may permit the patent owner to charge a higher-than-competitive price for the patented product. But an invalidated patent carries with it no such right. And even a valid patent confers no right to exclude products or processes that do not actually infringe. Here, the paragraph IV litigation put the patent’s validity and preclusive scope at issue, and the parties’ settlement—in which, the FTC alleges, the plaintiff agreed to pay the defendants millions to stay out of its market, even though the defendants had no monetary claim against the plaintiff—ended that litigation.37

Although the Court’s primary focus in *Actavis* was on product markets, not information, the cases that the Court cited regarding the antitrust implications of patent settlements can be read to suggest an evolution from concerns about product markets to concerns about information markets. In *Standard Oil Co. (Indiana) v. United States*,38 the government challenged several settlements that provided for cross-licensing and for the division of royalties among several patentees. The government argued that the underlying infringement suits were pretextual, directed only at providing opportunities for anticompetitive settlement agreements.39 The Court, however, reversed the lower court’s judgment and dismissed the case, noting the master’s reference to the presumption of validity and the finding of good faith, which was not appealed by the government.40

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36 133 S. Ct. 2233 (2013).
37 Id. at 2231.
38 283 U.S. 163 (1931).
39 Id. at 180.
40 Id. at 180-81.
In the second case, *United States v. New Wrinkle, Inc.*, the Court determined that there was an antitrust violation but not based on any concern about validity of the patents at issue. In *New Wrinkle*, two patentees settled their infringement suits with the creation of a new company that licensed the patents at issue. The licenses, however, also included provisions for resale price maintenance, and it was these provisions that the Court condemned, quoting its statement in *United States v. Line Material Co.* that “the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly.” The implication of this statement is that even if a patent is valid, and thus even if it the patentee is entitled to exclude others from the patented technology, an agreement that has other anticompetitive effects—presumably including the suppression of competitively significant information—can be an antitrust violation.

The final case *Actavis* cited was *United States v. Singer Manufacturing Co.* That case involved agreements among several patentees of inventions related to sewing machines. The patentees agreed (a) to combine their patents and enforce them jointly to seek to exclude Japanese manufacturers from the U.S. market for their mutual benefit, and (b) not to seek to limit the protection of each others’ patents. The Court focused on the former of these goals, which it said violated the Sherman Act because “the conspiracy arises implicitly from the course of dealing of the parties, here resulting in Singer’s obligation to enforce the patent to the benefit of all three parties.” This purpose was of course directed at the product market for the sales of sewing machines, but the second goal, that of preserving the scope of the parties’ patents, implicated not that product market but the market for information relevant to the parties’ patent rights.

More interesting, then, was Justice White’s dissent, which focuses particularly on the information issue. He points specifically to the importance of information about prior art, and to the harm that can result from the Patent and Trademark Office’s lack of access to prior art. He also points out that the public interest is in granting only valid patents, so that a settlement that “prevent[s] an open fight over validity” can subordinate that public interest to the settling parties’ private interests. As a result, he says that suppressing prior art constitutes an antitrust violation:

> [C]ollusion among applicants to prevent prior art from coming to or being drawn to the Office’s attention is an inequitable imposition on the Office and on the public. In my view, such collusion to secure a monopoly grant runs afoul of the Sherman Act’s prohibition against conspiracies in restraint of trade—if not bad *per se*, then such agreements are at least presumptively bad.

Although these informational issues underlay the *Actavis* decision, the Court there returned to a focus on product markets. But it did observe that the nature of the settlement could be an indicator of patent validity: “the size of the unexplained reverse payment can provide a

42 333 U.S. 287 (1948).
43 342 U.S. at 378 (quoting *Line Material*, 333 U.S. at 308))
45 Id. at 194.
46 374 U.S. at 200 (White, J., concurring) (citations and footnote omitted).
workable surrogate for a patent’s weakness, all without forcing a court to conduct a detailed exploration of the validity of the patent itself.”47 It therefore directed courts to use that consideration and others to evaluate the competitive impact of the settlement: “the likelihood of a reverse payment bringing about anticompetitive effects depends upon its size, its scale in relation to the payor’s anticipated future litigation costs, its independence from other services for which it might represent payment, and the lack of any other convincing justification.”48 In the same way, the circumstances surrounding an agreement to arbitrate while maintaining the proceedings confidential can be used to determine the competitive effects of such an agreement.

II. COMPETITIVE EFFECTS OF CONFIDENTIAL ARBITRATIONS

One of the reasons that arbitration is advocated for resolution of patent disputes is specifically because it keeps the results confidential. For example, one commentator suggests that arbitration may a better solution than post-grant proceedings at the PTO because those post-grant proceedings could result in a “public decision of invalidity.”49 The perceived benefits of confidentiality also extend to royalty disputes:

In license disputes, the licensee or licensor may not want competitors or other licensees to have access to royalty rates or other sensitive terms and conditions of the business relationship. While protective orders may be used to protect sensitive financial information in court, the very existence of a dispute can be kept confidential in an arbitral setting by agreement of the parties.50

As described above, though, arbitration is not usually inherently confidential, but becomes confidential only by agreement of the parties. The question, then, for antitrust purposes is not whether arbitration poses a competitive problem—it presumably does not—but whether an additional agreement by the parties to a patent arbitration to keep the outcome confidential could be an antitrust violation. And to the extent that agreements to keep settlements of litigation or purely private licensing agreements confidential have similar effects, the same question arises for those agreements as well.

If these agreements were to be considered under antitrust law, it is almost certain that they would be considered under the rule of reason, rather than some more summary per se or “quick look” analysis. A rule of reason analysis would likely involve assessment of the market power at issue as well as a balancing of anticompetitive and procompetitive effects.

A. Market Power

Although patents do not necessarily provide market power, it is safe to assume that a patent whose validity or royalty terms is arbitrated, or even one that results in a licensing

47 Actavis, 133 S. Ct. at 2336-37.
48 Id. at 2237.
agreement, does give the patentee and its licensees power. Even if arbitration is less costly than litigation, the cost of either process is sufficient to allow an inference that access to the patent is valuable.\(^5^1\) Licensing, too, is an indication that a patent is valuable, at least if the licensee pays royalties.

But the focus here is on the effects of confidentiality, so it is the value of confidentiality, not the value of the patent, that is at issue. In other words, the patent could be very valuable, but if the confidentiality of an arbitration or license related to that patent did not have competitive implications, then the confidentiality would not raise competitive concerns. It might be, for example, that if there had previously been nine public decisions determining that a patent was valid and establishing FRAND royalty rates, the confidentiality of a tenth proceeding determining royalty rates might have no competitive implications.

Even under these circumstances, though, if the tenth proceeding resulted in a significantly lower rate for the arbitrating licensee, that would have market implications.\(^5^2\) The confidentiality of that result would be akin to a refusal to deal, in that the low-royalty licensee would have access to an important input—the patented invention—at a lower price than its competitors had to pay. A somewhat similar situation could arise if a licensee that otherwise played a significant role in the market were forced to pay a higher royalty rate, thus eliminating or lessening the competitive role it played.

The confidentiality of these outcomes would be important in the FRAND context because they would indicate that the licensing terms were not in fact non-discriminatory. Disclosure of such terms would likely give rise to challenges by licensees disadvantaged by higher rates. Conversely, confidentiality could allow the patentee and favored licensee or licensees to preserve the non-discriminatory licensing.

The fundamental point here is that privileged access to information can play a role similar to that of privileged access to any other valuable input. Although there are relatively few antitrust cases considering power from confidential information, one could view the Microsoft decision in the EU as an example. In that case, Microsoft refused to provide interoperability information that would allow its competitors in the application market to compete with it.\(^5^3\)

As is often the case with information issues, it is difficult in this context to separate the power and conduct issues. Confidentiality is both the relevant conduct and the source of power. One way to distinguish the two issues is to assess power based not on the conduct that could be challenged but based on the ease or difficulty of competitive responses.\(^5^4\) In this case, then, power could be assessed by considering whether injured parties have a means of countering or otherwise responding to confidential arbitration awards, settlements, or licensing agreements. The only really plausible response, it seems, would be to bring litigation in which a court might order disclosure of the confidential information. Given the expense of such a course of action, to say nothing of the problems of bringing a claim whose validity would depend on the very

\(^5^1\) IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law ("To be sure, patents litigated in infringement suits are probably more valuable as a group than patents that are never litigated.").

\(^5^2\) Of course, the likelihood of a FRAND royalty determination deviating significantly from previous determinations for the same patent portfolio presumably decreases as the number of previous determinations increases, but there is little empirical evidence on these issues.

\(^5^3\) also Berkey Photo.

information that would be sought in the litigation, it seems that confidentiality in this context could provide significant power.

B. **Anticompetitive Effects**

Although the anticompetitive effects of confidentiality have not been extensively addressed in antitrust law, the U.S. Supreme Court has considered restrictions on pricing information that could be seen as analogous to royalty rates. In *National Society of Professional Engineers v. United States*, the Court addressed a professional engineering society’s ban on competitive bidding. The ban required engineers to refuse to discuss prices with potential customers until the customers had made an initial selection of an engineer. The effect, then, was to make it more difficult for customers to compare the prices offered by different engineers.

Confidential resolutions of royalty disputes are different in that they deny potential licensees the prices paid by their competitors, rather than denying a potential customer multiple price quotes. Nevertheless, the Court’s language in *Professional Engineers* regarding the importance of the availability of market information was broad:

> Price is the “central nervous system of the economy,” United States v. Socony-Vacuum Oil Co., 310 U. S. 150, 310 U. S. 226 n. 59, and an agreement that “interfere[s] with the setting of price by free market forces” is illegal on its face. United States v. Container Corp., 393 U. S. 333, 393 U. S. 337. In this case, we are presented with an agreement among competitors to refuse to discuss prices with potential customers until after negotiations have resulted in the initial selection of an engineer. While this is not price-fixing as such, no elaborate industry analysis is required to demonstrate the anticompetitive character of such an agreement. It operates as an absolute ban on competitive bidding, applying with equal force to both complicated and simple projects and to both inexperienced and sophisticated customers. As the District Court found, the ban “impedes the ordinary give and take of the market place,” and substantially deprives the customer of “the ability to utilize and compare prices in selecting engineering services.” 404 F.Supp. 457, 460. On its face, this agreement restrains trade within the meaning of § 1 of the Sherman Act.

The confidentiality of royalty rates similarly “impedes the ordinary give and take of the market place” and “the ability to utilize and compare prices.”

The importance of the availability of market information has also been recognized in the context of information exchanges. As the Second Circuit said in *Todd v. Exxon Corp.*, “[p]ublic dissemination is a primary way for data exchange to realize its procompetitive potential.” Similarly, while listing the many parameters affecting the competitive assessment of information exchanges, the EU Commission considers public exchanges less harmful than private ones. In particular, the EU Commission is more lenient toward public exchanges of information because

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56 Id. at 692-93.
57 Todd v. Exxon Corp., 275 F.3d 191, 213 (2d Cir. 2001).
they reduce information asymmetries between actual and potential bargaining parties, thus placing all of them on the same level playing field.59 Other courts have gone further, treating confidentiality in data exchanges not just as limiting procompetitive effects but as contributing to anticompetitive ones.

It is true that both the ban in Professional Engineers and most information exchanges considered by the courts have been the products of horizontal agreements among competitors, not vertical agreements like those between patentees and potential licensees. Still, the effect of horizontal agreements is typically to provide sellers with an information advantage over buyers, and that is the effect also of a confidential royalty award. Such an award denies information to potential licensees who would otherwise learn of the terms to which the patentee has agreed with other licensees. But the patentee, of course, will know of the award, and thus will have an advantage in its greater knowledge of market conditions—the license terms.

Furthermore, in the FRAND context the patentee has made a commitment to license, in the typical context, a patentee is not obligated to license its patents, at least in the U.S.60 If the patentee is entitled to refuse to license, i.e., the refusal is not deemed to be anticompetitive, then it seems that a confidential licensing or arbitration would also not likely be anticompetitive. In the FRAND context, however, not only has the patentee committed to license the patent, rather than keep the technology to itself, but it has also agreed to license it on fair, reasonable, and non-discriminatory terms. The non-discriminatory (ND) element of FRAND is intended to ensure that all licensees are on an even playing field with respect to license terms. Only then will the benefits of competition among the licensees be fully realized. More to the point here, if a patentee/licensor can use an agreement to keep its license terms confidential, then the likelihood that terms will be non-discriminatory is greatly reduced.

To be sure, a commitment to FRAND licensing is not expressly a commitment to transparent licensing. It would be possible for a patentee to license all its licensees on FRAND terms without revealing to any of them the licensing terms applied to others, just as it would still be conceivable that all licensees would negotiate the same (or non-discriminatory) terms without those terms being publicly available, but the likelihood of that happening is small. Moreover, under those circumstances it is not clear what reason the patentee would have for not disclosing its licensing terms. The nondisclosure would increase uncertainty and therefore likely also increase the costs of negotiation.

There is also precedent for requiring disclosures in the FRAND context. In the recent decision by the Court of Justice of the European Union in Huawei Technologies Co. Ltd v ZTE Corp.,61 the court said that the patentee of a standard-essential patent (SEP) subject to a FRAND commitment, “cannot, without infringing Article 102 TFEU, bring an action for a prohibitory injunction or for the recall of products against the alleged infringer without notice or prior consultation with the alleged infringer, even if the SEP has already been used by the alleged infringer.62 More specifically, the patentee is obligated “to alert the alleged infringer of the infringement complained about by designating that SEP and specifying the way in which it has

59 Indeed, the Commission writes that “a]n information exchange is genuinely public if it makes the exchanged data equally accessible (in terms of costs of access) to all competitors and customers.” – OJ 14.1.2011, C11, § 94.

60 271(d)

61 Case C-170/13, Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH, 16 July 2015.

62 Id., ¶ 60.
been infringed.”63 This disclosure, it should be noted, is required in negotiations, not simply in any subsequent litigation.

On the other hand, the court also seemed to accept that licensing agreements could be confidential: “in the absence of a public standard licensing agreement, and where licensing agreements already concluded with other competitors are not made public, the proprietor of the SEP is better placed to check whether its offer complies with the condition of non-discrimination than is the alleged infringer.64 Then “it is for the alleged infringer diligently to respond to that offer, in accordance with recognised commercial practices in the field and in good faith, a point which must be established on the basis of objective factors.”65 Exactly what objective factors the alleged infringer is expected to rely on when other licensing agreements are confidential is, however, not clear.

[Discuss subsequent cases.] Sisvel stated that the obligations were sequential, and the court first needed to determine whether the patentee’s offer was FRAND.

Given the negotiating disadvantage that *Huawei v. ZTE* recognized the FRAND framework as placing on licensees, one might view the source of anticompetitive effects not as the particular agreements to keep arbitrations or licenses confidential, but as the agreements by standard-setting organizations (SSOs) to require FRAND licensing without requiring means for licensees to assess whether a licensing offer is in fact FRAND. That would make the scenario akin to those in which courts have found SSOs liable for allowing members to exploit their processes. For example, in *ASME*, the U.S. Supreme Court held that a SSO could be liable for not preventing a member from manipulating its procedures and exploiting the organization’s reputation to injure a competitor.

The present context is different because confidentiality does not really exploit the standard-setting process or the SSO’s reputation but instead uses a poorly designed standard to advantage. That is, if FRAND requirements included not just a licensing standard but also a disclosure requirement, then confidentiality could not be used to avoid the FRAND requirement. If an SSO’s rules do not include a disclosure requirement, though, the FRAND requirement is more easily avoidable simply by keeping previous licenses confidential.

As I have argued elsewhere, the creation and administration of LIBOR by the British Bankers’ Association (BBA) led to similar problems. By defining LIBOR as an average of its member banks’ own (private) estimates of their borrowing costs, the BBA provided no way for users of LIBOR to evaluate its accuracy. Without an objective measure against which to measure the banks’ estimates or LIBOR itself, users were left merely to assume or hope it was accurate. The same is true for confidential FRAND licensing. If potential licensees have no reference point for FRAND, it is hard to see where a potential licensee could turn for the “objective factors” that *Huawei v. ZTE* calls for.

It is true that there might be some objective measures of the “fair” and “reasonable” aspects of FRAND. Recent cases suggest, though, that FRAND estimates differ dramatically. If and when the law converges on a single rate or methodology for FRAND licensing, then perhaps it will be difficult for patentees to exploit the advantages that confidentiality provides them in the FRAND process. That is to say that if and when there are objective measures for FRAND beyond particular royalty negotiations, the confidentiality of such negotiations will not give

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63 *Id.*, ¶ 61.
64 *Id.*, ¶ 64.
65 *Id.*, ¶ 65.
patentees the market power to impose non-FRAND terms. In the meantime, though, agreements on confidentiality provide anticompetitive potential.

[discuss unilateral conduct here, or only below in III.B?]

C. *Procompetitive Effects*

As compared to adjudication, one might think that the lower costs of arbitration or private agreement would be a procompetitive effect. Again, though, with respect to arbitration it is important to distinguish between the benefits of arbitration and those of confidentiality. The usual justification for confidentiality in the competitive context is that it provides the safety that firms need to engage in cooperative negotiations. For example, in his recent exploration of the application of antitrust law to trade secrets, Harry First wrote that a trade secret could sometimes be justified “as a way to allow innovators to share their technology and thereby diffuse innovation.”

But it is not clear that this justification is applicable in the FRAND context, at least in the context of arbitration. In that context, the patentee has an obligation to license and the parties have been unable to settle their dispute themselves and therefore have turned to an impartial forum. Not only does that mean that the information is no longer confined to just the two parties (though of course a protective order could still preserve obligations of confidentiality), but it also means that the argument for the promotion of cooperation is not applicable.

Nevertheless, at least one case has held that _______. In *Vringo, Inc. v. ZTE Corp.*, the parties had initiated negotiations toward a settlement of FRAND licensing terms. As part of those negotiations, the parties entered into a non-disclosure agreement (NDA) that provided in part that information exchanged “shall not be used or referenced in any way by any Party in any existing or future judicial or arbitration proceedings or made the subject of any public comment or press release.” As the court described, the parties provided for the possibility that the information might be sought by others:

In the event that one of the parties received a request for such information from a governmental entity or a third party, whether via a discovery request or a subpoena, the NDA provided that the recipient must (i) “maintain the confidentiality of the Confidential Information;” (ii) “timely seek a protective order . . . that would afford the Confidential Information the highest level of confidential treatment possible;” and (iii) “notify the other Party within three business days of receiving the initial request for Confidential Information.”

Despite the NDA, ZTE submitted a Vringo settlement proposal as part of an antitrust complaint in China. When Vringo learned of this use of the proposal, it sued for breach of the NDA, and the court held that the voluntary submission of the proposal was in violation of the NDA.

Strikingly, the court appeared to hold, or perhaps assume, that confidentiality was a (procompetitive?) benefit of the NDA:

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68 *Id.* at *2.
Public disclosure of Vringo’s Confidential Information would cause it irreparable injury. Vringo’s business depends substantially on the value of its patent portfolio, which it licenses to third parties. The disclosure of Vringo’s Confidential Information, including its proposal to settle years of ZTE’s alleged patent infringement, would impact the prices others would pay to obtain licenses as well as the prices its competitors would offer for their licenses. Indeed, once such commercially-sensitive information becomes public knowledge, it can “not be made confidential again.” In short, the disclosure of that information would have a lasting and immeasurable harm to Vringo’s business.69

It is not clear, however, whether ZTE raised competitive effects as an argument for the invalidity of the NDA. The key question, both for contractual validity of the NDA and for assessment of it under antitrust law, is whether any anticompetitive effects of the confidentiality outweigh the competitive benefits of confidentiality.

III. Remedies

The anticompetitive effects of confidentiality are, as suggested above, not essential to arbitration. Confidentiality also may not be essential to private settlements or licensing, though those practices might require a level of trust and cooperation that would be furthered by confidentiality. In either case, to the extent that confidentiality would otherwise be an antitrust violation, the violation could be avoided by ensuring public access to the terms of the dispute resolution. That public access could be ensured if the parties to such arrangements declined to agree on confidentiality or subsequently agreed to disclosure, and access could be promoted by either party individually. Alternatively, as suggested above, disclosure could be made part of the FRAND policies of standard-setting organizations.

A. The Parties to the Arbitration

The most obvious possibility is that the parties to an arbitration or settlement or licensing negotiations could decline to agree to confidentiality. They could go even further and agree to public disclosure. For arbitration, that is, after all, what U.S. patent law requires. And significant licensing agreements and settlements are often ultimately disclosed in securities filings. So to the extent that parties are concerned about possible antitrust liability, it is easy to avoid. And with respect to licensing arrangements, patentees and licensees are already accustomed to avoiding the various terms, such as tying arrangements, that can give rise to antitrust liability.

Beyond the substantive effect of the absence of an agreement on confidentiality is the fact that section 1 of the Sherman Act, article 101 TFEU, and corresponding provisions in other jurisdictions require an agreement for liability. Hence, in the absence of an agreement on confidentiality, there would be no antitrust violation under those provisions. What, then, if the parties had no agreement on confidentiality, but neither made the relevant information available? It still could be possible to infer an agreement from, as the U.S. Supreme Court has indicated, “direct or circumstantial evidence that reasonably tends to prove that the manufacturer and others

69 Id. at *10.
‘had a conscious commitment to a common scheme designed to achieve an unlawful objective.’”  

The Court has also described this standard as one that requires “evidence that tends to exclude the possibility that the [parties] were acting independently.”  

In the FRAND licensing context, it is not entirely clear how this test would be applied. If the royalty rate of an arbitration award were high, the patentee would presumably have the incentive to disclose it, in order to seek similar rates from other licensees. On the other hand, if the rate were higher than other rates previously determined, then the high rate would give rise to concerns that it was non-FRAND. Incentives are mixed for licensees paying high rates, too. On the one hand, disclosure would make it more likely that competing licensees would pay similar high rates; on the other, the disclosure of a high rate would inform competitors that the licensee paying such a rate is at a competitive disadvantage.  

Low rates would have similarly ambiguous implications, though probably only for licensees. A patentee presumably would not want to disclose such rates both because it could lead to other low rates and because it could show that previous, higher rates were non-FRAND. For licensees, the decision is not so clear. A licensee might prefer to disclose a low rate to demonstrate its superior competitive position, but doing so would give other licensees reason to argue for similar low rates as required by FRAND.  

Ultimately, it could be difficult to show an agreement by circumstantial evidence in that either party could have incentives to keep licensing terms confidential. Presumably this in part at least accounts for the general noncompliance with patent law’s requirement that arbitration awards be filed with the Patent and Trademark Office.

B. **One of the Parties to the Arbitration**

Even if the parties have previously agreed to maintain confidentiality, what if one of the parties announced its willingness to disclose? That could be sufficient to constitute withdrawal from the “conspiracy,” though without actual disclosure the party could continue to profit from the confidentiality, and some courts have found that to prevent effective withdrawal. Another possibility would be for a party to violate the confidentiality agreement and disclose unilaterally. Although that could constitute a breach of contract, the disclosing party could argue that the agreement was one in restraint of trade and thus illegal.  

More interestingly, if one party—patentee or licensee—announced a willingness to disclose, that would place responsibility for nondisclosure on the other party. Could that then create antitrust liability for that nondisclosing party? In the absence of an agreement there would be liability only if a party possessed monopoly power (or a dangerous probability of acquiring it) or was dominant in the relevant market. As discussed above, given that the competitive effect at issue is not access to the patent but access to information, the relevant market would be that for information about licensing terms.  

In some sense, one could say that each party to a confidentiality agreement has a 50% share of the market for information about the terms between the two parties. [compare IP Guidelines on innovation markets] But if one party has agreed to disclose, then the other party is unilaterally exercising complete control over the information. However, the market should

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71 Id.
perhaps be broader than that for information about the terms between the two parties. As suggested above, if there is information available about the licensing terms between other parties, that would lessen the need for information about one particular license arrangement.

In any event, an antitrust challenge to unilateral action in this context would be analogous to the EU action against Microsoft referenced above. In that case, Microsoft refused to give access to interoperability information that would have allowed application developers to compete with Microsoft’s own applications on its Windows platform. Here, the claim would be that a party had refused to give access to royalty information important to competition in the licensee market. Such a claim would be most compelling, perhaps, if made against another licensee, but given that the competition at issue would be in negotiations with the patentee, the patentee would also have an incentive to cause that competitive injury.

Another way to implement disclosure without an agreement would be to create a mechanism similar to the “messenger model” presented in the U.S. antitrust agencies’ *Statements of Antitrust Enforcement Policy in Health Care*:

> Messenger models can be organized and operate in a variety of ways. For example, network providers may use an agent or third party to convey to purchasers information obtained individually from the providers about the prices or price-related terms that the providers are willing to accept. In some cases, the agent may convey to the providers all contract offers made by purchasers, and each provider then makes an independent, unilateral decision to accept or reject the contract offers. In others, the agent may have received from individual providers some authority to accept contract offers on their behalf. The agent also may help providers understand the contracts offered, for example by providing objective or empirical information about the terms of an offer (such as a comparison of the offered terms to other contracts agreed to by network participants).  

> Although the usual context for the messenger model is, as the agencies say, “whether the arrangement creates or facilitates an agreement among competitors on prices or price-related terms,” the purpose here would be different. Here the model could be used to create a situation intermediate between confidentiality and disclosure. License terms could be disclosed to a disinterested messenger which could then provide advice about whether terms were FRAND without disclosing specific terms from one licensee to other licensees.

C. The Standard-Setting Organization

Most of the techniques above could also be incorporated in the FRAND commitments required by standard-setting organizations (SSOs). That is, in addition to requiring patentees to commit to FRAND licensing, a SSO could also require the patentees to commit to disclosure of licensing arrangements. Although that would probably be sufficient, the SSO could also require the same of potential licensees, since SSO membership usually includes both patentees and potential licensees (especially because many firms are both). Although this sort of disclosure requirement would not be common in SSOs or trade associations, SSOs already require

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72 125-26.

73 126.
disclosure of patents and, often, as-yet-not-public patent applications, so the requirement would not be entirely novel.

Moreover, an SSO would not have to go so far as to mandate disclosure. It could simply prohibit agreements on confidentiality. Although that might not result in disclosure in every case, because parties individually might lack the incentives to disclose, as suggested above, it would likely produce more disclosure. An approach that would arguably be less intrusive yet would be simply to mandate compliance with U.S. patent law’s requirement for filing arbitration awards, though it seems likely that if parties to arbitration are not filing awards even with a statutory mandate, an SSO rule is not likely to produce significantly greater compliance.

IV. CONCLUSION