

Developing a Framework for Arbitrating Standards-Essential Patent Disputes

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A growing chorus of voices is calling for the use of arbitration to resolve disputes concerning standards-essential patents (SEPs).¹ Those advocating the arbitration of SEP-related disputes include academic commentators,² government officials,³ and members of the professional bar.⁴ Most cite the potential cost and time savings that arbitration could achieve over the multi-year, resource-intensive lawsuits that currently characterize these disputes.⁵ But despite these ringing endorsements, there is surprisingly little guidance available for parties, standards-

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1. These disputes include, among other things, disagreements over whether certain patents are essential to a standard, the appropriate level of “fair, reasonable and non-discriminatory” (FRAND) royalties, and compliance with the rules of standards-development organizations (SDOs).

2. See, e.g., Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 BERKELEY TECH. L.J. 1135 (2013); Mark Lemley, *Ten Things to do About Patent Holdup of Standards (and One Not to)*, 48 B. C. L. REV. 149, 155 (2008); Joseph Miller, *Standard Setting, Patents and Access Lock-in: RAND Licensing and the Theory of the Firm*, 40 IND. L. REV. 35 (2007).

3. See, e.g., Kai-Uwe Kühn, Fiona Scott Morton & Howard Shelanski, *Standard Setting Organizations Can Help Solve the Standard Essential Patents Licensing Problem*, 3 CPI ANTITRUST CHRON. 1, 4 (2013); European Comm., Press Release: Samsung – Enforcement of ETSI Standards Essential Patents (SEPs) (Dec. 21, 2012), available at http://europa.eu/rapid/press-release_MEMO-12-1021_en.htm (noting that arbitrators, in addition to courts, are “well equipped” to determine FRAND-compliant reasonable royalty rates); Renata Hesse, Deputy Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, Remarks at the ITU-T Patent Roundtable: Six “Small” Proposals for SSOs Before Lunch 9 (Oct. 10, 2012), available at <http://www.justice.gov/atr/public/speeches/287855.pdf> [hereinafter Hesse, Six Proposals].

4. See, e.g., Albert A. Foer & Sandeep Vaheesan, *American Antitrust Institute Request for Joint Enforcement Guidelines on the Patent Policies of Standard Setting Organizations* 17 (May 23, 2013), <http://www.antitrustinstitute.org/sites/default/files/Request%20for%20Joint%20Enforcement%20Guidelines%20on%20the%20Patent%20Policies%20of%20Standard%20Setting%20Organizations.pdf>; Bruce W. Burton, Scott Weingust & David L. Newman, *New ADR Process Facilitates Call by Judges Rader and Posner for Better use of Damages Experts in Patent Litigation*, STOUT RISIUS ROSS (SRR) J. 118, 125 (2012); David A. Balto & Daniel I. Prywes, *Standard-Setting Disputes: The Need for FTC Guidelines*, FTC WATCH (Mar. 25, 2002) (“[s]tandard-setting groups should be encouraged to require alternative dispute resolution procedures for resolving disputes about licensing terms”).

5. See *supra* notes 2-4. But see David J. Teece, Peter C. Grindley & Edward F. Sherry, *SDO IPR Policies in Dynamic Industries: A Submission in Connection with the October 2012 National Academy of Sciences Symposium on RAND Patent Policies* 39-40 (expressing scepticism about the usefulness, efficiency and fairness of ADR process in resolving SEP-related disputes).

development organizations (SDOs), and tribunals that wish to implement effective arbitration procedures for these complex disputes.

This article lays the groundwork for the development of such procedures and identifies several key areas requiring further study and deliberation. Particular attention is paid to fundamental questions such as whether SEP arbitration should be mandated by SDOs, which conflicts should be arbitrated, whether arbitral decisions should be confidential, and what form arbitration proceedings should take. While, at this early stage, these difficult questions cannot be answered definitively, this article offers a framework for further discussion that the authors hope will be useful for policy makers, industry participants, and commentators considering these important issues.

I. STANDARDS AND PATENT DISPUTES

Over the past few years, litigation over patented technology has dramatically increased, both in terms of quantity and potential market impact.⁶ Pending cases, such as *Apple v. Samsung*,⁷ *Microsoft v. Motorola*⁸ and *Apple v. Motorola*,⁹ involve global product markets worth tens of billions of dollars, and claims for relief that could significantly impact entire industries. Technical interoperability standards play a significant role in much of this litigation. Every mobile telephone, laptop computer and networking device depends on standards to communicate with other products. Most of these standards are developed collaboratively by market participants in industry standards-development organizations (SDOs).¹⁰ Participation in SDOs is typically voluntary and open to all interested parties, including technology developers, product manufacturers and consumers, as well as occasional governmental and civil society representatives. The resulting interoperability standards, the adoption and use of which are not mandated by the SDO, are known as “voluntary consensus standards.”¹¹

Over the years, SDOs have developed a variety of techniques to reduce the potential for abuse (sometimes referred to as patent “hold-up”) by owners of pa-

6. See, e.g., Chris Barry et al., *Litigation Continues to Rise amid Growing Awareness of Patent Value* 6 (Jun. 2013) PricewaterhouseCoopers LLP, available at <http://www.pwc.com/us/en/forensic-services/publications/2013-patent-litigation-study.jhtml>; U.S. Gen. Accounting Off., Intellectual Property, *Assessing Factors that Affect Patent Infringement Litigation Could Help Improve Patent Quality* 14-16 (GAO-13-465) (Aug. 2013) (identifying increase in patent litigation and number of defendants from 2000 to 2011).

7. *Apple v. Samsung*, 888 F. Supp. 2d 976 (N.D. Cal. 2012).

8. *Microsoft v. Motorola*, 854 F. Supp. 2d 993 (W.D. Wash. 2012).

9. *Apple v. Motorola*, 886 F. Supp. 2d 1061 (W.D. Wis. 2012).

10. For a general description of the entities and processes involved in the development of technical interoperability standards, see Brad Biddle, et al., *The Expanding Role and Importance of Standards in the Information and Communications Technology Industry*, 52 JURIMETRICS 177, 182-183 (2012); AM. BAR ASS'N, COMM. ON TECHNICAL STANDARDIZATION, SECTION OF SCI. & TECH. LAW, STANDARDS DEV. PATENT POLICY MANUAL x-xi (Jorge L. Contreras, ed., 2007) [hereinafter ABA PATENT POLICY MANUAL].

11. See Office of Mgmt. & Budget, Circular No. A-119 Revised: *Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities* (Feb. 10, 1998), http://www.whitehouse.gov/omb/circulars_a119 (defining voluntary consensus standards); Commission Regulation 1025/2012, of the European Parliament and of the Council on European Standardization, Annex II (Requirements for the Identification of ICT Technical Specifications), 2012 O.J. (L 316) 29 (EU).

tents covering standardized technologies.¹² Specifically, SDOs typically require that their participants: (1) disclose standards-essential patents to the SDO, or (2) commit to license standards-essential patents to implementers, either on a royalty-free basis or at rates that are “fair, reasonable and non-discriminatory” (“FRAND”).¹³ The patents covered by FRAND commitments are typically those identified by patent holders as “essential” to use or implement the standardized technology in a product.¹⁴ FRAND commitments are widely used by SDOs based in the U.S. and Europe¹⁵ and are required of all SDOs accredited by the American National Standards Institute (ANSI).¹⁶

Despite the widespread use of FRAND commitments, a consistent and widely accepted definition of FRAND does not exist.¹⁷ Virtually no SDO defines precisely what FRAND means, and many affirmatively disclaim any role in establishing, interpreting, or adjudicating FRAND licensing terms.¹⁸ As a result, there has been a spate of recent litigation disputing the nature and scope of FRAND commitments.¹⁹ Some of these cases involve the level of royalties considered “reasonable” under a FRAND commitment,²⁰ some dispute whether patents are “essential”

12. For a discussion of the threat of patent “hold-up” in standard-setting, *see, e.g.*, U.S. Federal Trade Commission, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 5 (2011), <http://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf> [hereinafter FTC, *Evolving IP Marketplace*] (“Patent hold-up can overcompensate patentees, raise prices to consumers who lose the benefits of competition among technologies, and deter innovation by manufacturers facing the risk of hold-up”); Joseph Farrell, John Hayes, Carl Shapiro & Theresa Sullivan, *Standard Setting, Patents, and Hold-Up*, 74 ANTITRUST L.J. 603, 616 (2007).

13. *See* ABA PATENT POLICY MANUAL, *supra* note 10.

14. *See* ABA PATENT POLICY MANUAL, *supra* note 10, at 10-13 (defining ‘essential claims’).

15. Of 36 SDO patent policies studied by Lemley in 2002, 29 contained FRAND licensing requirements and three more encouraged FRAND licensing. Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CAL. L. REV. 1889, 1906 (2002).

16. ANSI represents the United States at the Geneva-based International Organization for Standards (ISO) and accredits U.S. SDOs. There are currently 230 ANSI-accredited SDOs. Am. Nat’l Standards Inst., ANSI Annual Report 2011-2012, 8 (2012), http://publicaa.ansi.org/sites/apdl/Documents/News%20and%20Publications/Brochures/Annual%20Report%20Archive/ANSI_2011_12_Annual_Report_Final_with_Roster.pdf.

17. *See, e.g.*, FTC, *Evolving IP Marketplace*, *supra* note 12, at 192 (“Panelists complained that the terms RAND and FRAND are vague and ill-defined”); Richard J. Gilbert, *Deal or No Deal? Licensing Negotiations in Standard-Setting Organizations*, 77 ANTITRUST L.J. 855, 859 (2011) (that the “fair and reasonable” component of FRAND is “often inherently ambiguous”); Doug Lichtman, *Understanding the RAND Commitment*, 47 HOUS. L. REV. 1023, 1031 (2010), (“It is something of an outrage that the language of the RAND commitment offers so little guidance as to its proper interpretation.”); Joseph Scott Miller, *Standard Setting, Patents, and Access Lock-In: RAND Licensing and the Theory of the Firm*, 40 IND. L. REV. 351, 357 (2007) (reviewing the earlier literature in this vein).

18. *See, e.g.*, INST. OF ELECTRICAL AND ELECTRONICS ENGINEERS, INC., IEEE POLICIES, Sec. 6.3.1 (“The IEEE is not responsible for identifying Essential Patent Claims for which a license may be required, for conducting inquiries into the legal validity or scope of Patents Claims, or determining whether any licensing terms or conditions provided in connection with submission of a Letter of Assurance, if any, or in any licensing agreements are reasonable or non-discriminatory”); Kühn et al., *supra* note 3, at 16 (“SSOs typically specify very little as to the meaning of ‘fair’ or ‘reasonable’”)

19. *See, generally*, Jorge L. Contreras, *Fixing FRAND: A Pseudo-Pool Approach to Standards-Based Patent Licensing*, 79 ANTITRUST L.J. 47, App. 1 (2013) (listing U.S. FRAND-related lawsuits through 2012).

20. *See generally* Microsoft v. Motorola, Order, 2012 U.S. Dist. LEXIS 146517 (W.D. Wash., Oct. 10, 2012).

to a standard and thus subject to FRAND requirements,²¹ others question the ability of a patent holder to obtain injunctive relief against an infringer when the patent holder is subject to a FRAND commitment,²² and finally, others seek to impose antitrust liability on patent holders that fail to comply with their FRAND commitments.²³

II. RESOLVING INTELLECTUAL PROPERTY DISPUTES THROUGH ARBITRATION

The rise of standards-related patent litigation has led to suggestions that such disputes could more efficiently be resolved through alternative dispute resolution (ADR).²⁴ Though the arbitration of intellectual property disputes, and patent disputes in particular, is not a new phenomenon, standards-related cases introduce unique considerations to the arbitration landscape. This section summarizes both existing structures for patent dispute arbitration, as well as initial efforts to implement arbitration procedures for standards-related patent disputes.

A. Arbitration of IP Cases Today

1. U.S. Statutory Framework

Congress enacted the Federal Arbitration Act (“FAA”)²⁵ in 1925, reflecting a strong “national policy favoring arbitration.”²⁶ The FAA ensures that all agreements to arbitrate matters involving interstate commerce are “valid, irrevocable and enforceable” in U.S. state and federal courts.²⁷ Despite this broad language, disputes concerning patent validity and infringement were traditionally viewed as

21. Memorandum Opinion and Order, In re Innovatio IP Ventures, LLC Patent Litigation, Case No. 11 C 9308 (N.D. Ill. Jul. 26, 2013) [hereinafter *Innovatio Patent Litigation*] (holding that 168 disputed patent claims were essential to IEEE 802.11 standard and subject to FRAND commitment).

22. *Apple v. Motorola*, 886 F.Supp.2d 1061, 1079 (W.D. Wisc. 2012); *Microsoft v. Motorola*, 854 F.Supp.2d 993 (W.D. Wash. 2012).

23. See, e.g., *Motorola Mobility LLC & Google Inc.*, FTC Docket No. C-4410, at 9–10 (Jul. 23, 2013) (decision and order), <http://www.ftc.gov/os/caselist/1210120/130724googlemotorolado.pdf> [hereinafter *Google Order*]; In re. Robert Bosch GmbH, Statement of the Fed. Trade Comm’n, No. 121-0081 (Nov. 26, 2012); Case No COMP/M.6381 – *Google/Motorola Mobility*, Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004, February 13, 2012.

24. ADR is an umbrella term that generally includes arbitration, mediation, settlement conferences and early neutral evaluation (ENE). The main focus of this article is arbitration. However, other ADR processes could be adapted in meaningful ways to facilitate a FRAND determination. For example, ENE could be modified to a swifter more mediation-like approach to arrive at FRAND terms. See Burton, Weingust & Newman, *supra* note 4.

25. 9 U.S.C. §§ 1-14 (2006).

26. *Buckeye Check Cashing, Inc. v. Cardegna*, 546 U.S. 440, 443 (2006).

27. 9 U.S.C. § 2 (2006). International recognition of arbitral awards is provided under the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. U.N. Comm. on Intl. Trade Law, Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 1958). http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention.html (ratified by 149 countries as of 2013).

inappropriate for arbitration, “given the great public interest in challenging invalid patents.”²⁸

To overcome this barrier, and in response to growing public concern over the rising cost of patent litigation,²⁹ the Patent Act was amended in 1982 to recognize voluntary arbitration as a valid means for adjudicating disputes relating to the validity and infringement of patents.³⁰ The 1982 amendments, codified in Section 294 of the Patent Act, provide that patent-related arbitration will be governed by the FAA, but only to the extent that it is not inconsistent with the Patent Act.³¹ Under Section 294(c), any arbitral award as to the validity of a patent “shall be final and binding between the parties to the arbitration, but shall have no force or effect on any other person.”³² In order to for a patent-related arbitral award to be enforced, a party to the arbitration must notify the PTO of the award, which will then be entered in the prosecution record for the patent.³³

2. IP Arbitration Tribunals

Various institutions around the world have created arbitration rules and procedures tailored to the adjudication of patent disputes. For example, the American Arbitration Association (AAA) has adopted Supplementary Rules for the Resolu-

28. *Beckman Instruments, Inc. v. Technical Dev. Corp.*, 433 F.2d 55, 63 (7th Cir. 1970), *cert denied*, 401 U.S. 976 (1971). *See also* *Diematic Mfg. Corp. v. Packaging Indus., Inc.*, 381 F. Supp. 1057, 1061 (S.D.N.Y. 1974), *appeal dismissed*, 516 F.2d 975 (2d Cir. 1975), *cert. denied*, 423 U.S. 913 (1975) (“the grave public interest in questions of patent validity and infringement renders them inappropriate for determination in arbitration proceedings”); *Leesona Corp. v. Cotwool Mfg. Corp.*, 204 F. Supp. 141,143 (W.D.S.C. 1962), *aff’d* 315 F.2d 538 (4th Cir. 1963) (patent validity and infringement not subject to Federal Arbitration Act); *Zip Mfg. Co. v. Pep Mfg. Co.*, 44 F.2d 184,186 (D. Del. 1930) (patent validity and infringement “inherently unsuited to the procedure of arbitration statutes”). Notwithstanding the foregoing, courts consistently held that disputes regarding patent royalties and licensing were subject to arbitration under the FAA. *See Hanes Corp. v. Millard*, 531 F.2d 585, 588-599 (D.C. Cir. 1976) (royalty payments); and *Levin v. Ripple Twist Mill, Inc.*, 416 F. Supp. 876 (E.D. Pa. 1976), *appeal dismissed*, 549 F.2d 795 (3rd Cir. 1977) (computation of royalties and termination).

29. *See* Konstantinos Petrakis, *The Role of Arbitration in the Field of Patent Law*, 52 DISP. RESOL. J. 24, 27-28 (1997).

30. Pub. L. No. 97-247, 96 Stat. 317, 322, codified at 35 U.S.C. § 294 (2006). Well before the 1982 amendments, however, federal courts, including the U.S. Supreme Court, spoke approvingly of using arbitration to resolve disputes regarding reasonable royalty rates in antitrust remedial orders. *See* Jorge L. Contreras, *A Brief History of FRAND*, 80 ANTITRUST L.J. (forthcoming 2014) (noting favourable discussion of arbitration in *U.S. v. Besser Mfg. Co.*, 343 U.S. 444, 448 (1952), *U.S. v. Mfrs. Aircraft Assn.*, 1976-1 Trade Cases ¶ 60,810, 1975 WL 405109 (C.C.H.) (S.D.N.Y. Nov. 12, 1975) and *In re. Xerox Corp.*, 86 F.T.C. 364 (1975)).

31. 35 U.S.C. § 294(b).

32. *Id.* § 294(c).

33. *Id.* § 294(d). Disclosures made under §294 after 2008 can be accessed through the USPTO’s online FOIA Reading Room under “Notices of Suit Filed with U.S. District Courts”, available at <http://des.uspto.gov/Foia/NOSReadingRoom.jsp>. Earlier disclosures are available in individual patent file histories stored at the USPTO and available online through the USPTO’s Patent Application Information Retrieval (PAIR) web site, <http://portal.uspto.gov/pair/PublicPair>. However, based on an initial search by the USPTO of public records in April 2014 (made in response to a Freedom of Information Act Request submitted by American University on March 28, 2014), no summary records relating to arbitration notices were identified. Letter from Kathryn Siehndel, USPTO FOIA Officer, to Yoonhee Kim dated April 15, 2014 (copy on file with author).

tion of Patent Disputes.³⁴ The rules address patent disputes within the framework of AAA's Commercial Arbitration Rules and Mediation Procedures.³⁵ The AAA has also published guidelines for drafting arbitration clauses that specifically address patent disputes.³⁶

The World Intellectual Property Organization (WIPO) is a U.N. agency that oversees international IP treaties and promotes IP protection throughout the world.³⁷ WIPO established an Arbitration and Mediation Center, in 1995, and has developed arbitral rules specifically for intellectual property disputes.³⁸ To date, WIPO reports having administered over 350 mediation, arbitration, and expert determination cases, 39% of which have been patent cases.³⁹ Perhaps the best-known WIPO arbitration system is the Uniform Domain Name Dispute Resolution Policy (UDRP), an expedited, online arbitration system for resolving disputes over the registration and ownership of Internet domain names.⁴⁰ As of 2011, WIPO had administered more than 20,000 UDRP cases involving parties from 153 countries and approximately 35,000 Internet domain names.⁴¹ Since 1999, the Internet Corporation for Assigned Names and Numbers (ICANN) has mandated use of the UDRP to resolve disputes over covered top-level domains.⁴²

3. Extent of Patent Dispute Arbitration

Statistics on the number of patent disputes submitted to arbitration are scarce. While there is anecdotal evidence indicating that the use of arbitration in patent disputes may be on the rise,⁴³ most observers agree that the total number of cases is small.⁴⁴ Thus, relying on the WIPO Arbitration and Mediation Center's claim that it has administered 350 IP disputes since its inception in 1995, 39% of which

34. AM. ARBITRATION ASSN., *Resolution of Patent Disputes Supplementary Rules* (Jan. 1, 2006), https://www.adr.org/cs/groups/commercial/documents/document/dgdf/mda0/~edis/adrstg_004118~1.pdf.

35. AM. ARBITRATION ASSN., *Commercial Arbitration Rules & Mediation Procedures* (2013), http://www.adr.org/aaa/ShowProperty?nodeId=/UCM/ADRSTG_004103&revision=latestreleased.

36. AM. ARBITRATION ASSN., *Drafting Dispute Resolution Clauses*, 20 (2013), http://www.adr.org/aaa/ShowPDF?doc=ADRSTG_002540 [hereinafter AAA Drafting Guidelines].

37. See WORLD INTELLECTUAL PROP. ORG., *WIPO Overview 2011*, 4 (2011), http://www.wipo.int/export/sites/www/freepublications/en/general/1007/wipo_pub_1007_2011.pdf.

38. WORLD INTELLECTUAL PROP. ORG., *WIPO Arbitration Rules*, WIPO Publication No. 446 (2009), http://www.wipo.int/freepublications/en/arbitration/446/wipo_pub_446.pdf.

39. WORLD INTELLECTUAL PROP. ORG., *WIPO Caseload Summary*, <http://wipo.int/amc/en/center/caseload.html>.

40. See WORLD INTELLECTUAL PROP. ORG., *The Uniform Domain Name Dispute Resolution Policy and WIPO* (Aug. 2011), <http://www.wipo.int/export/sites/www/amc/en/docs/wipointaudrp.pdf>.

41. *Id.* at 3, 20.

42. INTERNET CORP. FOR ASSIGNED NAMES & NUMBERS, *Uniform Domain Name Dispute Resolution Policy* (Adopted Aug. 26, 1999), <http://www.icann.org/en/help/dndr/udrp/policy>. Examples of "covered top-level domains" include .com, .org, .net, and more than 60 country-level domains.

43. See Chris Neumeyer, *Think Patent Arbitration Can't Work? Think Again.*, IP WATCHDOG (Jun. 10, 2013), <http://www.ipwatchdog.com/2013/06/10/think-patent-arbitration-cant-work-think-again/id=41447/> (citing recent high-profile examples of arbitrated patent cases including *Promega v. Life Techs.*, *Nokia v. Research in Motion*, *Tessera v. Amkor*, *InterDigital v. LG Electronics*, and *Sanofi-Aventis v. Genentech*; most of these cases, however, involved disputes regarding royalties rather than patent validity or infringement).

44. See, e.g., Marion M. Lim, *ADR of Patent Disputes: A Customized Prescription, Not an Over-the-Counter Remedy*, 6 CARDOZO J. CONFLICT RESOL. 155, 168 n.77-78 (2004).

were patent disputes,⁴⁵ it appears that WIPO only arbitrates an average of eight IP cases each year. Statistics on the number of IP cases administered by AAA each year are equally sparse. The available data indicate that the AAA only arbitrates 0.5% to 3% of all IP cases filed in the U.S. each year.⁴⁶

There are numerous theories why arbitration is used so infrequently in patent disputes, notwithstanding the high cost and lengthy duration of patent litigation. Some argue that arbitration is not, in fact, substantially less expensive or time consuming than litigation.⁴⁷ Arbitration awards can be challenged in court on grounds of bias⁴⁸ and disregard for the law.⁴⁹ Despite the existence of treaties purportedly assuring the international enforceability of arbitral awards, some countries have in fact or in practice limited the effect of such awards locally.⁵⁰ And given that litigation, with its significant cost and personnel burdens, favors large enterprises over smaller ones, large patent holders may simply prefer litigation because it offers them a tactical advantage.⁵¹

It appears that, despite the credentials and patent-friendly policies of leading ADR tribunals, arbitration procedures and frameworks for patent-based arbitration remain largely untested.⁵² In the case of standards-essential patents, which have been arbitrated even less frequently, these procedures and frameworks remain almost completely unused.⁵³

45. See *supra* note 39 and accompanying text.

46. Douglas Fox & Roy Weinstein, Arbitration of Intellectual Property Disputes 3, http://www.micronomics.com/articles/Arbitration_and_Intellectual_Property_Disputes.pdf (in 2007, 375 IP cases filed with AAA, versus 10,166 filed in district court; in 2011, 50 IP cases filed with AAA, versus 10,555 filed in district court).

47. See Fox & Weinstein, *supra* note 46, at 4-6 (cataloguing factors such as the inapplicability of the Federal Rules of Evidence in arbitration, lengthy timeframes for arbitration, a lack of authority to compel discovery, limited rights of appeal and perceived tendency for arbitrators to “split the baby,” leaving no clear winner in a dispute). See also Lim, *supra* note 44, at 174-87. But see Kim Landsman, *Microsoft Case is Great Example of Emergency Arbitration*, LAW360 (Dec. 13, 2013), <http://www.law360.com/articles/495144/microsoft-case-is-great-example-of-emergency-arbitration> (describing emergency arbitration procedure in which party received relief 18 days after commencing procedure); Alan W. Kowalchuk, *Resolving Intellectual Property Disputes Outside of Court: Using ADR to Take Control of Your Case*, 61 DISPUTE RESOL. J. 28 (2006) (refuting each of these objections to the use of ADR over litigation).

48. *Compulsory Patent Licensing by Antitrust Decree*, 56 YALE L.J. 77, 110 (1946) (“Since the decisions of the arbitrator would not normally be subject to judicial review, there is even greater danger ... that arbitration machinery could be employed to advance the interests of the dominant firms”).

49. *Willemijn Houdstermaatschappij BV v. Standard Microsystems Corp.*, 925 F. Supp. 193 (S.D.N.Y. 1996) (vacating arbitration award when arbitrators acted in contradiction of applicable legal principles).

50. Pierre Larouch, Jorge Padilla & Richard Taffet, *Settling FRAND Disputes: Is Mandatory Arbitration a Reasonable and Non-Discriminatory Alternative?* 31 (Hoover IP2 Working Paper Series No. 13003), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2346892.

51. William Kingston, *The Case for Compulsory Arbitration – Empirical Evidence*, 22 EURO. INTEL. PROP. REV. 154 (2000) (referring to the intimidation factor in patent litigation).

52. Mediation, on the other hand, is a frequently used ADR process for settling patent disputes. For example, in the Northern District of California (which has a relatively high number of patent lawsuits) in 2011, of all referred ADR cases, 51% were mediations, 23% private ADR (including private mediation), 30% settlement conferences, 9% Early Neutral Evaluations and 1% arbitrations. See U.S. Dist. Ct. N.D. Cal., *ADR Program Report – Fiscal Year 2012* at 3, available at <http://www.cand.uscourts.gov/pages/981>.

53. One notable exception is *Willemijn Houdstermaatschappij BV v. Standard Microsystems Corp.*, 925 F. Supp. 193 (S.D.N.Y. 1996), a case involving the judicial review (and vacation) of an arbitration

B. Profile of Existing Standards Development ADR Policies

The notion of using ADR to resolve standards-essential patent disputes is not entirely novel. In fact, a handful of SDOs in the information and communications technology (ICT) sector⁵⁴ have already incorporated ADR provisions into their by-laws and policies, although these provisions have seldom been invoked. These SDO ADR policies are discussed below and excerpted in full in *Appendix A*.⁵⁵

1. The Digital Video Broadcasting Project

The Digital Video Broadcasting (DVB) Project is a Geneva-based association of more than 220 members of the digital television broadcasting industry that develops standards for digital television broadcasting.⁵⁶ DVB's Memorandum of Understanding⁵⁷ requires each member to resolve all disputes regarding licenses of DVB standards under the arbitration rules of the International Chamber of Commerce (ICC).⁵⁸ These arbitration provisions were adopted in 1995, shortly after DVB's formation.⁵⁹ According to DVB's Legal Director, neither the organization's arbitration clause, nor its ad hoc ADR arrangement, has been formally invoked.⁶⁰

award made in the context of a dispute regarding certain patents' coverage of the IEEE 802.5 and FDDI token ring standards.

54. This article focuses on the ICT sector because most of the current debates relating to patents and standards relate to this sector. It is notable, however, that arbitration procedures are used to resolve disputes in standardization and certification organizations outside of ICT as well. See, e.g., Errol Meidinger, *The Administrative Law of Global Private-Public Regulation: the Case of Forestry*, 17 EUR. J. INT'L. L. 47, 72 (2006) (discussing mediation and arbitration procedures used in forestry certification bodies).

55. The Open Mobile Alliance (OMA) may also have an arbitration requirement, though this is not clear from the documentation currently available on its web site. See Open Mobile Alliance IPR Procedural Guidelines for OMA Members (Feb. 4, 2004), http://openmobilealliance.org/wp-content/uploads/2013/01/Member_IPRGuidelines_v53006.pdf, ("Any disputes shall be finally resolved by arbitration in accordance with the terms of the Application Form"). But see Open Mobile Alliance Ltd., Application Form § 7.1, http://openmobilealliance.org/wp-content/uploads/2013/08/OMA-Reference-2013-0005-General_Application.pdf, (member "irrevocably submits to the exclusive jurisdiction of the English courts to settle any disputes which may arise out of or in connection with the Application Form ... or otherwise in connection with its involvement in or with the Company").

56. See generally, Carter Eltzroth, *IPR Policy of the DVB Project: Negative Disclosure, FRAND Arbitration Unless Pool Rules OK, Part 1*, 6 INT'L. J. OF IT STANDARDS & STANDARDIZATION RES. 21, 21-24 (2008).

57. DVB's Memorandum of Understanding is the document that establishes the organization's rules relating to intellectual property. *Id.* at 23-24.

58. DVB PROJECT, *Memorandum of Understanding* § 14.7 (Jan. 3, 2014), http://www.dvb.org/resources/public/documents_site/dvb_mou.pdf.

59. Eltzroth, *supra* note 56.

60. DVB PROJECT, Rules and Procedures of the DVB MHP Experts Group (MEG), in MHP Implementation Arrangements and Associated Agreements, DVB BlueBook A066 r1, § 4.3 (July 2003) <http://www.etsi.org/images/files/MHPTTestSuites/a066r1V1-0.pdf>; Communications with Carter Eltzroth, *supra* note 58.

2. VITA

The VMEbus International Trade Association (VITA) was incorporated in 1984 as a manufacturers' forum and support organization for an open electronics interconnection standard known as VMEbus.⁶¹ In the mid-1990s, on two separate occasions VITA members disclosed patents essential to the implementation of a VITA draft standard relatively late in the development process, then demanded royalties that were "significantly higher than expected."⁶² In response to these incidents, VITA developed a new intellectual property policy that expressly implemented a formal arbitration procedure to resolve patent-related disputes among members.⁶³ In 2006, the U.S. Department of Justice (DOJ) issued a business review letter approving the VITA policy, mentioning its arbitration provisions favorably.⁶⁴ To the authors' knowledge, VITA's arbitration policy has not been formally invoked to resolve a dispute among members.⁶⁵ However, it is possible that VITA's implementation of the arbitration policy encourages parties to settle their disputes amicably.

3. Blu-Ray Disc Association

The Blu-Ray Disc Association is responsible for the popular Blu-Ray optical audiovisual disc format.⁶⁶ The Association's by-laws call for resolution of patent licensing disputes among members through arbitration by the American Arbitration Association (AAA).⁶⁷ However, this provision does not preclude a member "at any time from seeking an injunction, damages, or any other legal relief available under applicable laws against any other . . . party for intellectual property infringement."⁶⁸

The Blu-Ray arbitration policy became the subject of litigation in *Zoran Corp. v. DTS, Inc.*,⁶⁹ a dispute over the patent licensing terms offered by DTS to

61. See Press Release, VITA, VITA Marks 25th Anniversary of VME Technology Standard, (Jan. 16, 2006), available at <http://www.vita.com/home/NewsandEvents/Releases/VITA-NR-2006-01%20VITA%20Marks%2025th%20Anniversary%20of%20VME%20Technology%20Standard.pdf>.

62. U.S. Dept. of Justice, *Business Review Letter to VMEbus International Trade Association (VITA)* 3 (Oct. 30, 2006) (citing Letter from Robert A. Skitol to Thomas O. Barnett, Assistant Atty. Gen., U.S. Dept. of Justice 2 (June 15, 2006)), available at <http://www.justice.gov/atr/public/busreview/219380.pdf> [hereinafter DOJ VITA Letter].

63. VITA, *VSO Policies and Procedures*, Rev. 2.6, § 10.5 (Nov. 30, 2009), <http://www.vita.com/home/VSO/vso-pp-r2d6.pdf>. The VITA patent policy is best known for its requirement that patent holders disclose the maximum royalty rates they will charge for patents essential to VITA standards, a provision that was also approved by the DOJ. See Jorge L. Contreras, *Technical Standards and Ex Ante Disclosure: Results and Analysis of an Empirical Study*, 53 JURIMETRICS 163, 173-74 (2013).

64. DOJ VITA Letter, *supra* note 62, at 7, 10.

65. Our understanding has been confirmed through informal discussions with Ray Alderman, Executive Director, of VITA in October 2013.

66. BLU-RAY DISC, <http://bluraydisc.com> (last visited Apr. 8, 2014).

67. BLU-RAY DISC ASSOCIATION, By-laws, *Amended & Restated Bylaws of Blu-Ray Disc Association*, cl. 16, (Oct. 1, 2010), http://www.blu-raydisc.com/Assets/Downloadablefile/BDA_Bylaws_%28v2.0%29-18618.pdf.

68. *Id.* at cl. 28.

69. *Zoran Corp. v. DTS, Inc.*, 2009 U.S. Dist. LEXIS 6675 (N.D. Cal. 2009).

its fellow Blu-Ray member Zoran.⁷⁰ Zoran, alleged that DTS failed to offer licensing terms that complied with its commitment to license patents essential to the standard on fair, reasonable and non-discriminatory (FRAND) terms. Zoran simultaneously brought an arbitration claim against DTS, pursuant to the Blu-Ray bylaws, and filed a suit against DTS in federal district court, for antitrust violations and patent misuse.⁷¹ The court held that while Zoran's antitrust and patent misuse claims were related to its FRAND claim, these claims went beyond the mere question of the fairness of DTS's licensing terms.⁷² Thus, the court declined to dismiss Zoran's antitrust and misuse claims, but stayed the claims pending resolution of the FRAND arbitration.⁷³

4. *The European Telecommunications Standards Institute (ETSI)*

The European Telecommunications Standards Institute (ETSI), based in Sophia-Antipolis, France, was formed in 1988.⁷⁴ ETSI develops standards for telecommunications, information technology, and broadcasting.⁷⁵ The organization has more than 750 members including national standards organizations, network operators, manufacturers, service providers, research institutions and user representatives.⁷⁶ The organization's first intellectual property policy was adopted in 1993.⁷⁷ While ETSI does not have a formal arbitration policy, it does encourage members who cannot resolve disputes in a "friendly" manner to consult the organization "in case a friendly mediation can be offered by other [members] and/or the ETSI Secretariat."⁷⁸ An ETSI representative has informed the authors that ETSI is currently considering expanding its intellectual property policy to include a more robust arbitration provision, although discussions of this proposal are in the early stages.

C. *The FTC-Google Settlement*

In 2012, the Federal Trade Commission (FTC) initiated an investigation of Google, and its subsidiary Motorola, for alleged violations of Section 5 of the

70. *Id.*

71. *Id.* at *2-3.

72. *Id.* at *18-20.

73. *Id.*; See also *One-Blue LLC v. Imation Corp.*, No. 1:13-cv-00917-UNA U.S. Dist. (D. Del May 22, 2013) (involving litigation between Blu-Ray members with a complaint filed in a judicial proceeding making no reference to arbitration); see also *Sony Supply Chain Solutions (Europe) BV v. LG Electronics Inc.*, District Court of The Hague, No. 389067/KG ZA 11-269 (Mar. 10, 2011) (in dispute between BDA members, BDA arbitration clause among reasons leading court to dissolve customs seizure order).

74. Stanley M. Besen, *The European Telecommunications Standards Institute: A Preliminary Analysis*, 14 TELECOMM. POL'Y 521, 522 (1990).

75. *Id.*

76. ETSI, *Membership of ETSI*, <http://www.etsi.org/index.php/membership> (last visited Apr. 8, 2014).

77. See Rudi Bekkers & Joel West, *The Limits to IPR Standardization Policies as Evidenced by Strategic Patenting in UMTS*, 33 TELECOMM. POL'Y 80, 81 (2009); Maurits Dolmans, *Standards for Standards*, 26 FORDHAM INTL. L.J. 163, 181 (2002).

78. Euro. Telecom. Stds. Inst., *ETSI Guide on Intellectual Property Rights (IPRs)* § 4.3 (Sept. 19, 2013), <http://www.etsi.org/images/files/IPR/etsi-guide-on-ipr.pdf>.

FTC Act.⁷⁹ The allegations arose from Motorola's attempt to obtain injunctive relief against parties to which it owed FRAND licensing commitments.⁸⁰ To resolve the dispute, Google and Motorola entered into a consent agreement (the "Google Order")⁸¹ whereby they agreed to cease and desist from directly or indirectly making future claims for injunctive relief based on alleged infringement of SEPs, except as permitted under the order.⁸² The Google Order provided that, in the event of a disagreement over FRAND terms, a potential licensee could seek to have such terms "resolved through a request for a FRAND [court] determination or binding arbitration."⁸³ The purpose of such arbitration would be to determine whether the contested terms were consistent with applicable FRAND commitments, and "to set the appropriate requirements for terms found inconsistent with the relevant FRAND commitments."⁸⁴ Google was precluded from seeking injunctive relief against a prospective licensee unless that licensee declined to accept the FRAND royalty established by this arbitration proceeding or by a judicial determination.⁸⁵

The Google Order signaled that, from the FTC's perspective, arbitration may be a preferred means for resolving disputes over FRAND licensing terms. While the Google Order does not mandate arbitration of these disputes (litigation and mutual negotiation are also acceptable), arbitration appears to be the most promising method of reaching resolutions. The Google Order also clarifies that it is appropriate to arbitrate "arguments regarding validity, essentiality, infringement or the value of the patents included in the relevant license agreement."⁸⁶ Thus, the scope of permitted issues for arbitration extends beyond the question of whether a proffered set of license terms complies with a patent holder's FRAND commitment. However, the Google Order does not list antitrust violations or patent misuse as claims suitable for arbitration. In view of the *Zoran* holding, which did not permit arbitration of antitrust and misuse claims together with a FRAND determination,⁸⁷ it is possible that such antitrust and misuse issues may fall outside of the arbitration procedures outlined in the Google Order, but may still be brought in a judicial proceeding.

79. 15 U.S.C. § 45(a)(1). The Federal Trade Commission has authority under §5 of the FTC Act to prosecute "unfair methods of competition" and "unfair or deceptive acts and practices".

80. Google Order, *supra* note 23, at 9-10.

81. *See* U.S. v. Swift & Co., 286 U. S. 106, 115 (1932). A consent order is a voluntary agreement entered into by a governmental agency and a private party under investigation or prosecution in order to settle claims or end the investigation. A consent decree has the legal force of an adjudicated decision, enforceable upon pain of contempt, as confirmed by the Supreme Court in *U.S. v. Swift & Co.* It does not have preclusive effect against non-parties, but is often viewed as indicative of how the agency would view similar fact patterns. By the end of the 1950s, consent decrees had become "the most widely used antitrust remedy in federal civil enforcement." *See also* John J. Flynn, *Consent Decrees in Antitrust Enforcement: Some Thoughts and Proposals*, 53 IOWA L. REV. 983, 983-85 and n.3 (1968).

82. *See* Google Order, *supra* note 23, at 7.

83. *See* Google Order, *supra* note 23, at 8-9.

84. Google Order, *supra* note 23, at Sec. III(C)2

85. Google Order, *supra* note 23, at Sec. III(D), Sec. IV(F).

86. Google Order, *supra* note 23, at Sec. III(D).

87. *See supra* notes 69-73.

III. ARBITRATING DISPUTES OVER STANDARDS-ESSENTIAL PATENTS

If an increasing number of disputes relating to standards-essential patents (SEPs) are to be arbitrated, then industry participants, standards-development organizations, and arbitral tribunals must have at their disposal a set of well-understood, stable, and efficient procedures for conducting such arbitration proceedings. However, there is a paucity of guidance relating to the arbitration of SEP disputes. Standards raise a number of unique legal and procedural complexities that are not present in other patent disputes. Thus, it is incumbent upon the stakeholders in the standardization field to consider the procedural choices that will invariably arise when SEP disputes are brought to arbitration. Several key issues that will need to be addressed are outlined below. When considering these issues, it is important to remember that they are closely linked. Thus, a decision regarding whether arbitration should be mandatory or voluntary will necessarily impact which issues the parties wish to arbitrate, and whether the results of the arbitration should be confidential or public.

A. Mandatory or Voluntary Arbitration?

Arbitration generally takes place when parties mutually agree to forego judicial resolution of a dispute in favor of private resolution.⁸⁸ Arbitration of disputes cannot be compelled; the parties must, at some point, agree to it. Of course, not all arbitration agreements are negotiated between sophisticated parties. Standardized consumer contracts for telephone service, credit cards, and computer software, as well as employment agreements, often contain arbitration clauses that are routinely enforced by the courts.⁸⁹ Likewise, WIPO's Uniform Dispute Resolution Procedure (UDRP) for resolving Internet domain name disputes is mandated by ICANN's agreements with Internet domain name registrars, which, in turn, pass this requirement down to individual domain name registrants.⁹⁰ Thus, the term "mandatory" arbitration is something of a misnomer, as an agreement underlies all such arbitration proceedings.

That is, under a customary model of patent arbitration, the parties to a dispute may jointly and voluntarily decide that they prefer, for reasons of speed, cost or confidentiality, to submit their existing dispute to arbitration rather than have the

88. See, generally, GARY B. BORN, INTERNATIONAL COMMERCIAL ARBITRATION: COMMENTARY & MATERIALS 53 (2d ed. 2001) ("[t]he foundation for almost every international arbitration is an international arbitration agreement. Absent a valid agreement to arbitrate, there is generally no basis for requiring arbitration or for enforcing an arbitral award against a party").

89. See, e.g., Paul Bennett Marrow & Craig E. Penn, *The 'Circle of Assent' Doctrine and the Mandatory Pre-Dispute Arbitration Clause: When the Unconscionable Contract Analysis Just Won't Do*, 68 DISPUTE RESOL. J. 1 (Spr. 2013) (discussing enforceability of mandatory arbitration clauses in contracts of adhesion); David Mills & Alyssa Saunders, *In AmEx Justices Reinforced Bilateral Arbitration Agreements with Class Waivers, But Clauses Should Be Drafted Carefully*, 18 BNA ELEC. COMMERCE & L. REP. 2342 (2013) (discussing history of enforcement of arbitration clauses in contracts of adhesion and recent Supreme Court ruling upholding arbitration clause in credit card agreement); Katherine V. W. Stone, *Procedure, Substance, and Power: Collective Litigation and Arbitration Under the Labor Law*, 61 UCLA L. REV. DISCOURSE 164 (2013) (employment agreement arbitration clauses); *Hancock v. Am. Tel. & Tel. Co., Inc.*, 701 F.3d 1248 (10th Cir. 2012) (analyzing enforcement of arbitration clause in online click wrap agreement).

90. See *supra* notes 40-42 and accompanying text.

disputes resolved in court. The parties then negotiate a submission agreement specifying myriad details, such as the arbitral institution, the number of arbitrators, the location of the arbitration, the extent of discovery, choice of law, and the like.⁹¹ If, after negotiating the submission agreement, the parties cannot agree on the procedural aspects of the arbitration, either party may commence judicial proceedings, staying arbitration.

However, if the parties to a patent dispute are members of a SDO that requires arbitration of SEP disputes, then, by virtue of their membership in the SDO, the parties will have *agreed* to submit such disputes to arbitration prior to the occurrence of the dispute.⁹² Although one or both of the parties may no longer wish to arbitrate at the time the dispute arises, it will be difficult, if not impossible, for a party to rescind its earlier agreement to arbitrate. Thus, it is likely that the parties will be forced to arbitrate their dispute. This approach is often referred to as “mandatory” arbitration. It is supported by an initial, voluntary agreement, but thereafter becomes the exclusive means for resolving particular disputes between the parties.⁹³ In contrast, some SDO policies may merely state that members “may” arbitrate SEP-related disputes, in which case arbitration is voluntary.

The distinction between voluntary and mandatory arbitration of SEP disputes has significant ramifications. If arbitration is voluntary, then the parties have wide latitude to craft arbitration procedures that best suit their circumstances. If they cannot agree on such procedures, then they are not bound to arbitrate. However, under mandatory arbitration the parties *must* arbitrate, even if they fail to agree on arbitration procedures. Thus, in order for mandatory arbitration to work, the SDO, or some other governing body, must establish consistent arbitration procedures, just as ICANN and WIPO established the mandatory UDRP procedure. However, establishing arbitration procedures involves more effort by the SDO, and could generate significant debate among SDO participants.⁹⁴

Many of the commentators who recommend arbitration of SEP disputes have spoken of SDOs “requiring” arbitration in their membership agreements or policies.⁹⁵ Because voluntary arbitration is available to parties today, and because it

91. See, e.g., AAA Drafting Guidelines, *supra* note 35; TREVOR COOK & ALEJANDRO I. GARCIA, INTERNATIONAL INTELLECTUAL PROPERTY ARBITRATION, 120-40 (2010).

92. In economics terms, one might refer to this approach as an “ex ante” (prior to) approach, in which the parties agree to arbitrate their dispute prior to the occurrence of the dispute. It contrasts with an “ex post” approach, in which the parties do not agree to arbitrate until they are already engaged in the dispute.

93. See BORN, *supra* note 88, at 298. This “mandatory” arbitration approach is not uncommon in patent pools, which often require their members to submit disputes to arbitration. See, e.g., Michael Mattioli, *Communities of Innovation*, 106 NW. U. L. REV. 103, 130-33 (2012) (describing arbitration provisions in Manufacturers Aircraft Association).

94. It is worth noting that the three SDOs described in Part II.B, *supra* (DVB, VITA and Blu-Ray), developed mandatory arbitration provisions without significant internal opposition. However, these three organizations are relatively modest in size compared to major SDOs such as IEEE, ETSI, ITU and ISO, and it is possible that implementing a mandatory arbitration policy at a large SDO would be challenging. In addition, at least one member is documented as having withdrawn from VITA as a result of its amended policy, though the member’s principal objection was to VITA’s *ex ante* royalty disclosure policy rather than its arbitration policy. See Contreras, *Technical Standards and Ex Ante Disclosure*, *supra* note 63, at 174.

95. See, e.g., Lemley & Shapiro, *supra* note 2. Hesse, *Six Proposals*, *supra* note 3, at 10 (“Standards bodies might want to explore ... devising arbitration *requirements* to reduce the cost of lack of clarity in F/RAND commitments”) (emphasis added)).

requires far less advance planning than mandatory arbitration, the remainder of this article focuses primarily on a framework built around a mandatory arbitration requirement by SDOs. This is not to say, however, that all SDOs will wish to adopt a mandatory arbitration framework, nor that such a framework is appropriate in all cases.

B. With Whom to Arbitrate?

To the extent a requirement to arbitrate SEP disputes is embodied in the membership agreement, bylaws, or policies of an SDO, only members of the SDO will be bound by it.⁹⁶ However, the range of potential licensees with whom SDO members may be required to arbitrate is unclear. In particular, an SDO must decide whether its members are required to arbitrate only SEP disputes that arise with other members, or with all potential licensees, whether or not members.

Requiring SDO members to arbitrate SEP disputes with non-members may initially be unappealing to SDO members, as non-member patent holders are not bound by either the SDO's FRAND policy, or its arbitration requirements (absent some other contractual commitment). This may be why the three SDOs that have already implemented arbitration policies, DVB, VITA, and Blu-Ray, only require arbitration of intra-member disputes. However, it is often the case that the manufacturers of products conforming to a standard are *not* members of the SDO that developed the standard. Accordingly, this large group of manufacturers will not have agreed to arbitrate SEP disputes with SDO members. To achieve the broadest adoption of standards in a manner that is free from unexpected patent assertions and unpredictable royalty rates, the SDO may conclude that its members should arbitrate *all* SEP disputes, whether or not the potential infringers are members of the SDO.⁹⁷ Accordingly, an SDO developing mandatory arbitration provisions must decide which potential licensees its members should be required to arbitrate with.

C. Which Issues to Arbitrate?

1. Issues Necessary to a FRAND Determination

Assuming that an SDO mandates arbitration of SEP disputes, it must specify which issues are subject to arbitration. Because Section 294 of the Patent Act now authorizes arbitration of disputes relating to patent infringement and invalidity, there is no bar on presenting these issues to arbitration.⁹⁸

96. See Jorge L. Contreras, *Market Reliance and Patent Pledges*, __ UTAH L. REV. __, Part II.A.2(a)(b) _ (forthcoming 2015) (manuscript available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2309023). To resolve this "asymmetry," the SDO could require that the non-member reciprocate by agreeing to submit itself, together with its SEPs, to arbitration. Otherwise, the only way to bind non-members to an arbitration requirement would be through legislative or regulatory action, an approach that we do not favour.

97. For example, the FTC's Google Order requires Google to submit to arbitration with *any* potential licensee of its SEPs prior to seeking injunctive relief. Google Order, *supra* note 23, at 5.

98. See *supra* Part II.A.1.

At a minimum, arbitration procedures should enable a determination of the level of FRAND royalty rates for the SEPs in dispute. Disputes over FRAND royalty rates, and the wide divergence of views regarding the appropriate magnitude and methodology for calculating such royalty rates, have motivated the recent calls for arbitration of SEP disputes. But royalty rates cannot be calculated in a vacuum. The level of patent royalties will depend on a number of factors, including those enumerated in *Georgia-Pacific v. United States Plywood*.⁹⁹ The court in *Microsoft v. Motorola*, assessing FRAND royalty rates for two widely adopted industry standards, endorsed the *Georgia-Pacific* methodology, with some significant modifications required by the standards context.¹⁰⁰

There are additional considerations that factor into a FRAND royalty determination, particularly when a patent holder asserts that a large number of its patents are essential to the standard in question. It is important to note that not all patents declared to be essential by the patent holder are, in fact, essential to implement the standard.¹⁰¹ The phenomenon of over-disclosure of essential patents has been discussed in patent literature, and has the potential to distort the calculation of FRAND royalty rates.¹⁰² Thus, arbitrators may be called upon to assess the degree to which patents asserted meet the relevant definition of essentiality.¹⁰³

By the same token, the FRAND royalty calculation should take into account the validity of allegedly essential patents, and whether they are actually infringed.¹⁰⁴ Another factor to consider in computing a FRAND royalty, as proposed by the court in *Microsoft v. Motorola*, is the relative value of the asserted patents, both to the standard, and to the infringing product.¹⁰⁵

99. *Georgia-Pac. Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir. 1971), *cert. denied*, 404 U.S. 870 (1971).

100. *Microsoft v. Motorola*, 2013 U.S. Dist. LEXIS 60233 (W.D. Wash., Apr. 25, 2013).

101. SDO definitions of “essentiality” vary. Some require that in order to be essential, a patent must necessarily be infringed, from a technical point of view, in order to implement a standard. Others provide that a patent is essential if there is no “commercially feasible” technical means of implementing a standard without infringing the patent. And others have proposed that a patent may be essential if it covers a commercially necessary product feature, even if not technically required to implement the standard (so-called “commercial essentiality”). See ABA PATENT POLICY MANUAL, *supra* note 10, at 18–19 (discussing differences between “technically essential” and “commercially essential” patent claims); Rudi Bekkers & Andrew Updegrave, *A Study of IPR Policies and Practices of a Representative Group of Standards Setting Organizations Worldwide*, THE NATIONAL ACADEMIES, 39–41 (2012), http://sites.nationalacademies.org/xpeditio/groups/pgasite/documents/webpage/pga_072197.pdf (identifying different variants of “essentiality” used in SDOs studied); Jay P. Kesan & Carol M. Hayes, *FRANDs Forever: Standards, Patent Transfers, and Licensing Commitments*, 89 INDIANA L.J. 231 (2014).

102. See Contreras, *Fixing FRAND*, *supra* note 19, at 60–61.

103. See Memorandum Opinion and Order, *In re Innovatio IP Ventures, LLC Patent Litig.*, 956 F. Supp. 2d 925, 931 (N.D. Ill. 2013) (holding that 168 disputed patented claims were essential to IEE 802.11 standard and subject to FRAND commitment).

104. It is possible that an arbitrator’s consideration of the validity and infringement of SEPs in determining a FRAND royalty rate might not require a determination of the validity and infringement of every patent under consideration, but could be handled on a statistical, aggregate or other less time-intensive manner. See Torsten Fey, Euro. Comm’n Enter. & Indus. Directorate, *Speaking Points Delivered at ETSI IPR#16 by the European Commission*, Sept. 20, 2013 (“Implementers should have the right to bring material information on validity, essentiality and infringement to the adjudication process. But there should be no obligation for the arbitrator or adjudicator to rule on all of these issues. We believe a reasonable time frame for resolution is of essence.”).

105. *Microsoft*, 2013 U.S. Dist. LEXIS 60233.

Finally, for reasons of adjudicative economy, Professors Mark Lemley and Carl Shapiro have suggested that all standards-essential patents held by a given patent holder be considered when determining a FRAND royalty rate for a given standard, even if the patent holder has only asserted a subset of those patents against a particular potential licensee.¹⁰⁶ This approach is sensible and reflects the manner in which courts have sought to define FRAND royalty rates.¹⁰⁷

Because each of the above factors is relevant to setting the level of a FRAND royalty rate, it is advisable that each of these factors be raised in any arbitration over the appropriate level of such royalties.¹⁰⁸

2. Ancillary Claims

Disputes over FRAND commitments may also give rise to claims that, strictly speaking, go beyond the determination of a FRAND royalty rate. These ancillary claims may include claims relating to antitrust violations, patent misuse, breach of contract, fraud, inequitable conduct and other forms of malfeasance, as well as the infringement and licensing of patents that are not standards-essential. An SDO developing a mandatory arbitration policy has three choices regarding the disposition of such ancillary claims: (a) whether such ancillary claims *must* be arbitrated together with FRAND rate claims, (b) whether they *may* be arbitrated with FRAND claims, and (c) whether they *may not* be arbitrated with FRAND claims.

There are rationales supporting each of these approaches. The first approach places the greatest reliance on arbitration and removes most issues between the parties from the purview of litigation. Strong proponents of ADR, and its potential cost-savings and efficiency, might prefer such an approach, as it would consolidate all issues into a single proceeding before a single adjudicator. Conversely, Others may be concerned that adding numerous complex ancillary issues to an arbitration proceeding might slow the process of determining a FRAND royalty rate, and burden what is otherwise intended to be a speedy resolution of this key question. The second approach gives parties the flexibility to choose whether to raise ancillary issues in arbitration or litigation, but would require the arbitrator to consider any such issues brought before it. The third approach limits the FRAND arbitration to issues directly relevant to the determination of a FRAND royalty rate. It does not preclude the parties from agreeing, outside the context of the SDO's arbitration policy, to arbitrate additional issues, but it precludes them from joining these claims with a FRAND arbitration proceeding. This approach arguably offers the most efficient FRAND arbitration, although conducting parallel litigation and arbitration proceedings would inherently result in inefficiencies and additional costs.¹⁰⁹

106. Lemley & Shapiro, *supra* note 2, at 1149.

107. See *Microsoft*, 2013 U.S. Dist. LEXIS 60233; *Innovatio*, 956 F. Supp. 2d at 931.

108. Lemley & Shapiro, *supra* note 2, at 1149 (“The arbitrator should account for the likelihood of validity and infringement, along with the significance, of the patents at issue”).

109. *Id.* Though, as argued by Lemley and Shapiro, many of these ancillary issues may fall away once a royalty rate has been set. That is, the desire to arbitrate ancillary claims may lessen following a narrow arbitration setting a FRAND rate. Once a FRAND rate is set, the parties know what the case is worth and can more easily determine whether it is worth fighting about validity, infringement, essentiality, and other claims. That is, the potential licensee may determine that the ancillary issues are not worth fighting about if the rate set by the arbitrator is extremely low.

3. Non-Royalty FRAND Terms

Though most recent disputes regarding FRAND licenses have involved the determination of appropriate royalty rates, many additional terms and conditions comprise a patent license agreement. The FTC, in its Google Order, required that Google commit to enter into license agreements on “terms and conditions established by the arbitrator,” including terms and conditions beyond the bare royalty rate.¹¹⁰ Accordingly, in establishing SEP arbitration policies, SDOs must decide whether to grant an arbitrator the authority to establish the non-royalty terms of a FRAND license agreement.

Lemley and Shapiro recommend that an arbitrator determine only the FRAND royalty rate, as the non-royalty terms of the license agreement are not compelled by the FRAND obligation.¹¹¹ However, views differ over this conclusion, and some commentators argue that additional contractual terms, such as the licensee’s obligation to grant the patent holder a reciprocal license under its own patents, *are* included within the scope of a FRAND commitment.¹¹² If the arbitrator is not authorized to interpret the non-royalty terms of a FRAND license, alternative means for determining the import of such terms must be established. SDOs or neutral third parties may wish to develop a “template” FRAND license agreement to be adopted for general use by members of the SDO.¹¹³

D. Confidentiality

As a general rule, arbitration proceedings are conducted privately and all parties, including the arbitrator, are obliged, whether by law, ethical canon, or contract, to maintain the confidentiality of the evidence adduced, the parties’ arguments, and the arbitral award.¹¹⁴ As Sir George Jessel, Master of the Rolls, observed of arbitration agreements in 1880, “persons enter into these contracts with the express view of keeping their quarrels from the public eyes, and of avoiding that discussion in public, which must be a painful one.”¹¹⁵ In fact, it is this very confidentiality that often makes arbitration more attractive than litigation in open court.

However, the considerations surrounding confidentiality are somewhat more complex in patent disputes. First, as noted in Part II.A.1 above, Sections 294(d) and (e) of the Patent Act require that, in order to be enforced, the results of any

110. Google Order, *supra* note 23, at 10.

111. *See generally* Lemley & Shapiro, *supra* note 2.

112. *See* ABA PATENT POL’Y MANUAL, *supra* note 10, at 56-67 (discussing additional contractual terms potentially encompassed by a FRAND commitment). The reciprocity requirement, of course, may be explicit in the SDO’s intellectual property policy. *See, e.g.*, DVB Memorandum of Understanding, *supra* note 58, at § 14.2; Blu-Ray Bylaws, *supra* note 67, cl. 15.

113. *See* David L. Newman, “*Going Once...Going Twice...Licensed Under the Most Reasonable and Non-Discriminatory Bidding Terms!*,” 11 NW. J. TECH. & INTEL. PROP. 139 (2013) (proposing that an intermediary body or SDO engage at least one experienced practitioner (attorney) to act as a neutral expert to draft a standard license agreement that suits the particular industry and technology involving the IPRs to be auctioned and to focus on license clauses such as: non-assertion, defensive termination, grant-backs and reach-through royalty agreements that have received the attention of the DOJ).

114. *See generally* COOK & GARCIA, *supra* note 91, at Ch.9.

115. COOK & GARCIA, *supra* note 91 at 230 n.2 (quoting *Russel v. Russel*, L.R. 14 Ch. D. 471 at 474).

arbitration concerning patent validity or infringement must be reported to the U.S. Patent and Trademark Office (PTO) and made publicly available.¹¹⁶ This exclusion from confidentiality is consistent with the recognized public interest in challenging invalid patents that made patent disputes ineligible for arbitration during the first 58 years of the Federal Arbitration Act.¹¹⁷ Thus, if an arbitrator deems a patent invalid, while the invalidity finding cannot be used by a third party in a subsequent action,¹¹⁸ the outcome of the arbitration will inform the market that the patent is weak, and perhaps deserving of challenge. Professor Megan La Belle questions the settlement of patent cases, observing that the secrecy of private settlements insulates potentially invalid patents from further challenge, gives these patents a potentially unjustified aura of strength, and distorts damage awards in subsequent cases.¹¹⁹

Beyond patent law, tribunals hearing other types of cases have evidenced a growing dislike for confidential arbitration decisions. One of the most notable exceptions to the general rule that arbitration proceedings are conducted confidentially is WIPO's UDRP arbitration system, which resolves myriad disputes regarding Internet domain names and makes all cases and decisions publicly available online.¹²⁰ Even more striking is a recent ruling by the U.S. Court of Appeals for the Third Circuit that a state-sponsored confidential arbitration program in Delaware unconstitutionally limited the parties' First Amendment rights.¹²¹

There are a number of positive effects that could arise from the public disclosure of the results or proceedings of arbitrations concerning SEPs. As numerous commentators have noted, it is notoriously difficult to determine, or even estimate, a FRAND royalty rate when the license agreements and settlements relating to the relevant SEPs are confidential.¹²² Opening at least the results of SEP arbitrations to the public would begin to establish a base of information relating to SEP royalties that could begin to eliminate much of the uncertainty that currently exists in the market.¹²³ Such improved transparency could help parties to negotiate more

116. 35 U.S.C.A. § 294(d)-(e).

117. See *supra* note 28 and accompanying text. Courts faced with other public interests have been hesitant to honor parties' confidentiality agreements as to the content of arbitration proceedings. See Laura A. Kaster, *Confidentiality in U.S. Arbitration*, 5 N.Y. DISPUTE RESOL. L., Spr. 2012, 23, 25 (discussing cases involving impeachment in criminal proceedings and disclosure under the Freedom of Information Act).

118. 35 U.S.C.A. § 294(c) ("An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person").

119. Megan M. La Belle, *Against Settlement of (Some) Patent Cases*, 67 VAND. L. REV. (forthcoming 2014) (arguing that, for systemic reasons, certain patent cases, including those involving SEPs, should not be settled). Confidentiality is in part based on "party autonomy." Here, in the case of standardized technology intended for broad adoption, the SDO may have a countervailing interest, that is, to ensure that its rule on non-discrimination is respected.

120. WIPO UDRP Domain Name Decisions (gTLD), WORLD INTELLECTUAL PROPERTY ORGANIZATION, <http://www.wipo.int/amc/en/domains/decisionsx/index.html>.

121. *Delaware Coal. for Open Gov't, Inc. v. Strine*, 733 F.3d 510, 521 (3d Cir. 2013).

122. In the only judicial decision to-date computing a FRAND royalty rate, the judge was fortunate to be evaluating two widely adopted standards (H.264 and 802.11) that were the subject of patent pools with published royalty rates. However, even in this case, the details of certain private license agreements disclosed to the court and which factored into his analysis were redacted from the public versions of the opinion. *Microsoft*, 2013 U.S. Dist. LEXIS 60233.

123. For similar reasons, Lemley and Shapiro propose that arbitration decisions be disclosed to "willing licensees", which, though helpful, seems to fall short of general public disclosure. See Lemley & Shapiro, *supra* note 2, at 1145 ("secrecy would undermine the effectiveness of the FRAND regime").

appropriate FRAND royalties and make verification of patent holders' compliance with the non-discrimination prong of the FRAND requirement easier.

Going a step beyond the arbitral award, it would also be possible for SDOs to require their members to allow the record of their arbitration to be made public, in a manner comparable to a judicial proceeding. Also, as in judicial proceedings, certain highly proprietary materials could be placed under protective order and excluded from the public record. Alternatively limited summaries of an arbitrator's decision could be made available. Such summaries could provide only the commercial terms necessary to aid potential licensees in determining whether the patent holder complied with its non-discrimination obligation, and the reasons for the arbitrator's determination.

There are also arguments in favor of keeping the results of FRAND arbitrations confidential. First, parties may simply prefer not to disclose their internal costs to competitors and the public. In addition, the resolution of FRAND disputes may involve determinations not only of the number, value and essentiality of a patent holder's SEPs, but also on the value of those patents to the licensee's products.¹²⁴ As such, the public disclosure of FRAND determinations might not be particularly relevant to disputes between other parties, and might lead others to rely more heavily than warranted on such determinations when factual differences might suggest a different result. Some economists have argued recently that the disclosure of FRAND arbitration outcomes will tend to drive down royalty rates paid to patent holders, an outcome that they find particularly troubling if the rate determined by the first arbitrator is "too low".¹²⁵

SDOs developing arbitration policies must decide whether arbitrations conducted pursuant to these policies will be confidential. To do so, SDOs must determine: (1) what, if any, information from the arbitration should be non-confidential, (2) to whom should such information be accessible, and (3) under what, if any, exceptions should parties be permitted to exclude sensitive proprietary materials from release?

E. Reasoned Decisions

In an arbitration proceeding, the parties may specify whether or not the arbitrator must issue a written opinion supporting his or her decision (called a "reasoned decision"). While most institutional arbitration rules require a reasoned decision, this requirement may be countermanded by agreement of the parties.¹²⁶ Reasoned decisions are valuable, as they inform the parties of the grounds on which the arbitrator's ruling was based. Moreover, an unreasoned arbitral award is more vulnerable to subsequent judicial challenge on grounds of public policy.¹²⁷

124. For example, in *Microsoft v. Motorola*, the district court evaluated the importance of Motorola's patents to the H.264 and 802.11 standards, as well as the value of these standards to Microsoft's allegedly infringing products. *Microsoft*, 2013 U.S. Dist. LEXIS 60233. In the case of H.264, in particular, the court determined that the standard was relatively unimportant to Microsoft's X-Box and Windows products. *Id.*

125. Larouch, Padilla & Taffet, *supra* note 50, at 25.

126. See COOK & GARCIA, *supra* note 91, at 283.

127. See COOK & GARCIA, *supra* note 91, at 283; BORN, *supra* note 88, at 832, cmt. 16 (unreasoned awards vulnerable to revocation by courts based on public policy grounds), and 918 (unreasoned awards less likely to be given collateral estoppel effect if re-litigated).

Nevertheless, some parties, particularly in the United States, prefer that reasoned decisions not be issued, and that the arbitrator simply issue an award without explanation.¹²⁸ This is particularly the case when parties are concerned with protecting confidential information or having the weaknesses of a patent elaborated in an opinion that may be leaked to third parties. Therefore, SDOs developing arbitration policies must consider decide whether FRAND arbitrations under their policies should result in reasoned decisions.¹²⁹

F. Preclusive Effect

Public disclosure of arbitral awards, and reasoned arbitration decisions, would inform SDO members, and the broader market, of the appropriate level of royalties for SEPs covering a particular standard. However, it is unclear what legal effect, if any, prior arbitral awards would have in subsequent disputes. In most jurisdictions, arbitral awards that conform to basic legal and treaty requirements will have *res judicata* or “preclusive” effect on the parties to the arbitration.¹³⁰ That is, a party against whom an arbitral award has been rendered cannot bring the same claim again in court hoping for a different outcome; the arbitral award will preclude the re-litigation of the claim. However, because arbitration is established through a contractual arrangement between parties, arbitral decisions generally do not have preclusive effect over disputes involving third parties.¹³¹

Nevertheless, through application of an SDO’s non-discrimination requirements, it may be possible for an arbitration decision to have precedential, or at least persuasive, value, in future cases. That is, SDO policies could require SDO members to agree to be bound by the arbitral determinations of disputes between other members.¹³² This approach would allow an SDO to minimize the number of potential FRAND disputes among its members. However, some SDO members might object to being bound by arbitral findings issued against differently situated members.

G. Constraints on Arbitral Awards (Baseball/Final Offer Arbitration)

In a typical arbitration proceeding, the arbitrator has the authority to order a damage award based on his evaluation of the parties’ arguments and the underly-

128. See COOK & GARCIA, *supra* note 91, at 283; BORN, *supra* note 88, at 832, cmt. 16.

129. The answer to this question will undoubtedly be influenced by the degree to which arbitral awards are treated confidentially under the policy. See *supra* Part III.D. Note also that a patent holder desire a reasoned decision so that it has a basis for explaining to other potential licensees why it is not extending the same licensing terms to them. This may be particularly true in the common case where the patent holder has agreed to offer to its licensees the best terms it offers to others (“MFN clause”).

130. See COOK & GARCIA, *supra* note 91, at 301; BORN, *supra* note 88, at 914-18. The existence of issue preclusion is not clear when patent rights have been granted in multiple territories.

131. See COOK & GARCIA, *supra* note 91, at 36.

132. If a FRAND royalty rate of \$0.05 per unit were established with respect to Company A’s SEPs in an arbitration between Company A and Company B, an SDO rule could provide that that royalty rate of \$0.05/unit would apply to all other members or other implementers of the standard as well, without the need for them to engage in separate arbitration with Company A. The rule would, as a matter of contract law, probably bind Company A, even if not third party implementers.

ing facts.¹³³ The arbitral award may grant all of the relief sought, none of the relief sought, or an amount in between, depending on the arbitrator's assessment.¹³⁴ Arbitration is often criticized by those that perceive arbitral awards as merely compromising parties' positions, or "splitting the baby."¹³⁵

In so-called "baseball"¹³⁶ or "final offer" arbitration, the parties limit the arbitrator's ability to fashion an award. Each party provides the arbitrator with a sealed "final offer," from which the arbitrator must choose, without modification.¹³⁷ The theory behind this approach is that the binary nature of the arbitrator's decision will motivate each party to submit a more reasonable offer. As one commentator explains, "each side knows that the arbitrator is unable to compromise, so each side is wary of making unreasonable offers that increase the chance that its opponent will win at the hearing."¹³⁸ She suggests that baseball arbitration is ideally situated to resolve pricing disputes because the only point of contention is the value of a particular good or service.¹³⁹ In this regard the same might be said of FRAND disputes, in which the principal (and often the only) issue is the appropriate royalty rate for a group of SEPs. For these reasons, Lemley and Shapiro recommend the use of baseball arbitration to resolve FRAND disputes.¹⁴⁰

Despite its potential benefits, baseball arbitration has seldom been adopted to resolve intellectual property, or any other commercial, disputes.¹⁴¹ Accordingly, there is little precedent available to assess the pros and cons of this approach. Nevertheless, a few general observations are in order. First, most baseball salary arbitrations do not result in a reasoned decision, but merely indicate which party's offer has been selected.¹⁴² As indicated in Part III.E above, the lack of a reasoned decision in FRAND disputes will offer little guidance to the parties and to the market as a whole. Perhaps reasoned decisions are rare in baseball arbitration because the arbitrator's report would simply explain why he or she chose a partic-

133. See COOK & GARCIA, *supra* note 91, at 285-86.

134. See, e.g., COOK & GARCIA, *supra* note 91, at 36, n.52 (discussing statistics regarding the range of awards granted in recent decisions).

135. See COOK & GARCIA, *supra* note 91, at 37; Benjamin A. Tulis, *Final-Offer "Baseball" Arbitration: Contexts, Mechanics & Applications*, 20 SETON HALL J. SPORTS & ENT. L. 85, 88-90 (2010); Elissa M. Meth, *Final Offer Arbitration: A Model for Dispute Resolution in Domestic and International Disputes*, 10 AM. REV. INT'L ARB. 383, 387 (1999).

136. "Baseball arbitration" takes its name from Major League Baseball, which developed this approach in connection with player salary arbitration. See generally Meth, *supra* note 135, at 385, n.4. Since then, it has been also been adopted in the context of labor union disputes and at least one tax dispute. Meth, *supra* note 135, at 386. Some states even mandate "final offer" arbitration for public employment disputes. See Tulis, *supra* note 135, at 87.

137. There are several variants of baseball arbitration, including forms in which issues are decided seriatim, offers are revealed to or concealed from the counterparty, parties are permitted to submit two final offers, and others. See Meth, *supra* note 135, at 393-98.

138. Meth, *supra* note 135, at 388.

139. *Id.* at 411-15.

140. Lemley & Shapiro, *supra* note 2, at 1144 ("FRAND disputes are well suited to baseball-style arbitration because the only thing at issue is which of two numbers in fact represents the more reasonable royalty").

141. See Meth, *supra* note 135, at 386. In two leading texts on international commercial arbitration, baseball/first offer arbitration is not even mentioned. BORN, *supra* note 88; COOK & GARCIA, *supra* note 91.

142. Meth, *supra* note 135, at 403-04 (noting, however, that the lack of reasoned decisions in baseball arbitration is a matter of custom rather than design, and nothing prevents the parties from specifying that a reasoned decision must be rendered).

ular party's offer, rather than the result the arbitrator would have reached independently.

This possibility reveals a second potential weakness in baseball arbitration: neither party's offer may be a "reasonable" one. Though baseball arbitration may be well suited to resolving disputes between parties, it does little to establish clear guidelines for future conduct either by the parties or others.¹⁴³ Thus, in a FRAND dispute, an arbitrator employing baseball procedures would not be asked to determine the "correct" FRAND royalty rate applicable in a particular instance, but only to choose which party's offer comes closest to that FRAND rate.¹⁴⁴ Depending on the parties' perspectives and relative positions, neither offer may be near the FRAND rate that would have been determined by the arbitrator acting independently. For example, in the recent *Microsoft v. Motorola* decision, the court concurred with one party's methodology for determining the FRAND rate for two leading industry standards, but derived a royalty rate much closer to that proposed by the other party.¹⁴⁵

Moreover, in baseball arbitration it can be unclear whether an arbitrator has followed prevailing or accepted methodologies to reach his conclusions (particularly the determination of FRAND royalty rates), either because he has not issued a reasoned decision, or because he had to choose between two party-provided options, neither of which adhered to such methodologies. Thus, while debate still exists regarding the optimal methodology for determining a FRAND royalty rate,¹⁴⁶ baseball arbitration leaves the door open for an arbitrator to "flip a coin," rather than follow any particular methodology. A determination of the FRAND royalty rates for particular sets of standards-essential patents has the potential to inform other market participants dealing with the same standards, a broader impact than that of individual baseball player salary agreements. If it is in the best interest of the overall market to establish widely followed arbitration methodologies for the determination of FRAND rates, baseball arbitration may make it less likely this result will be achieved.¹⁴⁷

H. Injunctions

Whether a patent holder may seek injunctive relief against a potential licensee to whom it owes a FRAND commitment has received substantial attention recent-

143. It is also unclear that a patent holder would be satisfied with a decision – already without substantive review – that could have a knock-on effect through a "most-favored" (MFN) clause in its existing and future licenses.

144. Lemley & Shapiro, *supra* note 2, at 1144.

145. *Microsoft*, 2013 U.S. Dist. LEXIS 60233 at *44-48 (while noting that "Microsoft's approach suffers from several flaws" and generally approving Motorola's approach to calculating FRAND royalties, the court arrived at a royalty rate much closer to Microsoft's proposal than Motorola's).

146. See *supra* Section III.C.1 (discussing various methodologies for determining FRAND royalty rates).

147. Pierre Larouch, Jorge Padilla and Richard Taffet raise a number of economic arguments critical of the Lemley-Shapiro Baseball Arbitration proposal. Larouch, Padilla & Taffet, *supra* note 50. Marshalling the economics literature on baseball (first offer) arbitration, they argue that a system in which baseball arbitration is mandated is likely to result in more disputes than conventional arbitration and to undercompensate patent holders without achieving offsetting gains, such as greater systemic efficiency or convergence between parties' positions. *Id.* at 19-32.

ly.¹⁴⁸ The FTC and others have argued that seeking injunctive relief under these circumstances may violate Section 5 of the FTC Act and other legal rules. For example, under the FTC's Google Order, Google is prohibited from seeking injunctive relief against a potential licensee until it has complied with the arbitration procedure specified in the order.¹⁴⁹ The Google Order, however, is applicable only to Google and its subsidiaries. If an SDO wishes to impose a similar moratorium on injunctive relief during the pendency of mandatory FRAND arbitration proceedings, it may do so contractually through its arbitration procedure.¹⁵⁰

In a recent speech, Joseph F. Wayland, Acting Assistant Attorney General of the DOJ Antitrust Division, echoed the FTC's comments about the availability of injunctions for FRAND-encumbered SEPs and suggests that standard-setting organizations may wish to adapt their patent policies to better ensure consumer protection.¹⁵¹ They could do so by "[p]lacing some limitations on the right to exclude a willing and able licensee by, for example, requiring a commitment that a [F]RAND encumbered patent declared essential to a standard may be used to exclude only after litigation/arbitration of disputed [FRAND] issues has concluded."¹⁵²

I. Other Arbitration Procedures

There are many other procedural issues that can be specified in an SDO arbitration policy. These include the appropriate arbitral forum, the arbitral rules to be applied, and how many arbitrators (usually one or three) will form the arbitral panel, and the like. Another important issue is the alignment of arbitration rules with current antitrust rulings, which might allow SDO participants to rely on use of the arbitration procedures outlined in these rulings as safe harbors against potential antitrust violations. For example, an arbitration provision that followed the procedural requirements of the Google Order could place its participants in a stronger position to seek injunctive relief after exhausting the arbitration procedures outlined in the order.

This article has highlighted those arbitration policy provisions that are uniquely shaped by the context of technical standards. Other procedural decisions that SDOs must make in crafting arbitration policies are discussed at length in a

148. See, e.g., U.S. Dep't of Justice & U.S. Patent & Trademark Office, *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* (2013), <http://www.justice.gov/atr/public/guidelines/290994.pdf>; Kühn, Scott Morton & Shelanski, *supra* note 3; Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1 (2012); Brian T. Yeh, Cong. Research Serv., 7-5700, *Availability of Injunctive Relief for Standard-Essential Patent Holders* (2012); Joseph Farrell, John Hayes, Carl Shapiro & Theresa Sullivan, *Standard Setting, Patents, and Hold-Up*, 74 ANTITRUST L.J. 603, 638 (2007); Hesse, *Six Proposals*, *supra* note 3, at 9.

149. Google Order, *supra* note 23, at 9-11.

150. See Lemley & Shapiro, *supra* note 2, at 1142 ("SSOs should explicitly state in their IP policies that a patent holder making a FRAND commitment has given up its right to seek an injunction against any willing licensee").

151. Joseph F. Wayland, Asst. Acting Atty. Gen., Remarks at Fordham Competition Law Inst.: Antitrust Policy in the Information Age: Protecting Innovation and Competition 7-9 (Sept. 21, 2012).

152. *Id.* at 9.

number of published resources.¹⁵³ In addition, we have included, as *Appendix B*, a list of general and SEP-specific arbitration policy decisions that an SDO must make in developing an arbitration policy.

IV. DEVELOPING A FRAMEWORK FOR SEP ARBITRATION

This article is not intended to offer SDOs a ready-made arbitration policy. There is no ideal, one-size-fits-all policy that will address the needs and desires of every SDO. This article seeks to shed new light on the challenging policy questions that SDOs face when developing arbitration policies, as well as the decisions and trade-offs required to implement such policies.

Several groups are already actively addressing these issues. WIPO, one of the leading arbitration institutions for intellectual property disputes, and the administrator of the Internet domain name Uniform Dispute Resolution Policy, has recently released arbitration procedures tailored to SEP disputes.¹⁵⁴ While these procedures may be most useful in the context of voluntary arbitration, the provisions used by WIPO can also inform SDOs that are developing mandatory arbitration policies.

ETSI, one of the largest and most significant SDOs in the telecommunications sector, is understood by the authors to be reviewing its intellectual property policy and considering adding more formal arbitration procedures to its existing mediation policy. In fact, at an ETSI meeting in September, the European Commission complimented ETSI on its work in this regard, and further encouraged its cooperation with providers of arbitration services.¹⁵⁵

Finally, the authors are currently co-chairing an American Bar Association (ABA) committee that is seeking to develop best practices for the arbitration of SEP disputes, and sample language that can be considered and adapted by SDOs into their own arbitration policies. This group, aptly named the ABA SEP Arbitration Project (ASAP), is a joint project of the Technical Standardization Committee of the ABA Section of Science & Technology Law¹⁵⁶ and the Alternate Dispute Resolution (ADR) Committee of the ABA Intellectual Property Law Section.¹⁵⁷ The authors hope that ASAP's recommendations will be useful to SDOs, private industry, government regulators, and the practicing bar as the issues surrounding arbitration and standards-essential patents become increasingly important.

153. See, e.g., COOK & GARCIA, *supra* note 91; BORN, *supra* note 88; AAA Drafting Guidelines, *supra* note 36.

154. See WORLD INTELL. PROP. ORG., WIPO Arbitration for FRAND Disputes, <http://www.wipo.int/amc/en/center/specific-sectors/ict/frand/>. See also Andy Updegrave, *WIPO Builds a FRAND Arbitration Business (but will they come?)*, THE STANDARDS BLOG, (Dec. 12, 2013, 9:55 AM), <http://www.consortiuminfo.org/standardsblog/article.php?story=20131212095530423>.

155. Fey, *supra* note 104.

156. AMERICAN BAR ASSOCIATION SECTION OF SCIENCE & TECHNOLOGY LAW: TECHNICAL STANDARDIZATION COMMITTEE, <http://apps.americanbar.org/dch/committee.cfm?com=ST202016>.

157. AMERICAN BAR ASSOCIATION SECTION OF LITIGATION ALTERNATIVE DISPUTE RESOLUTION COMMITTEE, <http://apps.americanbar.org/litigation/committees/adr/>.

APPENDIX A

EXISTING SDO ARBITRATION CLAUSES

*1. Memorandum of Understanding of the DVB Project*Article 14 - Intellectual Property Rights¹⁵⁸

14.7 Each Member hereby agrees, on its behalf and on behalf of its affiliated companies, that, subject to clause 14.9 of this Article 14, all disputes with any other Member of these statutes (MoU) regarding solely the terms and conditions of licenses arising in connection with the undertaking in this Article 14 shall be finally settled under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by three arbitrators appointed in accordance with such Rules. Arbitration shall take place in Frankfurt, Germany. German substantive law shall apply. The language of the arbitral proceedings shall be the English language unless agreed otherwise between the Members.

Notwithstanding the forgoing provisions, the Members in dispute may agree among themselves on the method, substantive law, venue and language to be applied to resolve their dispute.

14.9 For any specification approved by the Steering Board clause 14.7 of this Article shall come into force two years after the notification referred to in clause 14.1 unless a voluntary agreed upon joint licensing program regarding their identified IPR for such specification [has been formed].

2. Blu-Ray Disc Association By-laws¹⁵⁹

Clause 16. Patent IPRs

(5) Any dispute between a Member and another Member over whether the Member is offering a license under its Essential Patent(s) on fair, reasonable and non-discriminatory terms and conditions within the context of the provision of 16(4) shall be decided by a single neutral arbitrator appointed under the International Rules of the American Arbitration Association (the "Arbitrator") and will be conducted under the rules of that Association in New York City. The arbitration hearing shall take place no later than ninety days after the arbitrator is selected and a decision shall be rendered within thirty days of the completion of the hearing. In evaluating the reasonableness of the disputed terms and conditions, the Arbitrator shall take into account, among other things, terms and conditions (including but not limited to applicable license fees) of joint license programs and individual license programs within the area of licensing essential patents for optical disc systems, where:

- (i) such terms and conditions; and
- (ii) such optical disc systems; and

158. THE DVB PROJECT, *Memorandum of Understanding of the DVB Project, Article 14: Intellectual Property Rights* (2014), https://www.dvb.org/resources/public/documents_site/dvb_mou.pdf.

159. Blu-Ray Bylaws, *supra* note 67.

(iii) are generally accepted by the optical disc systems industry.

Clause 28. Settlement of Disputes

In the event of any disputes between or among Members, Ex-Members, and any third party(ies) arising from or related to the Bylaws or the activities of the BDA, the Members and Ex-Members concerned shall make reasonable effort to amicably settle such disputes. Notwithstanding the foregoing and the mandatory arbitration addressing licensing terms and conditions set forth in Clause 16(5) hereof, nothing in the Bylaws shall preclude any Member at any time from seeking an injunction, damages, or any other legal relief available under applicable laws against any other Member or Ex-Member or third party for intellectual property infringement.

3. VITA Standards Organization - VSO Policies and Procedures¹⁶⁰

10.0 Patent Policy

10.5 Arbitration Procedure

Any VSO member who believes a WG Member or the VITA Member Company that the WG Member represents has not complied with his/her or its obligations under this Patent Policy, including but not limited to obligations under Section 10.3 to grant licenses on terms that are fair, reasonable and nondiscriminatory, may submit his/her claim in this respect to the applicable WG Chairperson. If the claim is not thereupon resolved on an informal basis within fifteen (15) days of its submission, the WG Chairperson will commence an Arbitration Procedure in accordance with the provisions set forth below.

The Arbitration Panel will consist of three persons: one person selected by the party asserting noncompliance; one person selected by the party whose compliance or noncompliance is at issue; and a third person jointly selected by the other two selected persons. The first two selected persons cannot be affiliated with VITA members represented on the Working Group in question but may be affiliated with other VITA members if so desired. The third jointly selected person, who will act as Chair of the Panel, cannot be affiliated with any VITA member or with VITA. The entire panel must be selected within fifteen (15) days of the WG Chairperson's commencement of this Arbitration Procedure as referenced in the paragraph above. The VITA Technical Director will act as the non-voting Administrator of the Arbitration Procedure to convene, oversee and record the Panel's activity. The VITA General Counsel will specify and advise on the procedures to be followed, including procedures under which parties to the dispute and other interested parties asking to participate may be heard with respect to the dispute.

The Arbitration Panel will submit a Recommendation on the dispute to the VITA Executive Director within forty-five (45) days of commencement of the Arbitration Procedure. Within fifteen (15) days of receiving that Recommendation, the VITA Executive Director will consult with the VITA Board regarding the Recommendation and will then render a Decision on the dispute.

160. VITA STANDARD ORGANIZATION, *Policies & Procedures* (Nov. 30, 2009), <http://www.vita.com/home/VSO/vso-pp-r2d6.pdf>.

Any VSO member may request reconsideration of the Decision by notice to that effect to the VITA Board. Upon receiving any such notice, the VITA Board will reconsider the Decision and thereupon render a Final Decision on the dispute within thirty (30) days of that notice.

All VSO members and the VITA Member Companies they represent are expected to accept either the Executive Director's Decision or, if there is reconsideration, the Final Decision as a final and binding determination of the dispute subject to this Arbitration Procedure.

The VITA Board must approve any fees or other costs to be incurred in connection with an Arbitration Procedure, and will also specify the party or parties responsible for payment of all such costs. General principles to be followed are that (a) a party who initiates an Arbitration Procedure but whose claim is ultimately rejected will pay all costs; and (b) a party ultimately found to have not complied with its obligations will pay all costs.

APPENDIX B

Design Features of an SDO Arbitration Policy

Issues discussed in the text are noted with the “*” symbol, with a reference to the relevant Part of this article.

Feature	Comments
*Voluntary v. Mandatory arbitration	<i>Is arbitration of FRAND disputes required or only suggested/recommended? [III.A]</i>
Institutional v. Ad Hoc arbitration	Will arbitration be conducted by an arbitration institution such as AAA, WIPO, ICC or JAMS, or organized either by the parties or SDO using self-developed rules or the UNCITRAL arbitration rules? ¹⁶¹
Arbitration institution	If arbitration will be institutional, which institution will be selected: AAA, WIPO, ICC, JAMS, or others?
Choice of law	What substantive law will govern the dispute and the arbitration? Which judicial procedural rules will govern the arbitration proceedings, if required?
Location of arbitration	Where will the arbitration proceeding take place?
Language of arbitration	In what language will the arbitration be conducted?
Number of arbitrators	Will there be one, three or some other number of arbitrators?

161. Of the three SDOs that have known arbitration requirements, DVB designates ICC as the arbitration institution, Blu-Ray designates AAA, and VITA has established its own internal ad hoc arbitration forum. See Part II.B, *supra*.

Feature	Comments
Qualifications of arbitrator(s)	Will the SDO specify particular qualifications for the individuals who may serve as arbitrators?
Disqualification of arbitrator(s)	What types of conflicts, etc. should disqualify an arbitrator from hearing a dispute? Should these be specified at a level beyond the rules of the arbitration institution?
Selection of arbitrator(s)	Arbitrators can be selected by the arbitral institution, the SDO or the parties
*With whom to arbitrate?	Must SDO members arbitrate only disputes with other members, or with all potential licensees? [III.B]
*Issues to arbitrate	Should arbitration be required only for determination of a FRAND royalty rate, other terms offered by the patentee, other issues (including patent validity, infringement and essentiality), or for other related disputes as well (e.g., antitrust, contract, etc.)? Must the patent holder's entire portfolio of SEPs be brought into the arbitration? [III.C]
*Confidentiality	What, if any, information from the arbitration should be non-confidential, (2) to whom should such information be accessible, and (3) what, if any, exceptions should exist to permit parties to exclude sensitive proprietary materials from release
*Reasoned decision	Should the arbitrator(s) be required to render a reasoned decision? [III.E]
*Preclusive effect	To what degree should an arbitral decision have a preclusive effect on parties that were not involved in the arbitration? [III.F]
*Baseball v. Conventional arbitration	Will baseball arbitration be used? [III.G]
*Injunctions	Will the parties be precluded from seeking injunctive relief during the pendency of the arbitration? [III.H]
Evidence taking; discovery	To what degree will discovery be permitted in the arbitration (witnesses, depositions, interrogatories, etc.)
Experts	To what degree will expert testimony be admitted in the arbitration? Will the arbitrator have the ability to appoint his or her own impartial experts?
Analysis	Will the SDO specify a particular analytical methodology for the arbitrator to follow when calculating a FRAND royalty?
Costs	How are the costs of the arbitration allocated between the parties?

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Feature	Comments
Timing	What time periods and deadlines will be established for notices and the arbitration proceedings?
Escalation	Will good faith negotiation and/or non-binding mediation be required before the initiation of arbitration?