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# Transparently FRAND:
## The Use (and Misuse) of Confidentiality Obligations in FRAND Licensing Negotiations


**Summary**

Some companies that claim to own standards essential patents (SEPs) demand that the companies they approach for licensing first must enter into broad non-disclosure agreements as a condition of receiving more detailed information about the relevant SEPs and proposed license terms. This paper addresses such practices, and explains that – in order to fairly and transparently assess whether a licensing proposal is or is not FRAND – a potential licensee should be entitled to obtain, without demands for excessive secrecy, details regarding the alleged basis and support for the patent holder's SEP licensing demands.

To be clear, *voluntary* provisions regarding confidentiality are certainly permissible. However, the practice of SEP holders *forcing* potential licensees to accept excessive secrecy (*e.g.*, requirements that the licensee accept extensive non-disclosure prohibitions as a condition of entering into negotiations) can be unfair and unreasonable. In addition to harming the particular licensees involved, such practices can interfere with FRAND's basic public interest function, and the goal of ensuring a robust, fair and transparent SEP licensing ecosystem.


**Introduction**

Technical standard setting permeates the modern economy. As more and more industries come to rely on digital communications, effective deployment of standards for wireless and wired communications and interfaces has become critical to industry, government and consumer interests.

When industry participants collaborate to create technical standards, inherent competition and public interest concerns must be considered. For instance, it could be highly problematic – both legally and economically – if standards participants were to misuse their advantageous position in establishing industry standards to "blacklist" some competitors (such as by refusing to offer access to standardized technologies) or to force customers to use only their own proprietary technologies. To combat potential misuse of the advantages that accrue to participants in the standardization effort, standard-setting organizations (SSOs) commonly require that participants commit to license any patents that will be essential to use of the standard (i.e., SEPs) on fair, reasonable and non-discriminatory (FRAND) terms. This commitment is designed to ensure that licenses to these patents are available, on reasonable terms, to all companies that wish to use the standard.

After a standard is developed and adopted, companies that hold associated SEPs can obtain significant market power as a result. While the FRAND obligation described above is designed to constrain and limit abuses of such power, some SEP holders attempt to impose excessive secrecy obligations to obscure information about their licensing practices. Such obfuscation makes it easier for SEP holders to violate their FRAND promises by imposing unfair, unreasonable or discriminatory licensing terms. For example, if a potential licensee cannot access basic information about a patent holder's existing licenses, it may be impossible for that potential licensee to determine whether or not the license terms proposed to them by such patent holder are discriminatory. By using successive demands of secrecy applicable to all licenses, an SEP holder can undermine a transparent and effective FRAND ecosystem.

Such secrecy demands also may interfere with industry expectations that SEP licenses are available on terms that are demonstrably compatible with FRAND. And such behaviour also interferes with the execution of FRAND license agreements (and thus may encourage costly litigation), as licensees quite understandably may choose not to enter into a license unless and until they have the information necessary to verify that the patent holder's proposed license terms comply with FRAND principles.

Of course, companies may often voluntarily elect to keep certain items relating to their negotiations or licenses as confidential. For example, some SSO policies expressly recognize that the voluntary use of certain NDA provisions can be appropriate. Accordingly, this paper addresses the reasonable use of NDA provisions as part of FRAND negotiations and licensing, and outlines various considerations and approaches to address the legitimate confidentiality interests of the parties while avoiding unnecessary secrecy and gamesmanship.

**Secrecy in FRAND Negotiations**

As part of normal commercial practice, companies may choose to exchange information that they regard as confidential. Sensitive business information, such as product technical details, sales volumes, sales projections, pricing, third-party confidential items, supplier relationships, product roadmaps and similar items can be legitimately confidential. Parties certainly may (and do) voluntarily agree to more extensive confidentiality obligations on a case-by-case basis, depending on what information is to be exchanged.

On the other hand, absent a voluntary agreement to broad confidentiality requirements, basic information that can be important to facilitate FRAND licensing negotiations, and to enable the assessment of FRAND compliance, often may not require confidentiality. In such situations, forcing potential licensees to keep secret basic information regarding FRAND licensing practices can facilitate misbehaviour. Examples of the type of non-confidential information that SEP holders generally should be willing to provide to prospective licensees, without excessive secrecy requirements, may include[1]:

- A listing of the patents proposed to be licensed;

[1] Courts and agencies reviewing alleged misconduct by SEP licensors have required that much of the information identified below be provided to potential licensees. Examples include the European Court of Justice's decision in the *Huawei v. ZTE* case (C-170/13, Nov. 20, 2014), and the recent decisions by the NDRC (China) (Feb. 9, 2015) and the KFTC (Korea) (Dec. 28, 2016) in their respective investigations of Qualcomm.

- Detailed summaries of the basis for allegations of essentiality and infringement, such as claim charts;
- Details of the licensing terms which can assist the implementer of the standard in evaluating whether the terms offered are FRAND or not;
- Details of the basis upon which the FRAND offer (including any royalty rate) has been calculated;
- In the case of patent pool administrators or others that may claim licensing rights to patents owned by others, written authorities from the patent owners authorizing the administrator to enter into negotiations on behalf of the patent owner (and specifying any limits to the administrator's authority);
- Historical rate and licensing information (perhaps anonymized or otherwise limited to protect legitimate 3rd party confidentiality issues) and accounting for any "side agreements", "caps" or "rebates" as may be applicable;
- Details of any litigation, or other proceeding that is ongoing related to any asserted patents; and
- Information regarding prior licenses to suppliers or customers of the potential licensee, such that the potential licensee can determine whether any of its products may already be licensed (and avoid potential double payments)

As noted, some licensors may seek to hide their behaviour in FRAND negotiations by refusing to provide information about their patents, alleged infringement positions, or licensing terms absent extraordinary secrecy requirements. This may serve little purpose but to hide suspect behaviour, and – in particular cases of abuse – to shield non-compliance with the obligation to license on FRAND terms. Such behaviour may also require a potential licensee to incur costs in assessing the SEP holder's claims (either privately or in court), which can be used as leverage to force a licensee to accept a non-FRAND license. Indeed, imposing excessive secrecy requirements, or failing to provide relevant materials, may in some cases encourage licensees to pursue court resolution over private negotiation, so as to obtain the benefit of the procedures for information exchange available in court matters.

In fact, licensor abuse of secrecy terms has become a hot topic in recent litigation. There are multiple cases pending in which the plaintiffs allege that a particular SEP owner has violated competition law and FRAND commitments through its misuse of NDAs.[2] At least one SEP owner claims in litigation – against a European-owned telecommunications carrier – that a prospective licensee's refusal to agree to extensive NDA obligations constitutes "unwillingness" that authorizes injunctive relief against the carrier's network.[3] While these issues are still being addressed by the courts, they raise clear red flags that some SEP owners may be taking things too far in demanding absolute secrecy to obfuscate their behaviour in FRAND negotiations.

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[2] *See, e.g.,* Complaint at ¶ 66, *Microsoft Mobile, Inc. v. InterDigital, Inc.*, No. 15-cv-723 (D. Del. Aug. 20, 2015) ("InterDigital requires secrecy with the purpose and effect of furthering its patent hold-up and discrimination. Secrecy enables InterDigital to extract supra-competitive royalties, engage in discriminatory licensing, and to further abuse its monopoly power. Transparency in licensing of SEPs would, in contrast, enable prospective licensees to assess more effectively InterDigital's non-compliance with its FRAND commitments and expose its pattern and practice of violating its FRAND obligations."); Complaint at ¶ 105, *Asus Computer Int'l v. InterDigital, Inc*., No. 15-cv-1716 (N.D. Cal. Apr. 15, 2015) ("IDC ensures its ability to engage in discrimination by conducting licensing negotiations in secret, and by keeping secret the terms of the licenses it enters. IDC requires that potential licenses enter non-disclosure agreements for all negotiations and licenses. IDC does this to ensure that only IDC knows the terms and rates obtained by its licensees. Armed with this one-sided knowledge, IDC attempts to extract supra-competitive terms and obtain discriminator terms from each licensee.") (internal citations omitted).

[3] Complaint, at ¶¶ 32-33 & 90, *Huawei Tech. Co., Ltd. v. T-Mobile US, Inc.,* No. 16-cv-52 (E.D. Tex. Jan. 15, 2015) (Seeking SEP injunction because "[t]o date, T-Mobile has refused to enter into a mutual non-disclosure agreement, and therefore, is unwilling to even open negotiations regarding a license. … At least in view of the foregoing, and upon information and belief, T-Mobile is an unwilling licensee to the asserted patents and is unwilling to enter into good faith negotiations.").

**Conclusion**

SEP holders that are willing to provide demonstrably non-discriminatory rates should be open and transparent about the rates they seek to charge for their SEPs, what patents are being licensed, and their basis for believing that the patents are actual, valid SEPs. By requiring extensive secrecy from all licensees, some SEP holders seek to prevent prospective licensees from knowing the terms that have been offered to others, and thereby from reliably evaluating whether the terms they are negotiating are FRAND.

The FSA supports transparency in FRAND licensing. While voluntary provisions regarding confidentiality certainly are permissible, the use of SEP leverage to *force* potential licensees to accept excessive secrecy is improper. In addition to harming the particular licensees involved, such practices harm the public interest in ensuring a robust and fair SEP licensing ecosystem.

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Note: the positions and statements in this paper do not necessarily reflect the detailed individual corporate positions of each member.