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Confidentiality in SEP/FRAND cases – a critical overview of the recent legal developments

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Abstract: *The protection of confidential information looms large in the SEP/FRAND area. A paramount issue is the disclosure of existing license contracts to show, in negotiations or in court, the FRAND compliance of a license offer. Disclosing third-party licenses does, however, come at a cost: On a content level, such contracts oftentimes contain business secrets which neither the licensor nor the licensee wish to share. On a legal level, third-party licenses will usually contain confidentiality clauses prohibiting both parties from disclosing the contract. These aspects create an intricate tension between public and party interests. Against this background, the paper analyzes the existing case law and literature in as well as outside the SEP/FRAND context, points out recent legislative developments, and suggests some improvements to the legal framework.*

Keywords: *SEP; FRAND; Huawei; ZTE; Delta; Zyxel; confidentiality; confidentiality club; non-disclosure agreement; NDA; external eyes only; in camera; comparable licenses; Trade Secrets Directive.*

I. Introducing the issues

In several respects, confidentiality matters loom large in the SEP/FRAND area.² Two key constellations, and the ones on which this

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² Especially in the Information and Telecommunication Technology (ICT) sector, the setting of technical standards plays an important role as it ensures interoperability between the products in the respective markets and allows market participants to focus on standard-based innovation. Prominent examples are the mobile communication standards of the “G” family, whose present version (4G/LTE) is about to be replaced by 5G. Interactions between standardization, patent law and competition law result, in particular, from the fact that many technologies integrated in the standard are, at the same time, protected by patents. These so-called “standard-essential patents” (SEPs) can confer market power upon their owners because all market participants who want to use the standard (“implementers”) have, in principle, to use and license the respective SEPs. To mitigate the risk of an abuse of such market power, to ensure

article will focus, consist in the (potential) production by a SEP holder of license agreements concluded with other similarly situated licensees ("third-party licenses") during license negotiations with a prospective licensee ("negotiation scenario"), with the purpose to show the FRAND compliance of its license offer, or in court, when the SEP holder and/or the implementer (and potential SEP infringer) wish to share licenses concluded with other licensors or licensees ("third-party licenses") in court, as part of litigation over SEP infringement and the need/right to take a FRAND license ("litigation scenario").

As their key function, the third-party licenses serve to demonstrate FRAND-compliance of the license terms offered by the prospective licensee or (as a counter-offer) by the prospective licensor.³ The licensor, in particular, may wish to submit them voluntarily, for instance in order to overcome – especially in the negotiation scenario – concerns of the prospective licensee or in order to corroborate – in the litigation scenario – that the license terms offered reflect recognized commercial practice and market outcomes absent litigation. Submitting existing license contracts, the content and context of which is sufficiently similar to the prospective license scenario for them to serve as a benchmark for the prospective license's terms, looms particularly large in court proceedings that heavily rely on such "Comparables" for their determination of FRAND license conditions. UK and – with particular emphasis – German courts tend to prefer the Comparables approach over other FRAND determination methods, such as the so-called "Top-Down" analysis.⁴ In typical litigation scenarios, however, the licensor's choice to produce third-party licenses is not an entirely free one: The due conduct-framework for SEP/FRAND licensing

appropriate access to the standard and its technologies, and to provide a certain framework for the licensing of SEPs, many SSOs (including ETSI) request patent owners not only to declare their SEPs, but also to make a binding declaration of their willingness to license these SEPs at fair, reasonable and non-discriminatory ("FRAND") terms. Nonetheless, there are frequent (court) disputes, for instance over whether an implementer has to take a license to certain patents because they are valid, standard-essential and used by the implementer, over what FRAND license conditions are in a particular settings, or over whether the patentee can enjoin the implementer from further using the SEPs (and, hence, the standard) because the implementer lacks a license and proves unwilling to take one. For further background on these aspects of the SEP/FRAND context, see e.g. Picht, *Standardsetzung und Patentmissbrauch – Schlagkraft und Entwicklungsbedarf des europäischen Kartellrechts*, GRUR Int. 2014, 1–17.

³ According to the FRAND licensing framework established by the CJEU, the SEP owner has to make a FRAND license offer first, but also the implementer has to make a FRAND counter-offer in case it does not consent to the patent owner's offer; cf. CJEU case C-170/13 *Huawei Technologies v. ZTE*, ECLI:EU:C:2015:477, para. 63, 66.

⁴ See, for instance, Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 440 et seq.

established in the CJEU's *Huawei/ZTE* decision⁵ is largely read⁶ by courts to impose on the licensor an obligation not only to offer specific FRAND terms but also to show that they are FRAND.⁷ When FRAND compliance has to be shown in court litigation this implies, in the view of many courts,⁸ the submission of (comparable) third-party licenses the terms of which can then be assessed both for reasonableness of royalties in relation to the licensed SEPs and for non-discrimination of the prospective licensee in comparison with third-party licensees. Were the licensor not to comply with its obligation it had, in this logic, not demonstrated the FRAND-compliance of its offer and the licensee could, hence and at least as long as the licensee acts FRAND-compliant itself, raise a FRAND defense.⁹

Disclosing third-party licenses does, however, come at a cost and this cost is higher than the mere transaction cost for identifying and submitting suitable license contracts. On a content level, such contracts oftentimes contain business secrets which neither the licensor nor the licensee wish to share – and understandably so, given that access to sensitive information by a competitor or the public may inflict severe economic harm on the contract parties. On a legal level, third-party licenses will, for the same reason, usually contain confidentiality clauses prohibiting both parties from disclosing these contracts.¹⁰ Such clauses may stipulate that, in exceptional situations, disclosure is no violation, for instance when ordered directly and explicitly by a court.¹¹ However, it seems unclear whether stipulations of this sort cover disclosures made not as a consequence of a direct court order but to avert legal disadvantages following from the fact that the disclosing party could – without the disclosure – not show the FRAND compliance of its license offer. Furthermore, even a disclosure which, legally

⁵ CJEU case C-170/13 *Huawei Technologies v. ZTE*, ECLI:EU:C:2015:477.

⁶ The *Huawei/ZTE* decision itself does not expressly spell this out, saying only that “it is for the proprietor of the SEP to present to that alleged infringer a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardisation body, specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated”, CJEU case C-170/13 *Huawei Technologies v. ZTE*, ECLI:EU:C:2015:477, para. 63.

⁷ See, for instance, Higher Regional Court Düsseldorf, 17 November 2016, I 15 U 66/15, para. 19; Regional Court Mannheim, 8 January 2016, 7 O 96/14, para. 76; Regional Court Mannheim, 17 November 2016, 7 O 19/16, para. 58; Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 445. For an overview on recent SEP/FRAND case-law, see “FRAND wars 2.0” – Rechtsprechung im Anschluss an die *Huawei/ZTE*-Entscheidung des EuGH, Printversion: WuW 2018, 234–241 (Teil I), 300–309 (Teil II); Online-Version: Max Planck Institute for Innovation & Competition Discussion Paper No. 7, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=291654; a regularly updated database of case reports is available at <https://caselaw.4ipcouncil.com>.

⁸ Cf. the references to existing case-law in section II.

⁹ Potential repercussions on the licensor's claims for damages are not discussed here.

¹⁰ Hasselblatt/Lubitz, MAH Gewerblicher Rechtsschutz, § 50 para. 4.

¹¹ For a typical template, see Alfes, Beck'sche Online-Formulare Vertrag, 20.2 Non Disclosure Agreement, § 3.

speaking, constitutes no breach of contract because of a court order-exception may well result in ill feelings and a damaged commercial relationship.

These aspects create an intricate tension between public and party interests. On the one hand, we perceive the legitimate interest of licensees to assess, on a well-informed basis, the SEP/FRAND licenses offered to them, combined with the public interest in a controllably FRAND-compliant licensing of SEPs and – as far as litigation scenarios are concerned – in courts that can base their decisions on comprehensive and reliable evidence. On the other hand, we find the equally legitimate interest of licensors and third-party licensees to protect their business secrets, to avoid breaches of contract, and to safeguard their commercial relationships. These interests correspond with the public interest in a well-working IP-licensing system because market players could refrain from engaging in (an optimal level of) license transactions if they feared frequent, sweeping violations of their confidentiality interests engendered by such transactions.

How to reconcile, or at least balance these interests? Confidentiality agreements which prospective licensees sign previous to the disclosure of third-party license contracts can be important in that they limit the spread of confidential information. To bring this about, however, prospective licensees must be willing to sign a confidentiality agreement and to honour it in practice. Both aspects can be difficult for a licensor to enforce. In litigation scenarios, confidentiality agreements are ineffective if and to the extent a party must submit license contracts in court, before the eyes of the other party or even the public, to provide requested evidence. Some courts and jurisdictions have developed limited disclosure strategies which, for instance, allow licensors to share confidential information with judges, opposing counsel, or experts of both sides only (for details cf. below). Such approaches are, however, not necessarily bullet-proof either, for instance when it comes to the – difficult – enforcement of non-distribution and non-application of acquired knowledge by opposing experts. Furthermore they are, as subsequent case-law analysis will show, far from homogeneously available even across EU jurisdictions, with Germany showing less flexibility than the UK or France.

Against this background, the present paper aims at initiating a broader discussion of confidentiality issues in SEP/FRAND litigation – and, for that matter, in other areas of IP litigation – by giving a critical overview on existing case-law, with a special focus on proposals for improving the procedural framework in Germany.

II. Overview of existing case-law

1. General considerations

In general, European courts are aware of both the aspects that urge for disclosing relevant, although confidential information and the legitimate objections to such disclosure. While, however, German courts seem to stress the need for broad disclosure, UK courts appear to attach more weight to confidentiality interests.

The Düsseldorf courts, for instance, underlined that, in their view, the right to be heard in court, as protected by Art. 103(1) of the German Constitution, protects a party's – in casu: the implementer/defendant's – right to personally participate in the proceedings and have access to Comparables.¹² The FRAND concept, they say, demands a high level of transparency. Confidential treatment of pre-existing, comparable licenses, in particular, requires special justification since the implementer may need this information to assess potential discrimination and exercise its rights effectively.¹³

On the other hand, the UK court in *Delta/Zyxel* took into consideration third party disadvantages resulting from disclosure, such as a weakening of their competitive position as licensors/licensees. Knowledge of confidential terms in license agreements with competitors can, the court said, give an unfair advantage in licensing negotiations.¹⁴

2. Signing of an NDA

a. Obligation to sign

As said above, the signing of a confidentiality agreement – or “non-disclosure agreement” (NDA) – can, to a certain extent, help to protect confidentiality interests, and it figures prominently in the European case-law. In the constellation which has mainly busied the courts so far, an implementer proved, during the negotiation phase, hesitant to sign an NDA requested by the SEP holder/potential licensor. Refusing to grant the implementer free discretion in this respect, the Düsseldorf

¹² Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 8; Higher Regional Court Düsseldorf, 14 December 2016, 17 January 2017, I-2 U 31/16, para. 1.

¹³ Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 468; Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 19.

¹⁴ *TQ Delta LLC v. Zyxel Communications and Ors.*, UK High Court of Justice, 13 June 2018, HP-2017-000045, [2018] EWHC 1515 (Ch), para. 17.

Regional Court establishes, on the contrary, an obligation¹⁵ of the implementer to sign an NDA where this is necessary for the patentee to formulate and justify a detailed FRAND offer.¹⁶ Failure, on the part of the implementer, to comply with this obligation considerably reduces the patentee's burden to show FRAND compliance of its offer (cf. below II.2.c.). Furthermore, the Düsseldorf Higher Regional Court uses NDAs as a tool to protect confidentiality even in litigation scenarios (cf. on this aspect below, II.3.c.). A brief look beyond Europe shows that Chinese and Indian courts are, apparently, even harsher on the implementer, tending to take its refusal to sign as an indicator for unwillingness to take a license, if corroborated by other factors (e.g. the lack of pro-active conduct regarding the FRAND licensing negotiations).¹⁷

b. Timeliness of the NDA

Regarding its timing, the NDA must, evidently, be signed before the sharing of the confidential information, lest it proves ineffective. In the context of SEP/FRAND litigation in the EU, the question of when an NDA ought to be requested and signed acquires specific, additional notions because it relates to the due conduct-requirements established by the CJEU in its *Huawei/ZTE* decision.

According to the Düsseldorf Regional Court, the patentee must request the implementer to sign an NDA as soon as possible, usually already in or alongside with the notification of infringement.¹⁸ If the sharing of confidential information is delayed because the implementer has delayed signing the NDA, the implementer cannot, says the Court, invoke insufficient time for assessing FRANDliness.¹⁹ As one potential consequence, this may lead to a court granting an injunction, denying

¹⁵ German law distinguishes between obligation (*Obliegenheit*) and duty (*Pflicht*). As opposed to a duty, an obligation (in this sense of the term) can, in principle, not be directly enforced in court based on a corresponding claim. Failing to comply with the obligation, however, generates legal disadvantages to the failing party. The present paper does not go into details on which FRAND conduct requirements German courts set out as a duty or an obligation. For those who handle SEP/FRAND cases in Germany or try to fully understand German law on such cases it is, however, important to have this difference in view. On the difference between *Obliegenheit* and *Pflicht* in general, see BGHZ 24, 378, 382; BeckOK BGB/Sutschet BGB § 241 Rn. 25 et seq.

¹⁶ Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 462.

¹⁷ Xi'an China IWNcomm Co., Ltd. (IWNcomm) v. Sony Mobile Communications (China) Co. Ltd. (Sony), Beijing Intellectual Property Court (BIPC), 22 March 2017; Telefonaktiebolaget Lm Ericsson v. iBall, New Delhi High Court, 2 September 2015, 2501/2015.

¹⁸ Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 470 et seq.

¹⁹ Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 474.

premature litigation by the patentee and affirming “delaying tactics”²⁰ by the implementer, even though the implementer’s slow reaction to a FRAND offer was caused by its receiving late – after the belated signing of the NDA – the (confidential) information showing the FRANDliness of the offer.

Where neither party acted diligently, the patentee not timely initiating the NDA and the implementer delaying its signature, the Düsseldorf Court imposes on the patentee the burden to show that the implementer would have delayed the NDA even if initiated timely.²¹ In the Court’s view, the subsequent conclusion of an NDA shows that the patentee could have realized a timely NDA if it had initiated it early enough.²² Hence, the patentee cannot invoke delaying tactics by the implementer because of the belated signing of the NDA.²³

c. Consequences of failure to sign an NDA

For cases in which an implementer fulfils its obligation to sign an NDA only belatedly or deficiently, German courts have developed a sanction that is both supple and relatively soft on the implementer. According, in particular, to the Düsseldorf Courts, such undue conduct does not make the implementer an unwilling licensee.²⁴ Instead, the patentee’s burden to produce evidence is reduced, general statements or indicative remarks can be sufficient, and the implementer cannot successfully contest such statements for lack of detailed information.²⁵ The patentee still has to make a FRAND offer, explain why the offer is FRAND, and show how the royalty has been calculated. However, it is not obliged to offer explanations to the extent – and only to the extent – such explanations would violate the patentee’s legitimate confidentiality interests.²⁶

Even if the implementer failed to sign an NDA, several additional conditions must be met before the patentee can profit from the reduced burden of evidence. First of all, the NDA has to qualify as necessary

²⁰ CJEU case C-170/13 *Huawei Technologies v. ZTE*, ECLI:EU:C:2015:477, para. 65.

²¹ Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 474.

²² Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 495.

²³ Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 489 et seq.

²⁴ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 9; Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 466; Higher Regional Court Düsseldorf, 18 July 2017, I-2 U23/17, para. 18.

²⁵ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 9; Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 467; Higher Regional Court Düsseldorf, 18 July 2017, I-2 U23/17, para. 18.

²⁶ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 9; Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 468; Higher Regional Court Düsseldorf, 18 July 2017, I-2 U23/17, para. 18.

and reasonable for the protection of the other party's confidentiality interests.²⁷ Furthermore, the patentee cannot omit elements simply because they are usually covered by an NDA, but only such elements as are truly confidential.²⁸ Specifying this general finding, the Düsseldorf Regional Court denies a truly confidential nature for general considerations on how to calculate license fees, publicly available price information, technical standards covered by the portfolio, as well as – and here the Court's assessment seems in need of further differentiation – previous contracts between the litigation parties and claim charts.²⁹ It is not sufficient for the patentee to merely state that some information is omitted because of confidentiality. Instead, the patentee must identify confidential information, explain why it constitutes a business secret, show details on measures taken to secure confidentiality, and verifiably substantiate (for each piece of information) concrete harm resulting from disclosure, as well as its likelihood.³⁰

On the other hand, even after the signing of an NDA the patentee can refrain from communicating further confidential information and restrict its submissions to the level acceptable in the absence of an NDA where the other party has breached or risks to breach the NDA.³¹ According to the Düsseldorf Higher Regional Court, failure to honour an NDA can be indicated by a party's contention that the NDA forms part of the other party's general terms and conditions (*Allgemeine Geschäftsbedingungen*) and that some parts of it are void for creating an inappropriate disadvantage to the other side (*unangemessene Benachteiligung*, § 307(1) German Civil Code).³²

3. Protecting confidentiality in court

a. Disclosure to “external eyes only” in UK courts

Since an NDA constitutes duties of confidentiality between the contracting parties its general suitability for – although not necessarily its optimal effectiveness in – bilateral negotiation scenarios is rather obvious. In litigation scenarios, things are more complicated as parties can be supposed to share confidential information not only with the court, external lawyers and independent experts (where applicable), but also amongst each other or even with the public. An NDA between the

²⁷ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 9; Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 464, 468; Higher Regional Court Düsseldorf, 18 July 2017, I-2 U23/17, para. 18.

²⁸ Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 468.

²⁹ Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 489 et seq.

³⁰ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 18.

³¹ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 15.

³² Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 27 et seq.

opposing parties guarantees, therefore, not necessarily that sensitive information remains confidential.

One way to nonetheless safeguard legitimate confidentiality is the so-called “external eyes only”-approach, applied to the SEP/FRAND arena so far mainly by the UK courts. They are ready to restrict information access to outside counsel, experts and the court if parties agree or in “exceptional cases”.³³ A key factor in the exceptionality assessment is the relevance of a piece of information to the respective case. This role “must be weighed in the balancing exercise in setting the terms of the confidentiality regime at any given point in the case”.³⁴ In doing so, the High Court’s decision in *Delta/Zyxel* distinguishes three categories of relevance:³⁵ Information (in particular documents) of limited, if any, relevance enjoys protection if its disclosure could be unnecessarily damaging to the party. Information of greater relevance can be protected in exceptional cases, at least at an interim stage of the proceedings. Information which is key to the case cannot, in principle, be subject to “external eyes only” as this would amount to a violation of the other party’s right to fair hearing in the sense of Art. 6 ECHR and be incompatible with the obligations of the involved lawyers – who gain access to the information under “external eyes only” – to their clients. Comparables are held to be, in general, key to a FRAND determination case. The Court does, however, allow for “external eyes only” even with regard to such key information where “exceptional circumstances” are present. Where “external eyes only” is not available according to this categorization, the court points to confidentiality club agreements, granting access only to specific party representatives, or document redaction as acceptable, even “now commonplace” means of protection in intellectual property cases.

Another decision in the *Delta/Zyxel* litigation adds the resources necessary to realize disclosure to the factors relevant in the determination of an appropriate protection regime and gives an interesting example for how a court disclosure order (including strike out-sanctions) can be framed in the event of initial failure to disclose properly.³⁶

³³ TQ Delta LLC v Zyxel Communications and Ors., UK High Court of Justice, 13 June 2018, HP-2017-000045, [2018] EWHC 1515 (Ch), para. 23.

³⁴ TQ Delta LLC v Zyxel Communications and Ors., UK High Court of Justice, 13 June 2018, HP-2017-000045, [2018] EWHC 1515 (Ch), para. 15, also on the same finding of the court in *IPCom*.

³⁵ For the following, see TQ Delta LLC v Zyxel Communications and Ors., UK High Court of Justice, 13 June 2018, HP-2017-000045, [2018] EWHC 1515 (Ch), para. 21 et seq.

³⁶ TQ Delta LLC v Zyxel Communications and Ors., UK High Court of Justice, 28 September 2018, HP-2017-000045, [2018] EWHC 2577 (Pat).

b. Recent developments in France

As to recent developments in confidentiality protection, France deserves a brief look, too, although SEP/FRAND case-law dealing with this matter is comparatively scarce. This is because of new confidentiality legislation in the form of Art. L. 153 French Commercial Code. This Article reads, in pertinent part:³⁷

Art. L. 153-1 “Where, in the course of civil or commercial proceedings [...] the exhibit has been deemed to infringe or alleged by a party to the proceedings or a third party to be capable of infringing a trade secret, the court may take any of the following steps *sua sponte* or at the request of a participating or third party if the trade secret cannot be otherwise protected, without prejudice to the rights of defence: 1° Have the court alone review the exhibit, and if deemed necessary, order an expert opinion and request an opinion from each of the parties via a person authorized to assist or represent the party so as to decide whether to apply the protective measures set out in this Article; 2° Decide to limit the disclosure or production of the exhibit to certain parts thereof, order disclosure or production of a summary of the exhibit only, or restrict all parties’ access to a single individual person and a person authorized to assist or represent that party; 3° Decide that hearings will be held and the decision issued in chambers; 4° Adapt the grounds of the decision and the mode of publication thereof to the need to protect the trade secret.”

Art. L. 153-2 ““Any person with access to an exhibit (or content thereof) that the court has deemed to be covered or likely to be covered by trade secret is bound by a duty of confidentiality and prohibited from any use or disclosure of the information in the exhibit. For a legal entity, this obligation [...] applies to its representatives [...]. Persons authorized to assist or represent the parties are not bound by this duty of confidentiality *vis-à-vis* said parties, except as provided in Article L. 153-1(1°). The duty of confidentiality does not expire at the end of the proceedings. It does expire, however, if a court issues a non-appealable decision that trade secrecy does not apply or where the information in question has since ceased to qualify as a trade secret or has become easily available.”

³⁷ Translation by Herbert Smith Freehills LLP, <https://www.lexology.com/library/detail.aspx?g=165fd351-15a3-4b3a-ab8c-1e5c6a712e30>.

It will be interesting to see which confidentiality regimes develop under this new legislation. In an early decision based on the new provision, the Paris Court of Appeal has already held,³⁸ with regard to document production requests by the parties, that confidential, non-redacted documents can be submitted at first between attorneys only. The attorneys shall then submit to the court statements on whether parts of the documents are likely to contain trade secrets and the court will subsequently decide on an appropriate confidentiality regime.

c. Germany: NDA and beyond?

(1) NDAs covering litigation submissions in SEP/FRAND cases

German courts heed NDAs not only with a view to negotiation scenarios. They also consider them important for litigation scenarios. In one case, the Düsseldorf Higher Regional Court designated the NDA as a protective in-court tool, covering confidential submissions of the parties to the court.³⁹ The Court also sketched a set of three conditions under which an NDA can effectively perform this function and, hence, obliges the patentee to submit confidential information lest it face adverse legal effects for not having sufficiently demonstrated the FRAND-conformity of its offer.⁴⁰ First, the NDA must oblige the parties to use the confidential material for the respective litigation only. Second, access is to be granted only to a limited number of the other party's representatives and to the other party's experts, who must themselves be bound by specific confidentiality duties. Third, the NDA must stipulate a contractual penalty for EUR 1 Mio. for breaches of confidentiality.

NDAs covering submissions in litigation appear to be the Düsseldorf Higher Regional Court's method of choice, as it refers to them in the context of access to the court file as well. The Court states that for a party's right to access the file (Sec. 299(1) German Code of Civil Procedure), it is not relevant whether the other party to the proceedings has confidentiality interests regarding documents in the file.⁴¹ The filing party has to expect the other party's access and must, if the party wishes to protect confidentiality, attempt to conclude an NDA beforehand.⁴² In the Court's view, this approach serves to keep proceedings for access to file free from disputes over confidentiality

³⁸ Cour d'Appel de Paris, 9 October 2018, N° RG 15/17037 - N° Portalis 35L7-V-B67-BW6UV.

³⁹ Higher Regional Court Düsseldorf, 17 January 2016, I-2 U 31/16.

⁴⁰ On the following, see Higher Regional Court Düsseldorf, 17 January 2016, I-2 U 31/16, para. 1, 2, 4.

⁴¹ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 8.

⁴² Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 8.

issues.⁴³ The right of access to confidential information in the court file is extended, in principle, to interveners as well.⁴⁴ However, if the intervention takes place only after the main parties have concluded an NDA and a party has, based on that NDA, submitted documents to file, the Court either requires the intervener to sign an NDA as well or it refuses access to the confidential information in the file.⁴⁵ However, if the intervener claims access to such information, the Court is ready to assess whether the submitting party has substantiated confidentiality, as the fact that the other main party has signed the NDA does not automatically prove that the file contains information worthy of protection.⁴⁶

(2) Further case-law on and options for limited disclosure

The NDA approach of the Düsseldorf Higher Regional Court is certainly not the strongest sort of confidentiality protection possible. Nor is SEP/FRAND litigation the only context in which these issues matter. This begs the question whether case-law in other litigation areas has applied stricter means⁴⁷ of protection, in particular “external eyes only” or some form of *in camera* procedure reserving information access to the court.

An important part of the answer is – alongside some protection-friendly case-law from various areas⁴⁸ – the “external eyes only”-approach German patent courts regularly choose in their application of Sec. 140c German Patent Act (GPA). This provision stipulates that a likely infringer “may be sued by the right holder or by another entitled person for production of a document or inspection [...]” but that “[i]f the alleged infringer asserts that the information concerned is confidential, the court shall take the measures necessary to ensure the specific protection required in an individual case” (Sec. 140c(1) GPA). While “[t]he obligation to produce a document or to acquiesce to the inspection of an item may be imposed by means of an injunction [...]”, “[t]he court shall take the measures necessary to ensure the protection

⁴³ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 9.

⁴⁴ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 10.

⁴⁵ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 11.

⁴⁶ Higher Regional Court Düsseldorf, 25 April 2018, I-2 W 8/18, para. 12 et seq.

⁴⁷ Document redaction in the form of blacking-out of confidential passages is a well-established option. It is, however, available mainly vis-à-vis the public or for content not relevant to the respective dispute, see *TQ Delta LLC v Zyxel Communications and Ors.*, UK High Court of Justice, 13 June 2018, HP-2017-000045, [2018] EWHC 1515 (Ch), para. 23; Regional Court Düsseldorf, 13 July 2017, 4a O 16/16, para. 490 et seq; BGH, GRUR 2002, 709; Benkard PatG/Grabinski/Zülch PatG § 140b Rn. 15. Insofar, document redaction is no effective measure to maintain confidentiality of relevant content vis-à-vis the opposing party.

⁴⁸ For an overview, see MüKoZPO/Prütting ZPO § 285 Rn. 11 w.f.r.

of confidential information. This shall in particular apply to those cases where the injunction is issued without giving a prior hearing to the opposing party” (Sec. 140c(2) GPA). Applying the so-called “Düsseldorf proceedings” (*Düsseldorfer Verfahren*),⁴⁹ courts frequently order access or inspection by a court-appointed expert who is accompanied by patentee’s legal counsel but not by any patentee representatives.⁵⁰ These persons subsequently report their findings to the court and the court decides, after hearing the alleged infringer, whether and to which extent they ought to be shared with the patentee.⁵¹

While these provisions show that “external eyes only” and “in camera” proceedings are by no means alien to German procedural law but well-established in specific settings, a noteworthy decision by the German Constitutional Court (*Bundesverfassungsgericht*) potentially paths the way to a broader application of “in camera”-proceedings. A majority of the judges held⁵² that “in camera” is admissible in principle, despite Art. 103 German Constitution.

Insufficient protection of business secrets in court proceedings affects a company’s so-called “freedom to choose an occupation” (Art. 12 German Constitution – *Berufsfreiheit*) – meaning here: its freedom to do business – which safeguards also the protection of the company’s business secrets.⁵³ This is so, in particular, if and because competitors’ access to the business secrets via the court proceedings inflicts a competitive disadvantage upon the business secret holder.⁵⁴ Whether countervailing interests, such as the other party’s interest in effective legal protection, can justify disclosure of the business secrets, depends on a balancing of the involved rights and interests, not necessarily only those of the litigating parties but also those of relevant third-party stakeholders.⁵⁵ The Constitutional Court rejected the lower court’s view that the business secret holder’s confidentiality interests should prevail only if the disadvantages resulting from disclosure were lasting or even putting the secret holder’s (economic) existence at risk.⁵⁶ Nor did the Court accept the rule that the interest in effective legal protection would usually win over confidentiality interests, favoring a more open balancing of the involved aspects instead.⁵⁷ As to procedural means for reconciling effective legal protection, the right to be heard, and the

⁴⁹ On details, see Benkard PatG/Grabinski/Zülch PatG § 140c Rn. 22; Kühnen, GRUR 2005, 185, 187.

⁵⁰ Cf. also BGH, 16 November 2009, X ZB 37/08, para. 23.

⁵¹ Benkard PatG/Grabinski/Zülch PatG § 140c Rn. 32 et seq. W.f.r.

⁵² BVerfG, 14 March 2006, 1 BvR 2087, 2111/03.

⁵³ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.1., 2.

⁵⁴ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.I.3.

⁵⁵ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.1. In the context of the case, the main stakeholders were the state and its administration, the business secret holder and its competitors.

⁵⁶ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.2.

⁵⁷ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.2.c) cc).

interest in the confidentiality of business secrets, the Constitutional Court – just as, by the way, the German Federal Supreme Court⁵⁸ – was quite skeptical regarding “expert eyes only” mechanisms which would restrict the court in its access to the entirety of the evidence.⁵⁹ “In camera” proceedings, however, found more favor with the Court. In particular, the decision considers them as a potentially valid tool and seems not – as some scholars do (cf. below) – to require a specific and explicit legislative basis for each application of “in camera”.⁶⁰ Where, however, the law specifically limits “in camera” to part – in particular: the preliminary or intermediate stage – of the proceedings (e.g. Sec. 99(2) German Code of Administrative Procedure, Sec. 138(2) Telecommunications Act), a court cannot extend the mechanism to further parts of the proceedings.⁶¹ Finally, the Constitutional Court criticized the lower court’s insufficient reasoning for why an “in camera”-assessment of the information at the preliminary stage of the proceedings had convinced the lower court not to extend confidentiality protection, underlining that the “in camera”-nature of the preliminary assessment did not relieve the lower court from providing detailed reasons for its decision.⁶²

In a dissenting vote, Constitutional Court judge *Gaier* endorsed “in camera”-protection of confidential information much more strongly than the majority. He considered it unconstitutional to limit, as Sec. 99(2) German Code of Administrative Procedure does, the “in camera”-option to interim or interlocutory proceedings. In consequence, the dissenting vote urges the legislature to establish a legal framework that allows for “in camera” at all procedural stages.⁶³

(3) Discourse in the literature

Some scholars⁶⁴ take a negative stance towards increased confidentiality protection before German courts, arguing that the constitutional right to be heard (Art. 103 German Constitution)⁶⁵ requires party access to the relevant information and that “secret

⁵⁸ BGH, 12 November 1991, KZR 18/90, para. 32.

⁵⁹ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.2.b) aa) (access only by an external auditor), bb) (access only by the Ministry).

⁶⁰ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.2.b) dd).

⁶¹ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.2.b) dd).

⁶² BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.c) dd).

⁶³ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, after D., dissenting vote of judge Gaier.

⁶⁴ See, for instance, Waldner, *Der Anspruch auf rechtliches Gehör*, 2. Aufl. 2000, Rn. 51, 76, 79, 463; Mayen *AnwBl* 2002, 495, 502; *MüKoZPO/Prütting ZPO* § 285 Rn. 11.

⁶⁵ On further provisions and principles involved, see Schlingloff, *WRP* 2018, 666, 667.

proceedings” may hold considerable abusive potential.⁶⁶ If the legislature perceived the need to restrict this right, it would have to create new, explicit provisions to that effect.⁶⁷

A large part of German scholars, however, pleads in favor of augmenting the confidentiality protection tool box.⁶⁸ Some would even allow for mechanisms that prevent the respective court from accessing confidential information,⁶⁹ although most authors do not share this position.⁷⁰ As one of their key arguments, the protection-friendly authors prefer full access to and use of critical information for a restricted circle of persons over deciding cases on a fragmented factual basis where legitimate confidentiality interests prevent unrestricted access.⁷¹ They find legislative backing for their more flexible interpretation of the right to be heard⁷² in in Sec. 99(2) German Code of Administrative Procedure which permits “in camera”-access to confidential administrative documents,⁷³ just as – by the way – Sec. 138(2) of the German Code on Telecommunications (*Telekommunikationsgesetz*) providing a similar option for litigation in that area.⁷⁴

The EU Trade Secrets Directive⁷⁵ has given a recent push to the topic. Its two elements of main interest here, recital (24) and Art. 9, read as follows:

(24) The prospect of losing the confidentiality of a trade secret in the course of legal proceedings often deters legitimate trade secret holders from instituting legal proceedings to defend their trade secrets, thus jeopardising the effectiveness of the measures, procedures and remedies

⁶⁶ MüKoZPO/Prütting ZPO § 285 Rn. 12 w.f.r.

⁶⁷ Musielak/Voit/Stadler ZPO § 142 Rn. 7, but strongly favouring “in camera” in principle.

⁶⁸ E.g. Stürner JZ 1985, 453, 458; ders. ZZZ 98 (1985), 237, 240 f.; Stadler NJW 1989, 1202, 1204; Schlosser FS Großfeld, 1999, 997, 1005; ders. JZ 1991, 599, 604; König, Mitt 2002, 153 (164); Spindler/Weber, MMR 2006, 711, 713 f.; Rojahn, FS Loewenheim, 2009, 251, 263 f.; Bornkamm, FS Ullmann 2006, S. 909 f. In principle also Musielak/Voit/Stadler ZPO § 142 Rn. 7.

⁶⁹ Wrede, Das Geheimverfahren im Zivilprozess, 2014, S. 114 ff.

⁷⁰ See, as an example for an otherwise quite protection-friendly author, Schlosser FS Großfeld, 1999, 1016.

⁷¹ Schlosser FS Großfeld, 1999, 1005; Stürner JZ 1985, 458; Stadler NJW 1989, 1204. For more extensive references, see MüKoZPO/Prütting ZPO § 285 Rn. 10.

⁷² Schlosser FS Großfeld, 1999, 1005; Stürner JZ 1985, 458; Stadler NJW 1989, 1204.

⁷³ Musielak/Voit/Stadler ZPO § 142 Rn. 7. On the decision of the German Constitutional Court which triggered the provision, see BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.2.b) dd).

⁷⁴ BVerfG, 14 March 2006, 1 BvR 2087, 2111/03, C.II.2.b) dd).

⁷⁵ Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, OJ L 157, 15.6.2016, p. 1.

provided for. For this reason, it is necessary to establish, subject to appropriate safeguards ensuring the right to an effective remedy and to a fair trial, specific requirements aimed at protecting the confidentiality of the litigated trade secret in the course of legal proceedings instituted for its defence. Such protection should remain in force after the legal proceedings have ended and for as long as the information constituting the trade secret is not in the public domain.

Article 9

Preservation of confidentiality of trade secrets in the course of legal proceedings

1. Member States shall ensure that the parties, their lawyers or other representatives, court officials, witnesses, experts and any other person participating in legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret, or who has access to documents which form part of those legal proceedings, are not permitted to use or disclose any trade secret or alleged trade secret which the competent judicial authorities have, in response to a duly reasoned application by an interested party, identified as confidential and of which they have become aware as a result of such participation or access. In that regard, Member States may also allow competent judicial authorities to act on their own initiative.

The obligation referred to in the first subparagraph shall remain in force after the legal proceedings have ended. However, such obligation shall cease to exist in any of the following circumstances:

- (a) where the alleged trade secret is found, by a final decision, not to meet the requirements set out in point (1) of Article 2; or
 - (b) where over time, the information in question becomes generally known among or readily accessible to persons within the circles that normally deal with that kind of information.
2. Member States shall also ensure that the competent judicial authorities may, on a duly reasoned application by a party, take specific measures necessary to preserve the confidentiality of any trade secret or alleged trade secret used or referred to in the course of legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret. Member States may also allow

competent judicial authorities to take such measures on their own initiative.

The measures referred to in the first subparagraph shall at least include the possibility:

- (a) of restricting access to any document containing trade secrets or alleged trade secrets submitted by the parties or third parties, in whole or in part, to a limited number of persons;
- (b) of restricting access to hearings, when trade secrets or alleged trade secrets may be disclosed, and the corresponding record or transcript of those hearings to a limited number of persons;
- (c) of making available to any person other than those comprised in the limited number of persons referred to in points (a) and (b) a non-confidential version of any judicial decision, in which the passages containing trade secrets have been removed or redacted.

The number of persons referred to in points (a) and (b) of the second subparagraph shall be no greater than necessary in order to ensure compliance with the right of the parties to the legal proceedings to an effective remedy and to a fair trial, and shall include, at least, one natural person from each party and the respective lawyers or other representatives of those parties to the legal proceedings.

3. When deciding on the measures referred to in paragraph 2 and assessing their proportionality, the competent judicial authorities shall take into account the need to ensure the right to an effective remedy and to a fair trial, the legitimate interests of the parties and, where appropriate, of third parties, and any potential harm for either of the parties, and, where appropriate, for third parties, resulting from the granting or rejection of such measures.
4. Any processing of personal data pursuant to paragraphs 1, 2 or 3 shall be carried out in accordance with Directive 95/46/EC.

These parts of the Directive are implemented and transformed into German law mainly by §§ 15 et seq. of the Code on Business Secrets (*Geschäftsgeheimnisgesetz*).⁷⁶ Admissibility as party representative (“one natural person from each party”/“einer natürlichen Person jeder Partei”) in the sense of Art. 9(2) Trade Secrets Directive and § 19 (1) RegE GeschGeheG is one element of this new legislation which has already triggered discussion. *Schlingloff*, in particular, proposes a reading, or even more specific implementing legislation, that restricts

⁷⁶ Gesetz zum Schutz von Geschäftsgeheimnissen (GeschGehG) vom 18. April 2019, BGBl. I S. 466.

representation to party's counsel or excludes, at least, members of those departments of the party which deal with the confidential subject matter.⁷⁷ He – rightly – points out that a restrictive reading corresponds with the insufficient sanctions, especially the ineffectively low level of fines, for confidentiality violations.⁷⁸ In any case, the procedural rules in the new German trade secrets legislation embody a momentous change as they introduce a first of its kind-confidentiality protection into German IP litigation.

III. Comments

As we have seen, the tension between the interest to protect confidential information and the interest to access such information where relevant to negotiations or litigation is by no means particular to the SEP/FRAND context. It is, however, intensified there by factors urging for disclosure, such as the “ND” prong of FRAND or the importance of Comparables in FRAND rate-setting, as well as by factors justifying strong confidentiality protection, such as high economic and competitive stakes or the ubiquitous confidentiality clauses license contract disclosure would have to break.

Non-disclosure agreements are a venerable and frequent,⁷⁹ but not necessarily an optimal instrument for reconciling these diverging considerations. There are many shades of grey in “disclosing” information, only some of which are clearly caught by such agreements. Subtle spreading of information or its use as “background-knowledge” in one's own business activity can be tempting to the receiving side, while very hard to detect, prove and sanction for the disclosing side, especially where information is shared not only with counsel or external experts but directly with party representatives.⁸⁰ The case-law SEP/FRAND litigation has generated, in a short period, on the timeliness of requesting and signing NDAs prior to information access by party representatives indicates that the sweeping introduction of an “NDA pre-stage” to negotiation or litigation in this area has the potential to increase transaction costs and slow down processes. Courts which are, as hitherto in German SEP/FRAND case-law, rather demanding when it comes to showing the confidential nature of

⁷⁷ Schlingloff, WRP 2018, 666, 670.

⁷⁸ Schlingloff, WRP 2018, 666, 670. The second draft version (*Regierungsentwurf*) of the Code has significantly raised the maximum fine but it remains below the usual level in German IP codifications, see Dumont, BB 2018, 2441, 2445, also with the proposal to introduce turnover-based fines.

⁷⁹ On the common practice of signing NDAs in the course of SEP/FRAND licensing negotiations, see Régibeau/De Coninck/Zenger, Transparency, Predictability, and Efficiency of SSO-based Standardization and SEP Licensing, A Report for the European Commission, 70, https://ec.europa.eu/growth/content/study-transparency-predictability-and-efficiency-sso-based-standardization-and-sep-0_en.

⁸⁰ Gaugenrieder, BB 2014, 1987, 199; Schlingloff, WRP 2018, 666, 670.

information and, hence, the legitimate need for NDA-protection, while they set penalties for confidentiality breaches quite low, reduce even further the overall level of confidentiality protection by way of NDAs, possibly to an insufficient level.

The reduced level of submission-solution German courts have crafted as a fall-back option for cases in which the party supposed to receive confidential information refuses to sign an NDA or threatens to challenge the signed agreement has two important downsides. First, it withholds the respective information from the negotiations or proceedings entirely, weakening their factual basis and reducing, potentially, the likelihood that their outcomes are FRAND-compliant. Second, several elements of the mechanism are prone to create legal uncertainty, leading to an increase in transaction costs and litigation risks. This applies, for instance, to the assessment which information can or cannot be omitted in case of a reduced burden to submit, as well as to the identification of conduct sufficiently threatening a signed NDA to trigger a reduced burden to submit.

These doubts over the effectiveness and efficiency of the present, NDA-focussed handling of confidentiality issues in German SEP/FRAND case-law suggest adding tools for stronger protection to the box. The general discussion on confidentiality protection in German (IP-)litigation points in the same direction, as well as the recent and impending legislation regarding trade secret protection in court or the practice in other EU (cf. above) and non-EU⁸¹ jurisdictions. Given that third-party licenses are quite likely to contain confidential information which is partly relevant and partly irrelevant – and therefore, all the more worthy of protection – to the case at issue, “external eyes only” should become routinely available for assessing whether, in which parts, and under which level of confidentiality protection a third-party license must be submitted in a litigation scenario. At least where it seems doubtful whether this approach can safeguard effective confidentiality protection, for instance because of indications for previous knowledge-sharing between counsel and represented party, the court ought to consider “in camera” assessment. In negotiation scenarios, neutral experts, acting as some form of arbitrator(s) with a competence limited to confidentiality matters, could take up the role the court would play in a litigation scenario. Scholars and stakeholders should engage in a broader discussion about such or similar solutions as the balancing of confidentiality protection and access to information becomes even more important with the dawn of 5G and the need to work out FRAND-compliant licenses for this new level of ICT standardization.

⁸¹ On the rather strong and flexible mechanisms for protection confidentiality in US litigation, see Stadler, NJW 1989, 1202, 1205.