



Secrets & laws

Margaret Tofalides & Lucia Williams put disclosure & confidentiality in IP arbitration under scrutiny

IN BRIEF

► Confidentiality: concept & definition.

► Disclosure in IP arbitration & tribunals' power to compel disclosure.

Intellectual property (IP) disputes are ever more frequently being submitted to arbitration, and parties often raise questions about confidentiality. Of particular concern are issues surrounding patent disputes and the analysis of the compounds, formulas and processes they involve. Many IP disputes centre on techniques employed or business information, all of which are highly sensitive, and strict measures need to be implemented in the arbitration to protect the parties' rights.

The numerous benefits of arbitration range from the flexible nature of arbitral procedure, over which the parties have quasi-absolute control, to the ease of enforceability of arbitration awards and the fact that IP-related issues can be resolved in a single set of proceedings rather than having to be litigated in every jurisdiction in which the IP right is allegedly infringed. Patent litigation on a large scale can be a drain on resources and produce unsatisfactory results. The mammoth Apple-Samsung patent dispute, for example, has involved over 50 lawsuits in nine countries that have in some cases produced inconsistent decisions.

Arbitration is not trouble-free. Potential perils of arbitration include the complexity of patent law, which can be difficult to manage for an inexperienced arbitrator; the uncertainty surrounding the application of *res judicata* in arbitration which may lead to separate arbitrations for each infringement; and a limited ability to appeal which may produce awards that deviate from accepted patent law (Ferguson, Cappella and Sandhu, 2014). Nevertheless, these dangers may be averted by selecting arbitrators and drafting arbitration clauses carefully and, on the balance, do not obviate arbitration's benefits.

One of the key perceived advantages of arbitration is confidentiality, of vital importance in IP disputes where parties are

concerned about maintaining the secrecy of sensitive information. Issues may arise in the context of disclosure if parties invoke the confidentiality of certain information to refuse disclosing it to the tribunal or their opponents, who might require it in order to properly make their case. In these circumstances it is important to ascertain the extent of parties' disclosure obligations, to what extent documents' confidentiality can prevent disclosure and, on the other hand, how disclosure can be compelled.

Confidentiality: concept & definition

The meaning of confidentiality varies depending on the context: confidentiality may apply to the existence of the proceedings themselves, to the arbitral award and/or to documents used or referred to during the arbitration.

The confidentiality obligation which stems from the parties' agreement to arbitrate and not to divulge to third parties information which may be exchanged during the arbitration differs from the inherent confidentiality of some information, such as trade secrets. This inherent confidentiality has been recognised, for instance by the English court in the seminal case *Michael Wilson & Partners v Emmott* [2008] EWCA Civ 184, [2008] All ER (D) 162 (Mar) but there is no universally accepted definition of what it covers.

The legal definition of trade secrets varies from country to country. Article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) provides some general standards for information to be qualified as such. Information must be: (i) secret, insofar as it is "not generally known among or accessible to persons within the circles that normally deal with the information in question"; (ii) have commercial value because of its secrecy; and (iii) have been subject to reasonable steps by the person controlling it to keep it secret.

As to confidential information, the World Intellectual Property Organization Arbitration

Rules (WIPO Rules) go the furthest towards defining it. Under Art 54, confidential information is "any information" which is (i) in the possession of a party; (ii) not accessible to the public; (iii) of commercial, financial or industrial significance; and (iv) treated as confidential by the party possessing it.

Article 54 of the WIPO Rules also provides a solution to parties seeking to invoke the confidentiality of certain information to prevent its disclosure, by allowing parties to apply to have information classified as confidential by the tribunal (copying the other party) and explaining why they believe the information is confidential without disclosing its content. The tribunal will decide whether the information is confidential, under which conditions and to whom it can be disclosed. Additionally, "in exceptional circumstances", where the absence of special measures to protect information "would be likely to cause serious harm to the party invoking its confidentiality", the tribunal (of its own motion or at the request of a party and after consultation with the parties) can appoint a confidentiality adviser to determine whether the information in issue is indeed confidential, or to report to it on specific issues without disclosing the confidential information to the party from whom it does not originate or to the tribunal.

Parties' confidentiality obligations and the importance of "playing fair" when it comes to giving evidence should not be taken lightly. Western Digital learnt about the perils of tampering with trade secrets the hard way, when it sought to appeal a punitive award of over USD 500m against it and one of its employees, Signing Mao, for misappropriation of trade secrets in *Seagate Technology, LLC v Western Digital Corporation* (A12-1944 (Minn. 2014)). Mao, previously employed by Seagate, had disclosed Seagate's trade secrets to Western Digital in breach of the confidentiality clause in his employment contract. To support his case that three of the eight trade secrets at issue had been publicly disclosed before he left Seagate, Mao adduced as evidence slides to a presentation he had delivered at a conference, which the tribunal determined were obviously fabricated. Consequently the tribunal refused to hear evidence on the remaining trade secrets. The Minnesota Supreme Court held that, in doing so, and in awarding punitive sanctions, the tribunal had acted within its powers, and it upheld the award.

Seagate is an example of how evidence relating to confidential information can determine the outcome of a case and how tribunals are vigilant in spotting any misconduct; but even without descending into the extremes of falsification of evidence, tribunals may be faced with a more straightforward refusal by the

parties to disclose certain documents. In these instances, the question arises of what tribunals can do to compel disclosure.

Disclosure in IP arbitration

IP arbitrations, like most other international arbitrations, usually involve a limited level of document disclosure: parties do not have an automatic right to request disclosure nor are they obliged to disclose all documents relevant to their dispute. Parties are free to address disclosure in the arbitration agreement, either through specially-drafted provisions or by incorporating specific rules. Where the parties have agreed as to their disclosure obligations, the tribunal is obliged to give effect to that agreement. In the absence of such an agreement, most legal systems recognise the arbitral tribunal's inherent power to order disclosure (Born, 2014).

Arbitral tribunals' disclosure authority is governed by the procedural law of the arbitration: the law of the seat. National arbitration statutes generally contain only limited provisions on disclosure and recognise parties' autonomy to determine procedural issues, while institutional rules usually give tribunals a wide discretion in relation to disclosure, ranging from ordering parties to produce any documents they consider relevant (Art 22(1)(e), LCIA Rules), to granting them a general mandate to establish facts through appropriate means (Art 25, ICC Rules).

Parties may incorporate into their arbitration agreement the IBA Rules on the Taking of Evidence in International Arbitration (the IBA Rules), which provide more detailed guidance on disclosure. Article 3 explicitly requires parties to disclose to each other and to the tribunal "all documents available to [them] on which [they] rely" within the time set by the tribunal (Art 3(1)). A party may also submit to the tribunal requests to the other party to produce documents ("requests to produce"), containing: (i) a sufficiently detailed description of the requested document or category of documents; (ii) a statement of how the document(s) is/are relevant to the case and material to its outcome; and (iii) a statement that the documents requested are not in the possession of the requesting party, are in the possession of the other party and why disclosing them would not be an unnecessary burden for the other party (Art 3(3)).

If the other party objects, the tribunal may be asked to rule on the objection, decide whether the issues that the requesting party wishes to prove are "relevant to the case and material to its outcome", and it may order the objecting party to disclose the document.

The WIPO Rules similarly recognise

tribunals' authority to ascertain whether information should be disclosed, by determining "the admissibility, relevance, materiality and weight of evidence". Further, a tribunal may "order a party to produce such documents or other evidence as it considers necessary or appropriate..." (Art 50).

Parties who voluntarily submit to arbitration tend to voluntarily comply with the obligations entailed in the disclosure process. Normally, parties disclose only the documents that they intend to rely on and which suffice to substantiate their arguments. However, parties may be understandably recalcitrant if disclosure purports to put their trade secrets at risk, and may invoke the confidentiality of certain information to shield it from the other party or even the tribunal's eyes.

Tribunals' power to compel disclosure

If parties deny the existence of requested documents or the fact that they are in their control, the arbitral tribunal may be left with "few options but to accept that explanation" (O'Malley, 2012, 46). However, tribunals may conclude the denial is unfounded and have a variety of means at their disposal to compel disclosure, albeit not always entirely satisfactory ones, and some of which may prove more effective than others.

The most commonly cited method of deterring parties from refusing to disclose documentary evidence is tribunals' exercise of their power to draw adverse inferences, which is enshrined in most arbitration rules. More "tangible" sanctions available to tribunals comprise costs orders and interim orders. A tribunal can use its discretion to issue a costs order against a non-complying party as provided, for instance, by Art 9(7) of the IBA Rules. However, this may provide little incentive to comply with a disclosure order to a party that is confident of the strength of its case, and thus be of limited use to a party that has been unable to make its arguments satisfactorily due to missing evidence (Greenberg and Lautenschlager, 2011).

A potentially more effective solution is for parties to rely on tribunals' widely recognised authority to grant interim relief (absent an agreement by the parties to the contrary) in the form of an injunction, or try to obtain a partial award on disclosure. If parties have a substantive right to documents, as is the case where the provision of certain information by one party to the other is a term of the contract, enforcement of that right through an injunction or partial award would be even quicker, as the tribunal would not have to examine the merits of the document production request (Webster, 2001).

Enforcement of interim awards is unfortunately less straightforward. The issue of whether provisional measures ordered by an arbitral tribunal are enforceable as

"awards" under the New York Convention and national legislation is subject to debate, and the lack of a recognised enforcement mechanism for cross-border procedural orders may cause difficulties in international arbitrations.

Some encouragement can be derived from provisions such as s 42 of the English Arbitration Act 1996, which explicitly allows courts to mandate compliance with tribunals' orders (albeit only as long as there is no agreement by the parties to the contrary and the seat of the arbitration is in England or Wales), and recent US case law under the Federal Arbitration Act in support of enforcement of tribunals' determinations relating to disclosure. In particular, a US court found that, while production orders are not enforceable under the New York Convention, partial awards resolving the issue of discovery are (*Publicis Commun v True North Communs Inc.* 206 F3d 725 (7th Cir. III 2000)). While there is a tendency to view judicial interference in arbitration as a source of delays, expense and uncertainties, enforcement of orders or partial awards still represents a limited involvement by the courts in the disclosure process compared to what it would otherwise be in litigation.

Finally, it should be borne in mind that counsels have ethical obligations not to conceal materials subject to a disclosure order, as provided by the IBA Guidelines on Party Representation in Arbitration, and they usually must comply with professional requirements in their own domestic jurisdictions.

Comment

Although provisions in national arbitration laws and institutional rules addressing parties' disclosure obligations and the confidentiality of trade secrets are often general, parties to IP arbitrations can resort to exhaustive provisions relating to disclosure and the confidentiality of trade secrets contained in the IBA Rules and the WIPO Rules. Consideration should be given to incorporating key provisions in arbitration agreements as well as specific disclosure clauses tailored to the parties' requirements, all of which can give certainty and comfort should they need to be invoked. When it comes to compelling parties to comply with disclosure obligations, tribunals are not as toothless as they are sometimes perceived to be. However, parties must ensure that the extent and scope of tribunals' powers are clearly set out in the arbitration agreement and that contractual provisions dealing with entitlement to information are proactively negotiated.

NLJ

Margaret Tofalides is a partner in litigation & arbitration, Lucia Williams is a trainee solicitor in litigation & arbitration at Clyde & Co (www.clydeco.com)