

Forgetting FRAND: The WIPO Model Submission Agreements

By Eli Greenbaum

Abstract

The WIPO Arbitration and Mediation Center, established in 1994, offers alternative dispute resolution services for international commercial disputes involving intellectual property. The WIPO Center has published model submission agreements for the arbitration of disputes involving commitments to license patents under “fair, reasonable and non-discriminatory” (FRAND) terms. These model submission agreements provide for flexible arbitral procedures based on the standard WIPO arbitration rules, but surprisingly refrain from setting out rules and procedures specifically tailored for FRAND disputes. This preference for flexibility over tailored rules can be explained as resulting from tensions inherent to the standard setting process and the choices adjudicators have between different arbitral forums.

In late 2013, the World Intellectual Property Organization Arbitration and Mediation Center (the “WIPO Center”) published model submission agreements for the arbitration of disputes involving fair, reasonable and non-discriminatory (“FRAND”) licensing terms.¹ These template submission agreements were developed in order to provide parties with an efficient framework for adjudicating FRAND disputes.² This article examines the rules and procedures adopted by these submissions agreements. The article argues that the model agreements, while providing parties with flexibility in determining the scope and schedule of the arbitration, actually refrain from committing to substantive positions that may be particularly appropriate for FRAND arbitration. This preference for flexibility over tailored rules and procedures is the result of tensions inherent to the standard-setting process, and the institutional position of WIPO in addressing those tensions.

1. See WIPO ADR for FRAND Disputes, <http://www.wipo.int/amc/en/center/specific-sectors/ict/frand/>. WIPO has made available two submission agreements, one appropriate for standard WIPO arbitration procedures and the other more tailored for WIPO’s expedited arbitration procedures. The main differences between the two agreements relate to the procedures for appointment of the arbitrator(s) and the timetable for the arbitration. WIPO has also made available model submission agreements for the mediation of FRAND disputes. This article does not discuss the mediation agreements.

2. *Id.* (stating that the submission agreements “seek to ensure a cost—and time-effective FRAND adjudication”).

A Short Introduction to FRAND

Our technological era is founded on standards. Every mobile phone and computer depends on standards to communicate with other devices. Prominent examples of such standards include the IEEE 802.11 family of standards for wireless networking and the H.264 standard for video compression.³ The 802.11 standards were developed by the Institute of Electronic and Electrical Engineers (IEEE), and provide specifications for wireless connectivity. As a result of the widespread adoption of this standard, “Wi-Fi” enabled devices can obtain network access in a wide range of public and private locations. The H.264 standard is widely used for the streaming of Internet video.

Common to both 802.11 and H.264, and to other technological standards as well, is that they were developed by private standard setting organizations (an “SSO”). Such SSOs provide a venue for market participants to meet, discuss and establish relevant technological standards. The membership of an SSO can include a variety of firms with different business models. The business of some members may center on investing in technological innovation and the subsequent licensing of those inventions. Other members may be manufacturers, whose business focuses on manufacturing products that comply with the technical standard. Of course, many companies may be vertically integrated, in that they are active both in developing new technologies as well as producing products that incorporate those innovations.

Technical standards can—and often do—incorporate proprietary technology covered by patent rights. Such patent rights are often described as “Standard Essential Patents” (or “SEPs”) since infringement of the patent is essential for correct implementation of the standard. Many SSOs require participants in the standard setting

3. Recent litigation between Microsoft and Motorola involved these two specific standards. See *Microsoft v. Motorola*, 854 F. Supp. 2d 993 (W.D. Wash. 2012). Motorola held patents essential to both the 802.11 and the H.264 standards. In its complaint, Microsoft alleged that Motorola had breached its commitment to license such patents on FRAND terms.

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process to disclose ownership of any SEPs, and many SSOs also require participants to commit to license such SEPs to any third party on “fair, reasonable and non-discriminatory (“FRAND”) terms.”⁴ The purpose of these disclosure and license requirements is to encourage adoption of the standard by assuring potential adopters that any proprietary technology in the standard will be available for licensing on fair and reasonable terms. At the same time, these requirements also assure patent holders that they will be able to realize fair rewards from their investments in innovation.⁵

As with many aspirational principles, it is not always easy to give solid meaning to amorphous FRAND commitments. Most SSOs do not provide detailed definitions of the term, and a number of SSOs disclaim any role in determining whether specific license terms satisfy the FRAND commitment.⁶ As a result, perhaps, recent years have seen a flurry of litigation over the meaning of FRAND. Some courts have wrestled with setting specific figures for FRAND royalties,⁷ and others have

struggled with determining how FRAND commitments may be enforced.⁸

Some commentators have suggested that mediation and arbitration could provide more efficient processes for resolving disputes over the scope and meaning of FRAND. According to this view, the ambitions of the FRAND commitment are frustrated by its ambiguities, and mandatory arbitration can provide an effective means of quickly settling disputes.⁹ On the other hand, other commentators have asserted that parties frequently agree on FRAND terms through an arms-length negotiating process. According to this latter position, an obligation to settle all differences through arbitration would risk upsetting the delicate balance that allows for successful negotiation.¹⁰

The Submission Agreements

WIPO is an agency of the United Nations, and was created by international convention in 1967 “to promote the protection of intellectual property throughout the world.”¹¹ The WIPO Center was established in 1994, and offers alternative dispute resolution services for the resolution of international commercial disputes involving intellectual property. The Center has issued two sets of generally applicable arbitration rules—the general purpose WIPO Arbitration Rules as well as the WIPO Expedited Arbitration Rules for situations where the parties wish to expedite the proceedings (together, the “WIPO Rules”).

The FRAND submission agreements provide a contractual template for agreements to resolve FRAND

4. For example, the IEEE required each participant in establishing the 802.11 standard to either state that it was not aware of any patents relevant to the standard or provide a “Letter of Assurance.” In the Letter of Assurance, the participant would either disclaim the enforcement of patent claims essential to the standard or commit to provide “a license for a compliant implementation of the standard will...on a worldwide basis without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination.” *Microsoft v. Motorola*, 854 F. Supp. 2d, at 996. The International Telecommunications Union (ITU) required participants in establishing the H.264 standard to declare whether “they (1) will negotiate licenses free of charge on a RAND basis; (2) will negotiate licenses on a RAND basis; or (3) are not willing to comply with either of the first two options.” *Id.*

5. *Microsoft Corp. v. Motorola, Inc.*, 2013 U.S. Dist. LEXIS 60233, at 42 (W.D. Wash. 2013). See also Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 *Berk. Tech. L.J.*, 1135, 1137 (2013); Damien Geradin, *The Meaning of “Fair and Reasonable” in the Context of Third-Party Determination of FRAND Terms*, 21 *Geo. Mason L. Rev.*, 919, 922 (2014).

6. Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 *Calif. L. Rev.*, 1889, 1906 (2002). For a detailed empirical analysis of SSO policies for intellectual property rights, see Benjamin Chiao *et al.*, *The Rules of Standard-Setting Organizations: an Empirical Analysis*, 38 *RAND J. Econ.*, 905, Tbl. 1 (2007) [hereinafter Rules].

7. *Microsoft Corp. v. Motorola, Inc.*, *supra* note 3 (setting RAND royalty terms for a patent license agreement between Motorola and Microsoft for patents essential to the 802.11 and H.264 standards); *In re Innovatio IP Ventures, LLC Patent Litig.*, 956 F. Supp. 2d, 925 (N.D. Ill. 2013) (setting RAND royalty rates for 802.11 standard essential patents); *Realtek Semiconductor Corp. v. LSI Corp.*, 565 Fed. Appx. 602 (9th Cir. 2014) (reviewing jury verdict setting a RAND rate for patents declared essential to the 802.11 standard).

8. *Apple Inc. v. Motorola Inc.*, 757 F.3d 1286, 1340 (Fed. Cir. April 25, 2014) (addressing whether Apple could obtain an injunction for Apple’s infringement of patents declared by Motorola to be essential to the Universal Mobile Telecommunications Standard); *Microsoft Corp. v. Motorola, Inc.*, 871 F. Supp. 2d 1089 (W.D. Wash. 2012), *aff’d* 696 F.3d 872 (9th Cir. 2012) (restraining Motorola from enforcing an injunction issued by a German court prohibiting Microsoft from offering devices infringing H.264 standard patents); Orange Book Standard Case, BGH May 6, 2000, *Grur Int.*, 747, 2009 (GER.) (a decision of the Federal Court of Justice of Germany holding that the holder of a FRAND—encumbered patented cannot seek a license so long as the licensee makes a binding FRAND license offer and abides by such offer). See also *Motorola Mobility LLC & Google Inc.*, FTC File No. 1210120 (July 23, 2013), <http://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf> [hereinafter Google FTC Consent Order] (Federal Trade Commission consent order limiting Google’s ability to seek injunctions for the infringement of SEPs).

9. Lemley & Shapiro, *supra* note 5.

10. Pierre Larouch, Jorge Padilla & Richard Taffet, *Settling FRAND Disputes: Is Mandatory Arbitration a Reasonable and Non-Discriminatory Alternative* Hoover Institution, Working Paper Series No. 13003 25 (2013); Geradin, *supra* note 5.

11. Convention Establishing the World Intellectual Property Organization, Article 3.

disputes through WIPO's existing dispute resolution framework. Generally, parties cannot be compelled to resolve disagreements through arbitration. In order to require parties to attend to an arbitration mechanism, and in order to provide a legal basis for the enforcement of the arbitral decisions, the parties must agree to resolve their disputes through that framework. This agreement may be set forth in the original contracts that govern the rights and obligations of the parties. The policies of some SSOs, for example, provide that patent licensing disputes must be settled through alternative dispute resolution.¹² The WIPO template submission agreements, however, provide for the "voluntary arbitration" of FRAND disputes, as they provide a framework for parties to submit to arbitration even when earlier agreements do not compel this course. As discussed in more detail below, this has important ramifications for the arbitration framework proposed by the submission agreements. Since the parties must agree to be bound by arbitration at the time of the dispute, they may only decide to acquiesce if they believe the proposed framework suits their interests.¹³

The model submission agreements concentrate on timetables for the arbitration,¹⁴ and focus less on the substantive rules applicable to the arbitration. The following sections of this article examine three specific issues where the submission agreements do not take a specific position on the substantive arrangements suitable for FRAND arbitration. As such, while the submission agreements evidence significant concern with ensuring efficient dispute resolution, and while the agreements provide parties with substantial flexibility in tailoring FRAND arbitration to their needs, the submission agreements refrain from taking substantive positions as to which arrangements should be seen as appropriate to FRAND disputes. The last section of this article suggests that this focus on flexibility is the result of institutional constraints specific to the standard setting process.

Confidentiality

The generally applicable WIPO Rules extensively address matters of confidentiality, and the WIPO Center

has emphasized how these provisions are particularly suitable for disputes involving intellectual property.¹⁵ First, the provisions of the WIPO Rules address the confidentiality of trade secrets and other proprietary information disclosed in arbitration. The WIPO Rules also expressly attend to the confidentiality of the arbitral proceedings and any arbitral award: Article 75 of WIPO Arbitration Rules requires adjudicators to keep the existence of the arbitration confidential, and Article 77 of the WIPO Arbitration Rules requires the parties to treat any arbitration award as confidential.¹⁶ The FRAND submission agreements, however, do not address issues of confidentiality above and beyond the standard provisions of the WIPO Rules. As such, matters of confidentiality in any arbitration administered pursuant to the FRAND submission agreements will be governed by the generally applicable provisions of the WIPO Rules. Under these rules, the disputants and the arbitrators will be required to keep confidential the existence of a FRAND arbitration as well as the details of any award.

These confidentiality rules likely reflect the preferences of the parties to the arbitration. Parties are often attracted to arbitration by the confidentiality and privacy afforded by the process. Indeed, the confidentiality of the arbitral proceedings is one of the classic rationales proffered in favor of resolving disputes through arbitration rather than litigation, and the strong confidentiality provisions of the WIPO Rules are often advanced as a reason to prefer the WIPO Center for disputes involving intellectual property.

Notwithstanding the conventional confidentiality requirements of arbitration, a specialized framework for FRAND arbitration may well elect at least some disclosure of the arbitral award. First, such disclosure serves the FRAND principle of non-discrimination by reducing the information asymmetry between the parties. Patentees, often repeat players in FRAND licensing disputes, can accumulate information regarding the value of their SEPs from recurring negotiation of license terms. Potential licensees, however, often have more

12. See Jorge L. Contreras & David L. Newman, *Developing a Framework for Arbitrating Standard Essential Patent Disputes*, 2014 *J. Disp. Resol.*, 23, App. A (2014) (cataloging existing arbitration policies of SSOs).

13. *Id.* at 35 (discussing differences between "mandatory" and "voluntary" arbitration).

14. Section 4 of the two submission agreements provides for a detailed timetable for the submission of documents to the arbitral tribunal, the production of evidence and the hearing itself. The majority of the remaining provisions focus on the timing and scheduling of the hearing and the production of evidence.

15. *WIPO Arbitration and Mediation Center, Guide to WIPO Arbitration*, 4, http://www.wipo.int/edocs/pubdocs/en/arbitration/919/wipo_pub_919.pdf ("The WIPO Rules are appropriate for all commercial disputes. However, they contain provisions on confidentiality...that are of special interest to parties to intellectual property disputes"). See also Anita Alibekova & Robert Carrow, *International Arbitration & Mediation—From The Professional's Perspective*, 210 (2007) (stating that the WIPO Rules provide "[t]he most comprehensive protection of the confidentiality interests of parties to arbitration").

16. See also Articles 66 and 68 of the WIPO Expedited Arbitration Rules.

limited information regarding the royalties paid under prior license agreements. Protecting the confidentiality of arbitral awards may reinforce this information asymmetry, provide more negotiating leverage to the SEP holder, and increase the probability that potential licensees will agree to unfair royalty rates. In addition, a record of historical FRAND royalty rates can assist parties in resolving FRAND disputes through negotiation without resort to arbitration or litigation.¹⁷

Regardless of the WIPO Rules, the goal of confidentiality in FRAND arbitration may well be a chimera. The WIPO Rules, even with their focus on confidentiality, allow disclosure where required by applicable law or where necessary to enforce the arbitral award.¹⁸ As such, the WIPO Rules would not stand in the way of disclosure under Section 294 of the United States Patent Act, which imposes a duty to report arbitral awards in patent disputes to the United States Patent and Trademark Office. In the United States, a patent arbitral award may not be enforced until such report is made. Similarly, disclosure of the arbitral award may also be compelled in the context of a subsequent FRAND litigation involving different parties, where a court determines that the results of the earlier arbitration are relevant for subsequent proceedings.¹⁹ Disclosure may also be required where the result of the arbitration significantly affects the finances of a publicly traded company that is subject to public reporting requirements. As such, although the parties to FRAND arbitration may prefer confidentiality, details of the arbitration and the award may to some extent nonetheless be required to be made public.

The WIPO submission agreements refrain from fashioning a specialized confidentiality framework for FRAND arbitration. A specialized FRAND framework could have required some transparency regarding the arbitral award, and such transparency could have been a building block in the context of a broader structure

17. See Lemley & Shapiro, *supra* note 5, at 1145. But see Larouch, *supra* note 10 (arguing that disclosure of the awarded rate will increase litigation).

18. WIPO Arbitration Rules, § 73(a) (allowing disclosure of the existence of an arbitration if such disclosure is required “by law or by a competent regulatory body”); § 75(iii) (stating that an arbitral award may be “disclosed in order to comply with a legal requirement imposed on a party or in order to establish or protect a party’s legal rights against a third party”). Sections 66(a) and 68(iii) of the WIPO Expedited Arbitration Rules contain equivalent provisions.

19. See, e.g., *in re* MSTG, Inc., 675 F.3d 1337 (Fed. Cir. 2012) (in a case concerning a reasonable royalty for patents covering 3G mobile technology, upholding a lower court decision compelling disclosure of both prior settlement agreements as well as documents concerning the negotiation of those settlement agreements).

aimed at ensuring fair and non-discriminatory arbitral awards. The WIPO submission agreements, however, in falling back on the conventional confidentiality provisions of the WIPO Rules, avoid taking substantive positions that may be suitable for the specific context of FRAND disputes.

Injunctions

The generally applicable WIPO Rules include detailed provisions concerning the availability of injunctions and other interim relief. First, the WIPO Rules expressly allow the arbitral tribunal to issue injunctions and other interim orders.²⁰ The Rules provide that such interim relief can be provided in the form of an “award,”²¹ and that the arbitrators may consult with the Center in order to ensure the enforceability of any award for interim relief.²² In addition, the WIPO Rules provide that the parties may turn to a judicial authority to obtain interim relief.²³ These detailed provisions reflect the importance that injunctions can play in disputes concerning intellectual property.

Notwithstanding the general availability of injunctive relief in WIPO arbitration, the submission agreements expressly prohibit the arbitral tribunal from issuing orders for interim injunctions in a FRAND arbitration.²⁴ While the WIPO Center has not detailed the rationale for this prohibition, it is reasonable to assume that this position reflects the growing consensus of courts and administrative agencies that injunctive relief is inconsistent with a FRAND commitment. For instance, while the United States Court of Appeals for the Federal Circuit recently declined to adopt a *per se* rule precluding the granting of injunctions for SEPs, it did state that the existence of a FRAND commitment “strongly suggest[s] that money damages are adequate to fully compensate...for

20. WIPO Arbitration Rules, § 46(a) (providing that the arbitral tribunal may issue “provisional orders or take other interim measures it deems necessary”). See also WIPO Expedited Arbitration Rules, § 40(a).

21. The characterization of an injunction as an “order” or an “award” can affect the enforceability of that injunction in different jurisdictions or under the New York Convention. See generally Peter J.W. Sherwin & Douglas C. Rennie, *Interim Relief Under International Arbitration Rules and Guidelines: A Comparative Analysis*, 20 *Am. Rev. Of Int’l Arbitration*, 317, 325-27 (2010) [hereinafter *Interim Relief*].

22. WIPO Arbitration Rules, § 62(e); WIPO Expedited Arbitration Rules, § 55(e).

23. WIPO Arbitration Rules, § 48(d); WIPO Expedited Arbitration Rules, § 40(d).

24. Section 8 of the Model Submission Agreement provides that “[t]he arbitral tribunal shall not have the authority to issue interim injunctions under Article 48(a) of the WIPO Rules.” See also Section 9 of the Model Submission Agreement under the WIPO Expedited Arbitration Rules.

any infringement.”²⁵ In addition, both the United States Department of Justice and the Patent and Trademark office have recently recommended “caution in granting injunctions or exclusion orders based on infringement of voluntarily FRAND-encumbered patents essential to a standard.”²⁶ Similarly, recent decisions of the European Commission have precluded holders of SEPs from seeking injunctions enforcing such patents in the European Economic Area.²⁷

However, even as the FRAND submission agreements expressly preclude the arbitral tribunal from granting interim relief, the agreements do not address the possibility of seeking such injunctions from national courts. As such, the model agreements generally preserve the underlying framework of the WIPO Rules, which permit adjudicators to apply to judicial authorities for interim relief, but otherwise prohibit “any form of appeal or recourse to a court of law or other judicial authority.”²⁸ This approach is consistent with many other arbitration frameworks that allow disputants to apply to national courts for injunctions or other interim relief.²⁹

While these arrangements may provide a suitable framework for arbitration in general, it is not clear that they are appropriate for arbitration involving FRAND-

encumbered patents. First, as noted above, the submission agreements themselves seem to acknowledge that injunctive relief is not appropriate for disputes involving FRAND commitments. As such, the submission agreements might have chosen to prohibit parties from seeking injunctive relief outside the arbitral forum as well. Second, and perhaps more importantly, this framework allows patentees to retain the option to sue for injunctive relief even as, in otherwise prohibiting recourse to judicial forums, it demands that defendants renounce the right to assert that the patent is invalid in a national court.³⁰ Claims of invalidity are one of a defendant’s strongest weapons in a patent battle: once a patent is found to be invalid, the patentee may no longer assert that patent ever again, even against third parties.³¹ Moreover, licensees of a patent that is later declared invalid may decide to cease making payments under already-existing license agreements. Assertions of invalidity are not empty threats: recent data shows that approximately 40 percent of asserted patents in the United States are declared invalid.³² As such, the submission agreements may not provide a framework that suitably addresses the tensions between the parties that typically arise in a FRAND arbitration.

As with matters of confidentiality, the WIPO submission agreements avoid creating specific rules to address requests for injunctions and claims of invalidity in the FRAND context. A tailored FRAND framework may, for example, have prohibited the parties from seeking injunctive relief or asserting claims of invalidity inside or outside the arbitral forum. Instead of creating a specialized framework to address these issues, however, with some exceptions the WIPO FRAND agreements fall back on the generally applicable structure of the WIPO Rules.

Scope

What should the arbitral panel decide in a FRAND arbitration? Until this point, this article has left the term “FRAND arbitration” ambiguous, and, indeed, the submission agreements themselves leave the scope of the arbitration to the discretion of the parties. Section 6 of

25. *Apple Inc. v. Motorola Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. April 25, 2014). See also *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012) (stating that “[i]mplicit in such a sweeping promise [of the FRAND commitment] is, at least arguably, a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made”). See also Letter from Renata B. Hesse, Acting Assistant Attorney Gen., U.S. Dep’t of Justice, to Michael A. Lindsay, Esq. (Feb. 2, 2015) § VA (stating that an update to the IEEE’s Patent Policy restricting participants from obtaining injunctions on standard essential patents subject to a RAND commitment was “consistent with the direction of U.S. case law”).

26. See, United States Department of Justice and United States Patent & Trademark Office, Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary FRAND Commitments 8 (Jan. 8, 2013), <http://www.justice.gov/atr/public/guidelines/290994.pdf>. Similarly, the United States Federal Trade Commission has in two instances enjoined parties from seeking injunctions for the infringement of SEPs. See Google FTC Consent Order, supra note 8; Decision and Order, In the Matter of Robert Bosch GmbH, FTC File No. 1210081 (April 23, 2013), <http://www.ftc.gov/sites/default/files/documents/cases/2013/04/130424robertboschdo.pdf>.

27. EC Press Release, “Antitrust: Commission accepts legally binding commitments by Samsung Electronics on standard essential patent injunctions” (Apr. 29, 2014), available at http://europa.eu/rapid/press-release_IP-14-490_en.htm.

28. WIPO Arbitration Rules, § 64(a); WIPO Expedited Arbitration Rules, § 57(a).

29. *Interim Relief*, supra note 19, at 333.

30. The submission agreements do allow the defendant to assert claims of “essentiality, validity, infringement, and enforceability” before the arbitral tribunal, but do not allow the defendant to assert those defenses before another judicial authority. In most jurisdictions, a finding of invalidity by an arbitral panel will generally be determinative as between the parties in arbitration but will not affect third parties. See M.A. Smith, *et al.*, *Arbitration of Patent Infringement and Validity Issues Worldwide*, 19 *Harv. J. L. & Tech.*, 299 (2006).

31. *Blonder-Tongue Labs. v. University of Illinois Found.*, 402 U.S. 313 (1971).

32. John R. Allison, Mark A. Lemley & David L. Schwartz, *Steps Towards Evidence-Based IP: Understanding the Realities of Modern Patent Litigation*, 92 *Tex. L. Rev.*, 1769, 1787 (2014).

the submission agreements, for example, provides that the arbitral tribunal is to determine the scope of the arbitration in consultation with the parties. The model agreements also allow the parties to select the specific patents to be examined by the arbitral tribunal. Nowhere do the submission agreements expressly address what the arbitral panel should determine. This approach, which leaves details of the arbitration to the agreement of the parties, is consistent with how arbitration is generally conducted. Indeed, the parties' control over the scope and procedures of the arbitration is one of the common reasons advanced for preferring arbitration over other methods of dispute resolution.

At the same time, the submission agreements leave important questions unaddressed. For example, the submission agreements do not speak to whether the arbitral panel should determine a specific FRAND royalty rate, or whether it should only specify a range of possible royalties that would be considered reasonable under the patentee's FRAND commitment. Some commentators, emphasizing efficiency and economy of resources, have advocated for arbitration procedures that result in the final determination of a specific FRAND rate.³³ Indeed, some administrative authorities have required that FRAND arbitration result in a definite royalty rate and specific license terms.³⁴ Other commentators, however, focusing on the meaning of the FRAND commitment, have stated that arbitral decisions should provide only for a range of reasonable royalty rates.³⁵ According to this second approach, the final royalty rate should be determined through negotiations between the parties instead of being set by an external third party. The choice between these two approaches can dramatically impact both the arbitration itself as well as the legal positions of the parties following the arbitration. The WIPO submission agreements, however, again choosing flexibility, require neither of these two options and allow the parties the freedom to structure the arbitration as they prefer.

Another matter left to the discretion of the parties is the specific patents to be considered by the arbitral tribunal. Section 1 of the submission agreements allows the parties to specify the specific patents to be considered in the arbitration. The submission agree-

ments further provide that the parties may refer specific individual patents or a patent portfolio to arbitration. Alternatively, the parties may agree to arbitrate a sampling of the relevant patents. Some commentators, however, have insisted that arbitrators of FRAND commitments should consider the effect of all patents declared essential to the relevant standard, and should not limit the scope of the arbitration to the specific patents disputed by the parties. According to this position, only an evaluation of the value of all such patents would alleviate the problem of "royalty-stacking," in which all the different royalty claims for all patents reading on a specific product must be added or "stacked" together to determine the total amount payable in royalties for that product. The submission agreements take no position on this matter, and again allow the parties flexibility in determining the scope of the arbitration.

While the submission agreements provide the parties with flexibility and freedom in determining the scope of the arbitration, they refrain from taking positions that would tailor the submission agreements for the FRAND context. As with rules concerning confidentiality, injunctions and determinations of invalidity, the submission agreements consistently prefer the flexibility of the conventional arbitral framework over customization for the FRAND context. The next section offers some thoughts on the possible institutional constraints that produced such positions in the submission agreements.

Institutional Constraints

The WIPO Center is a provider of arbitral services, and the structure of the submission agreements reflects the institutional constraints of this position. Previous sections have shown that the WIPO submission agreements consistently refrain from choosing (sometimes controversial) directions that would tailor arbitration rules for the FRAND context. Instead, the model agreements fall back on the conventional structure of the WIPO Rules, and prefer to allow the parties flexibility in tailoring the arbitration to their needs. This section discusses some of the tensions inherent to standard setting process. The ambiguities of the FRAND commitment are the natural consequence of these tensions, and the WIPO Center is well-placed to address some of these ambiguities. On the other hand, certain of these natural tensions are exacerbated by WIPO's institutional position, and the effect of these stresses and strains is an arbitral framework that prefers conventional flexibility over specific rules and procedures for FRAND disputes.

The FRAND commitment is, almost by definition, incomplete. A contributor to the standard typically promises only to make their technology available under "fair, reasonable and non-discriminatory," and rare is the standard-setting organization that attempts to fill these vague, aspirational guidelines with specific detail and

33. See Lemley & Sharipo, *supra* note 5 (proposing baseball arbitration as a means of setting a FRAND royalty).

34. See, e.g., Google FTC Consent Order, *supra* note 8, at § III.D (stating that "It is intended that the Request for a FRAND Determination or Binding Arbitration shall establish the Contested Terms, and that these terms, together with the Accepted Terms, shall constitute a binding Relevant License Agreement, which if executed will form a binding license agreement").

35. Geradin, *supra* note 5, at 939-40.

meaning.³⁶ Given the prevalence of these ambiguous terms across standard-setting organizations, scholarship has argued that the indistinct nature of the FRAND commitment is the result of limitations inherent to the standard-setting process.³⁷

Two particular dynamics can illuminate why incomplete licensing terms are a frequent result of the standard-setting process. First, the value of contributed technologies may not be clear during the early stages of the process. This value may depend, for example, on factors such as the structure of the market and the appeal of competing technologies.³⁸ As the impact of these considerations may not yet be apparent during the standard-setting process, it may be premature in that context to specify a royalty rate for any particular technology. Indeed, the importance of the specific technologies to the standard may itself not be clear during these early stages.³⁹ Second, the ambiguity of the FRAND commitment may result from the heterogeneous membership of the standard-setting organization. As noted earlier, the membership of an SSO can include firms with different business models. Some members may focus on technological innovation, and these entities will typically prefer pro-patentee rules that, for example, allow for injunctions and ensure the confidentiality of royalty rates. Other members may manufacture products that comply

36. Lemley, *supra* note 5 at 1906 (stating that “relatively few SSOs gave much explanation of what those [FRAND] terms mean or how licensing disputes would be resolved”); *Rules, supra* note 6.

37. Geradin, *supra* note 4, at 932. Geradin recounts the history of the IP policy of the European Telecommunications Standards Institute (ETSI), a prominent SSO, and describes the contentious debates at ETSI concerning the adoption of more specific FRAND rules, including a requirement mandatory arbitration.

38. United States courts typically use a list of 15 so-called *Georgia-Pacific* factors to determine the value of patented technology, and these factors require consideration of the market and possible competing technologies. Factor 8, for example, provides that courts should consider “[t]he established profitability of the product made under the patent; its commercial success; and its current popularity.” Factor 12 provides that courts should also look at royalties “customary in the particular business or in comparable businesses to allow for the use of the invention.” At the same time, in applying these factors, courts and commentators have emphasized that the “RAND commitment should be interpreted to limit a patent holder to a reasonable royalty on the economic value of its patented technology itself, apart from the value associated with incorporation of the patented technology into the standard.” *Microsoft Corp. v. Motorola, Inc.*, 2013 U.S. Dist. LEXIS 60233, at 43 (W.D. Wash. 2013).

39. In addition, if the patent application is still under prosecution during the standard-setting process, it will not yet be known what claims in the patent were allowed.

with the standard, and these entities will probably prefer rules that disfavor injunctions and provide for the transparency of royalty rates. Given these uncertainties and organizational dynamics, standard-setting organizations may prefer to leave the FRAND commitment incomplete and ambiguous.

Arbitral institutions are well-placed to handle the uncertainties of setting a specific FRAND royalty rate. When a particular dispute reaches arbitration, and when the parties decide that it is worth investing time and treasure on determining a FRAND royalty rate, the passage of time will already have illuminated many of the initial difficulties in valuing the technology. An SSO can only guess at the potential of raw technologies but the arbitral tribunal, making the FRAND determinations years later, will be able to evaluate the nuances of a well-developed market. The arbitral tribunal will also have the advantage of considering the FRAND commitment as applied to the specific product of a particular licensee.⁴⁰ Moreover, the arbitrators may have access to market information concerning the standard rate of royalties paid for the proprietary technology.⁴¹ These details, grounded in the realities of the market, can provide substantial assistance to arbitrators that are grappling with the vagaries of the FRAND assurance.

On the other hand, arbitrators may find it substantially more difficult to provide *ex ante* rules that bridge the political gaps of the SSO. Submission of a dispute to arbitration requires the agreement of both parties. Such agreement will be difficult to obtain if the rules of arbitration favor the position of one disputant over the other. A contributor or manufacturer that resisted the adoption of specific rules at the level of the SSO will have even more reason to oppose such rules in the context of a particular dispute where the stakes are clearer. Moreover, SSOs also include many vertically-integrated firms as members. These entities, which can act as both contributors and adopters, will in the context of the SSO prefer reasonable frameworks that promote the standard rather than rules that favor any specific party. A particular dispute involving specific technology, however, may situate that entity in the position of either a contributor or an adopter, and this position may also crystallize the preferences of that party for specific rules. Given these divergent preferences, it may be easier to obtain an agreement to arbitrate if the

40. *Georgia-Pacific* factor 11, for example, asks court to examine “the extent to which the infringer has made use of the invention.”

41. *Georgia-Pacific* factors 1 and 2 asks court to examine other “royalties received by the patentee for the licensing” of the proprietary technology and “rates paid by the licensee for the use of other patents comparable to the patent-in-suit.”

arbitration frameworks provide for flexibility rather than specific, contentious rules and procedures.⁴²

The WIPO submission agreements clearly reflect these institutional constraints. The model agreements consistently provide for flexibility and allow the disputing parties to frame the scope the arbitration. At the same time, the agreements eschew the adoption

of specific rules that, though perhaps appropriate for FRAND disputes, may also prove controversial for certain parties. In the end, the attraction of the WIPO Center for FRAND arbitration may lie not in the adoption of specific rules tailored for those disputes, but rather in the broad experience of the Center's personnel in disputes regarding intellectual property. ■

42. See, e.g., Christopher R. Drahozal, *Commercial Norms, Commercial Codes, and International Commercial Arbitration*, 33 *Vand. J. Transnat'l L.*, 79, 100 (2000) (discussing competition between arbitral forums and the effect on the rules of arbitration of such forums).