The Arbitration Newsletter

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(John Allen Chalk, Sr., Editor)

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The Arbitration Newsletter is published periodically by Whitaker Chalk Swindle & Schwartz PLLC, Fort Worth, Texas, to explore the rapidly developing law and practice of commercial arbitration both in the U.S. and other countries.[1]

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Bristol-Myers Squibb Co. v. Novartis Pharma AG

Arbitration "has become the dispute resolution mechanism of choice for those who wish to keep the public from knowing their business."[2] In part because parties to an arbitration agreement can agree "to conduct themselves under a veil of privacy."[3] However, an arbitration proceeding may not be completely confidential, even with the parties' agreement.

Recently, the Southern District of New York ("SDNY") addressed whether confidentiality extends to confirmation of an arbitral award that includes trade secrets and propriety information. The arbitration arose out of an "Evaluation, Research and Commercialization Agreement" ("Agreement") signed on November 6, 1998, between Novartis Pharma AG ("Novartis") and Medarex (predecessor of Bristol-Myers Squibb Co. ("BMS")).[4] In the Agreement, Novartis agreed to make certain royalty payments to Medarex (and subsequently BMS) on sales of drugs it developed using Medarex's patented transgenic mice.[5] On March 19, 2019, Novartis filed a Demand for Arbitration seeking a declaration that Novartis' obligation to make royalty payments was illegal and, therefore, the Agreement was unenforceable.[6]

Both parties had agreed that any disputes would be resolved by binding arbitration in New York.[7] On June 16, 2021, the arbitral panel, consisting of three distinguished retired federal judges, issued a final award, "dismissing Novartis' affirmative claims and ordering the parties to continue their dealings as provided by the plain terms of their Agreement."[8]

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[1] Nothing in The Arbitration Newsletter is presented as or should be relied on as legal advice to clients or prospective clients. The sole purpose of The Arbitration Newsletter is to inform generally. The application of the comments in The Arbitration Newsletter to specific questions and cases should be discussed with the reader's independent legal counsel. My thanks to Kayla McCallum, a third-year law student at Texas A&M University School of Law, for her research and drafting assistance.

[2] Bristol-Myers Squibb Co. v. Novartis Pharma AG, No. 22-CV-04I62 (CM), 2022 WL 2133826, *6 (S.D.N.Y. June 14, 2022).

[3] *Id.* at *6.

[4] *Id.* at *2.

[5] *Id.*

[6] *Id* at *1-2.

[7] *Id.* at *2.

[8] *Id.* at *3.

Almost a year later, on May 2, 2022, BMS filed a motion with the SDNY for permission to file its motion to confirm under seal, which was denied.[9] The court found unpersuasive BMS' argument that "sealing [was] appropriate solely because the parties agreed to file any papers associated with an arbitration proceeding under seal."[10] In response to the denial, BMS publicly filed a petition to confirm the award but did not attach the actual award to the petition.[11]

On May 23, 2022, Novartis filed an unopposed motion with the court to either seal the final arbitration award entirely or, in the alternative, allow the filing of a heavily redacted form of the award.[12] Novartis fundamentally made the same sealing arguments as BMS had previously made before another district court that had also been denied.[13] To support its alternative request to file a redacted version of the award, Novartis argued it was "to prevent the disclosure of trade secrets and proprietary information."[14]

The Court observed that although arbitration "is a purely private proceeding, to which no public right of access attaches," there is a strong presumption of public access that attaches to judicial proceedings and documents supported by the common law and the First Amendment.[15] A party can only overcome such a presumption "if sealing '*is essential to preserve higher values*' and '*narrowly tailored to preserve that interest*.'"[16]

Once a party to an arbitration seeks confirmation of an award by a court, the award becomes a judicial document subject to the strong presumption of public access.[17] Rejecting Novartis's argument, Judge McMahon maintained it was not an acceptable justification to seal the award based on the parties' confidentiality agreement to treat the award "as highly confidential and not subject to public disclosure."[18] A confidentiality agreement only has worth so "long as no party seeks to involve the court…in its resolution."[19]

Judge McMahon discussed a spectrum in the presumption of access, ranging from "an especially strong presumption requiring extraordinary circumstances to justify restrictions to merely one of the interests that may bow before good reasons to deny the requested access."[20] In this case, the presumption of public access was strong because the award "directly affect[ed] the adjudication the court [was] being asked to make."[21] Therefore, Novartis had to provide compelling reasons to justify sealing the award.[22]

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[9] *Id.*
[10] *Id.*
[11] *Id.* at *4.
[12] *Id.*
[13] *Id.* at *4.
[14] *Id.*
[15] *Id. at *5-6.*
[16] *Id.* at *6 (emphasis added).
[17] *Id.* at *5 and 9.
[18] *Id.* at *5-6.
[19] *Id.* at *6.
[20] *Id.* at *8-9.
[21] *Id.* at *9.
[22] *Id.*

Novartis offered two main arguments to justify sealing the award: revealing the arbitration details publicly when confirming an award would undermine federal policy in favor of arbitration;[23] and, "sealing the final award [was] essential to preserve higher values because the award contained trade secrets and propriety information including the parties' research and development of products and the underlying technology used to develop such products."[24] Judge McMahon disagreed, highlighting that some parties that "lose" in arbitration choose not to comply with the award, and it is the right of the aggrieved party to come to a court of law to obtain a judgment that will enforce the award.[25] Once a party feels compelled to ask a court to enforce an award, "its opponent should understand that the proceedings will no longer be secret, no matter what the parties have agreed."[26]

Judge McMahon acknowledged that "when a party points out that a judicial document contains such information and offers good reason [it] should remain confidential, courts will agree to seal that which "*actually* qualifies as proprietary information or trade secrets."[27] However, "a mere mention of propriety information or trade secrets in a judicial document affords no basis to seal [a] document in its entirety."[28] Such a request must be narrowly tailored.[29] Novartis' request for sealing was denied.[30]

As a result, instead of placing the arbitral award on the public docket, BMS voluntarily dismissed its lawsuit to confirm the award.[31]

OBSERVATIONS

1. Parties in an arbitration cannot control or limit the disclosure of an award once the award becomes the subject of a 9 U.S.C. §§9 – 11 motion.

2. Sealing trade secrets and confidential information requires court rulings that must overcome the presumption of the public's right of access to the award.

3. The losing party has to weigh the relative values of the protected information versus acceptance of the award loss.

4. Once a court is asked to intervene with an arbitration award, all bets are off —the court is a public forum in which all participants have a right of access.

5. If confidential or trade secret information is involved in a dispute, the owner needs to identify the protected information and have a strategy for protecting it.

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[23] *Id.* at *9-10.
[24] *Id.* at *12.
[25] *Id.* at *10.
[26] *Id.* at *11.
[27] *Id.* at *13.
[28] *Id.* (emphasis added).
[29] *Id.*
[30] *Id.*
[31] Caroline Simson, *Bristol-Myers Opts to Drop Suit Rather Than Publish Award*, LAW360 (July 14, 2022), https://www-law360-com.lawresearch.tamu.edu/articles/1511419/bristol-myers-opts-to-drop-suit-rather-than-publish-award.