

Implementors must be given access to FRAND agreements: Delhi High Court, Part 1

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Can natural justice outweigh statute, contractual confidentiality obligations and industry practice?

Recently, the High Court of Delhi passed a decision in the heated FRAND dispute between InterDigital and Xiaomi concerning confidentiality clubs. [1]

The Court held that that Xiaomi's employees must necessarily have access to InterDigital's third party patent license agreements, so that Xiaomi may put up an adequate defense in the suit filed by InterDigital with respect to the infringement of its 3G, 4G Standard Essential Patents (SEPs).

The Court also held that though InterDigital can redact information from confidential documents, it cannot rely on any information which is redacted, while establishing its case for an injunction against Xiaomi.

The order and the reasons cited by the Court has the potential of harming the interests, both commercial and contractual, not just of owners of SEPs as implementers who have executed or engage in *bona fide* negotiations for the execution of a license on Fair, Reasonable and Non-Discriminatory (FRAND) terms.

This article provides a quick overview of the facts before the Court, the reasons behind the Court's decision, the errors which the authors consider exist in the decision and finally, the Pandora's box that the decision has burst open.

1. Why was the Court deciding the confidentiality club issue?

Background to the dispute

In July 2020, InterDigital and its affiliates filed two suits before the Delhi High Court against Xiaomi Corporation and its affiliates. The first suit claims infringement of InterDigital's 3G and 4G SEPs, while the second suit claims infringement of its HEVC (video coding) SEPs.

It is well known that the determination of SEP disputes requires the Court to consider the FRAND agreements that the SEP owner has executed with third party implementors of their patents, who are similarly situated with the Defendant in the suit. The reason is that Courts need to decide whether the offer made by the SEP owner to the Defendant was compliant with FRAND obligations or not. In order to assess this, Courts determine whether the offer made to the Defendant is comparable with third-party FRAND agreements.

The Confidentiality Club application filed by InterDigital

Being a seasoned SEP owner with several FRAND agreements executed with third parties, InterDigital had filed an application at the time of instituting the suit, requesting the Court to set up a two-tiered confidentiality club. The structure proposed by InterDigital was as follows:

- 1st Tier (Outer Tier) - Includes nominated advocates, external experts and representatives who may be party employees. Members to this tier would have access to the confidential correspondence exchanged, which was covered by a Non-Disclosure-Agreement between the parties.
- 2nd Tier (Inner Tier) - Includes all the representatives in Tier 1 but excludes party employees. Members to this tier would have access to third party FRAND license agreements.

Xiaomi opposed this application claiming that it was unfair, and rather impossible for it to contest InterDigital's claim that the rates offered by it were FRAND compliant. Representation by external experts and advocates alone before the Court on FRAND related issues was like fighting whilst wearing a blindfold.

2. Reasons for the Court's decision to include party employees in the confidentiality club

After reserving orders on September 03, 2020, the Court passed its decision on December 16. The Court's reasons are premised not only on the need for Xiaomi to access InterDigital's third party agreements to defend its position, but any scheme which precludes party employees from accessing such documents is inherently unlawful.

Some of the key reasons which drove the Court's order are as follows:

- *Natural justice demands that Xiaomi's employees access FRAND agreements*
 - Only Xiaomi can decide whether it needs to see a particular document cited by InterDigital, and this decision cannot be taken by the Court.
 - An injunction in an SEP case, is not based on establishing infringement alone, but also in establishing that the offer made to the Defendant is FRAND compliant.
 - If Xiaomi's employees are kept out of the loop, then it cannot adequately inform the Court whether InterDigital's third-party agreements are 'comparable' and whether they fit in the context of Xiaomi's economic situation.
 - The principles of natural justice and fair play mandate that Xiaomi is made aware of the identity of InterDigital's licensees and the terms of their agreements. This is critical to determine whether InterDigital's offer to Xiaomi was 'Non-Discriminatory' with respect to third parties.
 - The damage likely to be caused to Xiaomi, if its employees were excluded from accessing InterDigital's third party FRAND agreements would be irreparable.
- *Previous orders and guidelines are not conclusive or binding*
 - Annexure F of the Delhi High Court (Original Side) Rules, 2018 - which states that only advocates and external experts are to form confidentiality clubs in commercial disputes - cannot be invoked because Xiaomi rejected the scheme proposed by InterDigital.
 - Previous orders in India in SEP cases, which had allowed the exclusion of party employees from confidentiality clubs, did not address the issues of natural justice and other peculiar aspects of this case. Thus, they could be departed from.
- *Attorney-Client Relationship*
 - An attorney cannot act or make arguments before the Court, or concede any position, without express instructions of its client. Xiaomi's lawyers would have no room to make any submission on FRAND issues, as Xiaomi itself would not be in a position to provide adequate instructions.
- *InterDigital's and its licensees' confidentiality obligations are not superior*
 - Confidentiality clauses in third party FRAND license agreements, which prohibit InterDigital from disclosing contents, cannot justify denial to Xiaomi of its right to access the agreements and defend InterDigital's suit
 - InterDigital chose to file a suit against Xiaomi. InterDigital, of its own volition, wants to rely on third party agreements. Thus, breaching its confidentiality obligations with third parties is a tangential issue.
 - The commercial interests of InterDigital and its licensees cannot be placed higher than the interests of Xiaomi.
 - Precluding access to FRAND agreements by Xiaomi's employees only at the interim stage (before trial commences) is not adequate, as significant damage would be caused to Xiaomi, if InterDigital secures the desired interim injunction.

Read Part 2 of this blog.

[1] Decision dated December 16, 2021 in IA 6441 of 2020 in InterDigital Technology Corporation & Ors v. Xiaomi Corporation & Ors., CS (COMM) 295 of 2020 before the High Court of Delhi