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Implementors must be given access to FRAND agreements: Delhi High Court, Part 2

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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]. Read [part 1 of this blog](#).

3. Key errors in the order of the Court

I. Confidentiality concerns of InterDigital and its licensees were disregarded

The decision overlooks the catastrophic damage that SEP owners and their third-party licensees will suffer, if a Defendant's employees have access to their FRAND agreements.

First, Xiaomi is in direct competition with InterDigital's licensees. License agreements with InterDigital include not just royalty related terms, but other information which is unique to the licensee's business; the scale of its operations; the estimated sales of devices in future, pricing structures etc. Access to such information will confer Xiaomi will irreversibly advantage in the market over its competitors. Certainly, such advantage should not be secured upon being sued in an action for patent infringement.

Second, it is very likely that the third-party licensees of SEP owners will refuse to give consent for their agreements to be made accessible to their competitors. In this situation, SEP owners will need to breach confidentiality obligations of their contract, in order to file the agreements in Court, which will have disastrous consequences.

Alternatively, the inability of SEP owners to file such agreements, will result in their failure to establish that the offer made to the Defendant in the suit was FRAND compliant. This will in-turn, lead to failure to establish a claim for infringement.

Third, this decision affects those entities who have negotiated FRAND agreements at arm's length, and in good faith, without having seen agreements executed with other entities.

II. The likely harm caused to InterDigital and its licensees should have been balanced against the likely harm caused to Xiaomi

Once the Court had recognized that InterDigital and its licensees did stand to suffer harm, it was

imperative that the court balance their interests with those of Xiaomi and provide a mechanism which adequately protects both.

The present order however confers unfettered advantage to Xiaomi and delivers an irreconcilable blow to InterDigital and its licensees.

III. That Xiaomi too would need to protect the confidentiality of its own FRAND agreements with other SEP owners was not a hypothetical, but a very material issue

The decision overlooks the fact, that royalties paid by Xiaomi to other third-party SEP owners is of equal, if not greater importance, in determining whether the offer made to it by InterDigital was FRAND compliant.

While InterDigital had been upfront about its position and that it will need to produce its third party FRAND agreements to the Court, Xiaomi kept silent on its end of the bargain, and this decision overlooks this very important issue.

IV. Established industry practice of negotiating FRAND licenses overlooked

Had each implementor executed a license only after seeing third party FRAND agreements, then thousands of license agreements concerning very important legal and commercial rights of parties, would not have been executed.

However, this decision disregards the fact, that for decades, the telecommunications industry in particular, has negotiated and successfully executed license agreements through honest, good faith negotiations without disclosing third party agreements.

V. Unfair advantage that Xiaomi will gain against its competitors was not addressed

The decision solely inspects the confidentiality club discipline from the lens of the harm that Xiaomi would suffer if its employees are denied accessing third party FRAND agreements of InterDigital.

However, it does not address the unfair and irreversible advantage that Xiaomi gains as a result of knowing critical and business-sensitive information of other players in the market.

It is well-established that information, once learned, cannot be unlearned and is likely to be used, even if subconsciously, in the course of negotiations with other entities, or in improving Xiaomi's business over its competitors.

In this peculiar situation, preserving the interests of other entities, who are not parties to the suit, ought to have been considered.

VI. Denial of access to third party confidential agreements does not violate natural justice

There is no arguing with the fact that natural justice is the bedrock of most stable jurisdictions. Fairness and equity must guide the decision-making process in each case.

However, what is fair and equitable is to be determined in the facts of each case, and the loss that the disclosing party may suffer in the absence of a confidentiality order.

Even the UK Supreme Court in the landmark case *Al-Rawi v Security Service* [2] recognized that exceptional regimes (such as IPR) may require precluding access to sensitive documents by party employees, keeping in mind the greater need to maintain confidentiality of sensitive information.

Industry practice, as well as Xiaomi's own admissions in SEP disputes in other jurisdictions that certain highly confidential information could, in principle, be kept away from party employees, stands testament to the fact that negotiating FRAND licenses, without disclosing third-party agreements is both fair and equitable for all parties.

Most importantly, providing access only to advocates and external experts does not mean that Xiaomi cannot have any discussion on FRAND issues whatsoever. All that the experts and advocates cannot disclose to Xiaomi (*had InterDigital's claim been allowed*) is the terms and covenants of third party FRAND agreements.

However, this does not prevent Xiaomi from being advised by its experts on whether they consider InterDigital's agreements as being comparable with the terms offered to Xiaomi.

There are many ways to have a fair discussion on the essence and relevance of InterDigital's third party agreements, without actually discussing their contents.

VII. Natural justice, in any case, is subject to the express letter of the law

Judicial precedent has held that natural justice is subject to the facts of each case, and the legal framework governing a situation [3].

Recently, the Delhi High Court itself had promulgated rules which govern commercial disputes. One of these rules specifically allowed the formation of confidentiality clubs which would include only advocates and external experts [4].

The decision did not debate the fundamental issue whether the High Court of Delhi, after much discussion and deliberation, would have introduced a provision if it violated natural justice!

Further, does the inclusion of this provision not suggest that, excluding party employees from accessing highly sensitive documents, is not against natural justice?

VIII. Rationale of previous decisions in India not followed

This decision takes a different view from all previous orders in India in the SEP space. It claims that none of the previous orders addressed unique aspects such as the role of attorney-client relationships and natural justice.

While that may be true, this decision also fails to address some key findings in previous orders, such as those in *Ericsson v Xiaomi* [5] which squarely recognized the dangers in sharing sensitive information with party employees, since it confers them with an irreversible and unfair advantage in a highly competitive market.

Departing from Indian cases for a moment, even the recent decision in the UK denies access by Xiaomi's and Oppo's in-house counsel to third party FRAND agreements. The Appeal Court upheld the High Court's decision [6], that at the initial stage, the filtering of what documents are relevant and what are of no or peripheral relevance can be performed by attorneys and external

experts only. The Court recognized the need to preserve third party confidential information from being placed in competitors' hands, and that such information once accessed, cannot be unlearned.

IX. Determination of FRAND compliance by the SEP owner, does not necessitate disclosure of third-party agreements

First, the decision seems to have entered troubled waters, while holding that Xiaomi needs to see third-party agreements *to determine whether InterDigital's such agreements are FRAND compliant.*

This approach and rationale is fundamentally incorrect because the sole objective of the dispute before the Court is to determine whether InterDigital's offer to Xiaomi was FRAND compliant.

Even if Xiaomi does have access to all third-party agreements, it has no right, locus or wherewithal to comment on the ideal terms that ought to have been executed by third parties.

Furthermore, if the scope of inquiry shifts to assessing whether executed third-party agreements are FRAND, would not each Defendant argue that they are not?

Second, scores of decisions across the world have now concluded that the "non-discriminatory" aspect of FRAND obligations does not require one to offer identical terms to each implementor. There is no, fixed, uniform or singular FRAND rate, but it depends on the unique situation of each implementor and its history with the SEP owner and its patents.

4. What is the impact to the industry and future cases?

Though it is too early to speculate, this decision has sent ripples across the SEP world and has given SEP owners much to think about. There is no denying that this decision is prejudicial to the position that nearly all SEP owners maintain on protecting the confidentiality of their agreements

For one, the recognition of India as being a strong jurisdiction to offer fair adjudication and protection to patent owners against unwilling licensees is likely to suffer a setback.

SEP suits may in India may dry up, if this decision becomes the benchmark of India's stand on confidentiality clubs. This will lead to lesser growth of jurisprudence overall and a recession in the tremendous growth that India had witnessed, in the participation of SEP owners and implementers alike.

This decision also prejudices the interests of implementers, which may very well be defending suits filed by other SEP owners. This is because an unrelated Defendant can gain access to another implementer's agreements and secure enough information on its strategies and business, to out-compete it.

SEP owners (*more particularly those situated in India or negotiating with Indian implementers*) will find it increasingly difficult to initiate discussions and execute FRAND agreements.

Implementers may refuse to negotiate, citing the risk of their discussions being declared to third party Defendants in litigation.

What is more worrisome is that implementers will use this as a tactic to delay executing a FRAND license. First, there will be demands during negotiations to be shown third party agreements.

Should one refuse, then instead of this refusal being one of the factors for deeming the entity an ‘unwilling licensee’, the blame will be reversed on the SEP owner instead. The SEP owner, knowing that it caught between the devil and the deep blue sea, may either have to risk breaching its confidentiality obligations to other licensees, or may choose not to litigate in India altogether, to preserve confidentiality.

Years of negotiations may go waste, especially since India is the only forum where the infringement of Indian patents can be litigated.

[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

[2] [2011] UKSC 34

[3] Suresh Koshy George vs The University Of Kerala, Supreme Court of India, 1969 AIR 198

[4] Annexure F, Delhi High Court (Original Side) Rules, 2018

[5] 2017 SCC OnLine Del 11069

[6] ONEPLUS TECHNOLOGY (SHENZHEN) CO (and others) ., v MITSUHIBHI ELECTRIC CORPORATION (and another), [2020] EWCA Civ 1562

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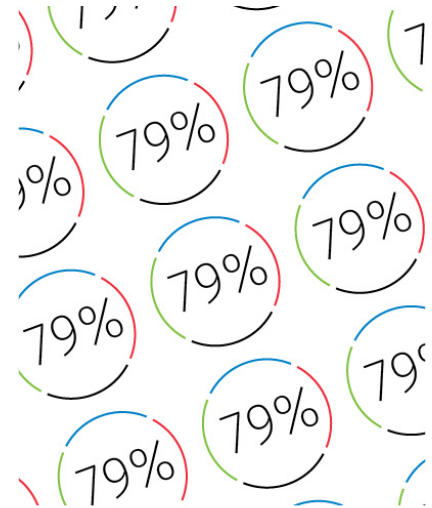
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This entry was posted on Friday, February 12th, 2021 at 5:55 pm and is filed under [Case Law](#), [FRAND](#), [India](#), [SEP](#)

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