

Licensing of Standard Essential Patents on *FRAND* Terms in India

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The standardized technology seems to increase efficiency and reduce costs associated with wide variety of product and services in the field of information and communication. The idea of standard-essential patents (SEPs) is now getting more attention in patent litigations in different economies due to requirement of its licensing on fair, reasonable and non-discriminatory (FRAND) terms. The telecommunications industry has recently seen a significant increase in costly patent litigations. This smartphone patent war needs amicable resolution amongst different stakeholder. The scope of the present paper includes examination of the concept of SEPs and comparison of the various modes of ensuring their availability on FRAND terms. The position of law in different jurisdictions is presented keeping in mind the interest of all stakeholders and the recent judicial trends in India. Authors have followed an evaluative method in which case law forms the basis of discussion. The paper argues that the existing legal framework in India on the grant of injunctions and the licensing of SEPs on strictly FRAND terms appears to be adequate, however, the recent trend of litigation seems conflicting as one party wishes to enforce FRAND term and opposite party is arguing that the terms are anti-competitive.

Keywords: Information and Communication Technology, Standardized Technologies, Standard-Essential Patents, Standard Setting Organizations, Anti-trust Law, Competition Law and FRAND Terms, Standards-Development Organization, Treaty on the Functioning of the European Union, FRAND Licensing

In knowledge-based economy, the way we create and access knowledge play crucial role. Consumer products in Information and Communication Technology (ICT) sector, manufactured by different companies incorporate specific technology standards, which plays important role where the need for interoperability is essential to promote innovation and competition.¹ Such standardized technologies enable gadgets to communicate with each other and frequently give rise to substantial consumer benefits.² It also ensures performances of devices with greater efficiency besides associated risks of being misused. These standards are important in many areas of economic life and generally increase efficiency and reduce costs associated with wide variety of product and services in the field of information and communication.³

Joaquín Almunia recognised that standards-setting plays a crucial role in promoting ‘interoperability’⁴ in relation to such information and communication technologies.⁵ Standard-Essential Patents (SEPs) protect such technological standards and what constitutes a SEP is normally determined by the

Standard Setting Organizations (SSOs) that develop the standard.¹ In order to balance bargaining power, SSOs across all jurisdictions obligate SEP holders to license their exclusive rights available in the name of patents on Fair Reasonable and Non-Discriminatory (FRAND) terms. SSOs can be governmental, quasi-governmental or private.⁶

It is difficult to manufacture standard compliant products, such as smart phones, tablets, dongles, etc. without using technologies covered by one or more SEPs.² It is a patent that claims an invention must be used to comply with standard.

Here, difficulty lies in the fact that each SSO has its own definition of a SEP, which broadly covers any patent under which a licence is necessary in order to implement the standard.¹

After adoption of SEPs by SSOs its implementation is necessary to comply with a standard, which needs significant costs to manufacture standard compliant products, these patents confer increased market power to their holders, as switching to alternative technologies may not be possible. The possibility by owners of SEPs to seek and obtain injunctions against infringers of their SEPs is generally limited due to concerns about potential hold-up by patent holders.⁷ The present

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debate about standards concerns the ability of holders of SEPs to enforce and protect their rights by seeking injunctive relief. Not being able to use SEPs results in incompatible products that are almost certain not to be interoperable with other products governed by the standard. SEPs are thus, particularly important in industries where interoperability is key and where all or nearly all devices implement SEPs, for instance in the telecommunications sector. In such situations, a balance is needed between maintaining free competition on the one hand and safeguarding exclusive rights of the patent holders on the other hand.⁸ Such, balance is now effectively maintained by the different courts in various jurisdiction to great extent.⁹

Although, telecommunication networks are growing in India rapidly, but Indian Patent Law does not contain any special provision for SEPs. On the other hand, concept of SEPs is now getting more attention in various patent litigations in India due to requirement of its licencing on FRAND terms. It is argued that Indian jurisprudence on fair, reasonable, and non-discriminatory (FRAND) terms and licensing practices for SEPs are at a nascent stage.¹⁰ Recently, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, prepared a discussion paper on SEPs and its availability on FRAND terms and invited comments from various stakeholders to develop a suitable policy framework to define the obligations of holders of essential patents and their licensees.¹¹ It appears that the move of the government is a result of recent litigations and trends, the decision of Delhi High Court and Competition Commission of India (CCI) may have prompted the government. The present paper explores the issue of injunctive relief and the role of the Indian Courts in setting FRAND royalty rates. The following part conceptualizes standard essential patents.

Conceptualizing Standard-Essential Patents

A patent covering technologies which are necessary to comply with the standards is called standard-essential patent (SEP).¹² According to Carl Shapiro, standard essential patent is a patent that claims an invention, which must be used to comply with a standard.¹³ Thus, standards make reference to technologies that are protected by grant of patents.¹⁴ In *Microsoft Corp. v Motorola Mobility, Inc.*¹⁵ Washington District Court defines SEP as a given patent essential to a standard if use of the standard

requires infringement of the patents, even if acceptable alternatives of that patent could have been written into the standard. A patent is also essential if the patent only reads onto an optional portion of the standard. Thus, it is impossible to manufacture standard-compliant products without using technologies covered by one or more SEPs. Patents and standards serve common objectives, in so far as they both encourage innovation as well as the diffusion of technology. Standards organizations, therefore, often require members to disclose and grant licenses to their patents and pending patent applications that cover a standard that the organization is developing. If a standard organization fails to get licenses for all patents that are essential to comply with a standard, owners of the unlicensed patents may demand or sue for royalties from companies that adopt the standard.¹⁶

International Organization for Standardization (ISO) defines a formal standard as a document, established by consensus that provides rules, guidelines or characteristics for activities or their results. A standard therefore, is generally a set of technical specifications that describes features of a product, process, service, interface or material. A standard may also describe how properties are measured, the composition of a chemical, the properties of an interface, or performance criteria against which a product or process can be measured.¹⁷ Owners of patents essential to using the standard-essential patents may opportunistically target non-licensed implementers with patent infringement suits and reinforce their royalty demands with injunctions that would expel the implementers' devices from the marketplace if they fail to comply.¹⁸

SEPs are different from patents that are not essential to a standard, such as design patents, which protect the design features of an invention. This is because companies can invent alternative solutions that do not infringe a non-SEP.¹⁹ The telecommunications industry has recently seen a significant increase in costly patent litigations which some commentators have called "Smartphone Patent Wars".²⁰ In the *Samsung*²¹ and *Motorola*²² cases, the Commission clarifies that in the standardization context, where the SEPs holders have committed to license their SEPs on FRAND terms, it is anti-competitive to seek to exclude competitors from the market by seeking injunctions on the basis of SEPs if the licensee is willing to take a license on FRAND terms. In these circumstances, the seeking of injunctions can

distort licensing negotiations and lead to unfair licensing terms, with a negative impact on consumer choice and prices.²

Standard Essential Patents and FRAND Terms

The precedent set by the two anti-trust decisions in the *Samsung*²¹ and *Motorola*²² cases provides a path to 'patent peace' in the telecommunications industry. These two cases bring legal certainty in all industries where standards and FRAND encumbered SEPs play vital role. Most of the policies adopted by SSOs provided a framework for the development and implementation of many ICT standards.² The large number of SEPs reflects the technological complexity of ICT standards, and also the companies' attempts to systematically file patents in order to license them or obtain freedom to operate through cross-licensing agreements. The growing number of SEPs reflects the need to continually improve and replace standards in order to keep up with the pace of technological improvements. The pattern has changed radically over the last decade with the entry of new actors and more vertical specialization on both sides of the market for SEPs licenses. The presence of more SEP holders and implementers resulted in large number of licensing contracts per standard. The variety of licensing practices has also increased, due in particular to discrepancies between the patent positions of companies and their respective weights in downstream markets.²³

These licensing practices includes bilateral licensing²⁴, and cross-licensing.²⁵ In recent years, patent-rich incumbent companies facing the loss of market share have also started seeking quicker monetization of their patents by selling part of their portfolios to third parties. These developments show that patents in general, and SEPs in particular, are now more clearly perceived as a direct and significant source of profit and/or competitive advantage. At the same time, the variety of licensing practices has made it more difficult to identify a consensual approach to fair, reasonable and non-discriminatory licensing (FRAND Licensing). Now, patent litigation has also significantly increased in highly competitive and fast-moving areas such as the smartphone ecosystem. Nevertheless, their involvement in litigation has drawn much attention, fueling controversy on the interpretation and effectiveness of FRAND commitments in the current industry context.²³

In these circumstances, the seeking of injunctions can distort licensing negotiations and lead to unfair

licensing terms, with a negative impact on consumer choice and prices. The ruling in *Unwired Planet v Huawei*²⁶ provides an interesting analysis on two aspects of the licensing of SEPs as: legal nature of FRAND commitments and their enforceability under contract law; and the scope of the defences available under competition law. These commitments are mere contractual obligations and not statutory rules. Therefore, non-compliance with FRAND commitments can be addressed, for instance, as a breach of contract, under contract law, or in case of dominant firms, as an abuse of dominance under anti-trust law.²⁷

Enforcement of FRAND Terms under Contract Law

The commitment made by holders of patents essential to a standard to license such patents on FRAND terms is now substantial. It is to be addressed as a question of economic theory: what limitations on the freedom of the parties negotiating a license to essential patents will best ensure efficient outcomes.²⁸ The dominant theory that several Courts in different jurisdictions have adopted to justify the enforcement of FRAND commitments is common law contract. Here, the patent holder makes a promise to a Standards-Development Organization (SDO) that it will license its essential patents to others on FRAND terms. The SDO accepts this promise as consideration for permitting the patent holder to participate in the relevant standardization effort. Hence, the common law elements of offer, acceptance and consideration are present.²⁹ When a relevant standard is adopted and a vendor incorporates it into a product, the vendor can insist that the patent holder grant it a patent license on FRAND terms. Even if the vendor was not a member of the SDO, it can seek to enforce the patent holder's promise as a third-party beneficiary.³⁰

However, common law contract is a poor fit for the enforcement of most FRAND commitments and relying too heavily on it is likely to have unwelcome results. It fails as a general-purpose FRAND enforcement theory on several grounds.²⁹ As a result, except perhaps in a few cases in which standards are developed by small groups of firms that have actual contractual arrangements amongst themselves, common law contract is a poor choice as a general enforcement mechanism for FRAND commitments. International Trade Commission has come to the same conclusion in case against inter digital expressly ruling that the FRAND policy adopted by the European telecom SDO ETSI "is not a contract", and merely "contains rules to guide the parties in their

interactions with the organization, other members and third parties.”³¹ It is argued that common law contract is useful, at most, in a small subset of these cases.²⁹

Legislative measures to address issues related to SEPs have also been discussed and explored during Thirteenth Session by the WIPO Standing Committee on the Law of Patents.³² The legislative measures are also required in absence of any strong enforceability within India for contractual violation by members of SSOs with respect to agreement of the members with the SSOs.³³ Requirement of legislative measures has also been felt in cases which show uneven negotiating power of IP owner and potential licensor-especially in case of SEPs, where mutual contracts-especially with unreasonable terms of Non-Disclosure Agreement (NDA) may not be right tool for executing the licensing agreement. The advantages of these solutions are that they are universal, and also apply to non-participants in the standard-setting process.³³

Enforcement of FRAND Terms under Competition Law

Besides common law contract, there are other theories for enforcing FRAND commitments. These include various anti-trust and competition law approaches, which have been advanced in different patent litigations so far. Standard setting is generally achieved by means of an agreement between undertakings, often competing in the same market.² Once a standard has been agreed and industry players have invested heavily in standard-compliant products, the market is *de facto* locked into both the standard and the relevant SEPs. It gives companies the potential to behave in anti-competitive way after adoption of the standard by excluding competitors from the market, extracting excessive royalty fee, setting cross-licence terms which the licensee would not otherwise agree to, or forcing the licensee to give up their invalidity or non-infringement claims against SEPs.² To alleviate these competition concerns and to ensure that the benefits of standardization are promulgated, companies owning patents that are essential to implement a standard are required by many SSOs to commit to licensing their SEPs on FRAND terms. FRAND commitments are designed to ensure that the technology incorporated in a standard is accessible to the manufacturers of standard-compliant products, and reward SEPs holders financially.²

Following the grant of an injunction based on SEP by the Courts of the Federal Republic of Germany,

Motorola enforced the injunction in the German market in 2012. The enforcement led to a temporary ban on Apple’s online sales of iPhones and iPads to consumers in Germany. In addition, following the enforcement of the injunction, Apple was forced to enter into an onerous Settlement Agreement with Motorola whereby Apple had to give up its invalidity and non-infringement claims. This, in practical terms, may have forced Apple to pay for invalid and non-infringed patents. Moreover, it is in the public interest that potentially invalid and non-infringed patents can be challenged in Court and that companies, and ultimately consumers, are not obliged to pay for patents that are not infringed.² The European Commission (EC) outlined, that seeking injunctive relief before Courts is generally a legitimate remedy for holders of SEPs in case of patent infringements. However, depending on the particular circumstances in which the injunction is used, such use of an injunction based on an SEP may constitute an abuse of a dominant market position prohibited by Article 102³⁴ of Treaty on the Functioning of the European Union (TFEU).³⁵

Further, in January 2012, the EC commenced a formal investigation of Samsung to know whether the company violated Article 102 of TFEU. The investigation was based on allegations that Samsung had sought injunctions against a willing licensee, Apple, before the German, Italian, Dutch, UK, and French Courts, aimed at banning certain Apple products from the market on the basis of several Samsung 3G SEPs, which it had committed to license on FRAND terms. In December 2012, the EC issued its objection informing Samsung that its conduct amounted to an abuse of a dominant position, stating that when a potential licensee has shown itself to be willing to negotiate on FRAND terms, then recourse to an injunction harms competition by distorting licensing negotiations unduly in the SEP holder’s favour.³⁶

The EC’s Samsung and Motorola decisions have established that SEP holders will be liable for violating Article 102 for abusing their market power through hold-up by seeking injunctions against willing licensees. While the EC recognizes reverse hold-up concerns, it has concluded that such concerns do not arise when a potential licensee has explicitly agreed to enter into and be bound by a License Agreement at a FRAND royalty rate set by a Court or mutually agreed upon arbitrator. While the EC offered

examples of situations in which a SEP holder may appropriately seek and enforce injunctions on FRAND encumbered SEPs, the list of examples was non-exhaustive and thus leaves open the possibility of additional permissible situations.³⁶

FRAND Terms under Common Law Jurisdiction

In Europe, the third generation (3G) mobile and wireless telecommunications standards were adopted in 1998. Samsung, among other many patent holders, committed irrevocably to the European Telecommunications Standards Institute (ETSI) to ensure access to its standardised technology by licensing standard-essential patents on FRAND unless there is an objective justification for not doing so. However, in 2011 Samsung sought injunctions in a number of Member States against competing mobile device makers alleging that they had infringed certain of its patent rights which it had identified as being essential to implement European mobile telephony standards. The question before Commission was whether Samsung has abused its dominant position and breached its commitment to the ETSI to license standard-essential patents of its Universal Mobile Telecommunication Service (UMTS) on FRAND terms by seeking injunctions against competing mobile device makers in a number of Member States.³⁷

Joaquín Almunia recognised that standards-setting plays a crucial role in promoting interoperability, interconnection and seamless communication in relation to communication technologies. The author recognised the pro-competitive benefits of standardisation agreements which encourage the development of new and improved products or markets; improve the conditions of supply; maintain and enhance quality; and ensure interoperability and compatibility. As a result, they increase competition and reduce output and sales costs.³⁸ Standardisation agreements can however be anti-competitive where they create 'market power'³⁹. They may also lead to the restriction of price competition, the limitation or control of production, markets, innovation or technical development. This can occur where there is a reduction in price competition, foreclosure of innovative technologies and exclusion of, or discrimination against, certain companies by prevention of effective access to the standard.³⁷ The Commission's Horizontal Guidelines⁴⁰ identify the following practices to ensure that the agreements fall outside the scope of the competition rules:

- a) Participation in standard-setting must be unrestricted;
- b) Need of transparent procedures for adopting the particular standard;
- c) There must not be any obligation to comply with the standard; and
- d) Access to the standard should be on fair reasonable and non-discriminatory terms.

Joaquín Almunia further writes that once a company's patents are incorporated into essential standards, the Commission is clear that the patent holder should not be allowed to exploit this increased market power either by charging excessive royalties for use of those patents; or by foreclosing competitors from access to the essential standard patents through other means. To this end, companies must give effective access to their essential patents on FRAND terms.⁴¹

The industry is keen to see whether the Commission will use the Samsung investigation as an opportunity to explain its interpretation of what is fair, reasonable and non-discriminatory. In addition, compliance by SSOs with the Article 101⁴² of TFEU does not require them to verify whether the licensing terms of participants fulfil the FRAND commitment.⁴³ In order to ensure the transparent and consistent licensing of patents on FRAND terms, Apple suggested the framework should be based on three elements: appropriate royalty rate, common royalty base and no injunction.⁴⁴ Apple also suggested that a patent holder should apply its appropriate rate to a common royalty base which should be no higher than the industry average sales price for a basic communications device that is capable of both voice and data communication.

In *Huawei Technologies Co. Ltd. v ZTE Corp. and ZTE Deutschland GmbH*⁴⁵ the issue was whether *Huawei* had abused its dominance by requesting that *ZTE* stop using its patent. While it is legitimate for a patent holder to seek an injunction against the unlicensed use of its patents, the situation is different when SEPs are at stake. The reasons for this lie in the essential nature of SEPs and the way they are granted. It was concerned with European patent that is essential for the long-term evolution standard, a standard for wireless high-speed data communication for mobile phones and data terminals. ETSI had awarded *Huawei* SEP status for its patent in return for *Huawei*'s promise to grant licences on FRAND terms. *ZTE*, a manufacturer of base stations that comply with the long-term evolution standard, used the SEP without

paying royalties to Huawei. The two companies attempted to negotiate a licensing agreement on FRAND terms but were unsuccessful. In 2013, Huawei brought an injunctive action against ZTE for its continued use of the patent before the Düsseldorf Regional Court in Germany. ZTE argued that because it was ready and willing to negotiate, asking for injunctive relief constituted an abuse of dominance by Huawei in violation of Article 102⁴⁶ of TFEU. The Regional Court found that the German Federal Court of Justice and the European Commission appeared to have taken inconsistent approaches in determining at what point the holder of an SEP violates Article 102 by bringing an action for a prohibitory injunction.

The Federal Supreme Court's decision in *In re Orange Book Standard*⁴⁷ placed significant obligations on an alleged infringer, while the SEP holder could immediately file an action for a prohibitory injunction. It was up to the alleged infringer to make an unconditional offer to conclude a licensing agreement pursuant to FRAND terms.⁴⁷ The European Commission, on the other hand, in the *Samsung*²¹ and *Motorola*²² cases, effectively established the principle that the holder of an SEP has no right to obtain an injunction under Article 102, if the alleged infringer has shown itself to be a willing licensee.⁴⁸ On 5 April 2013, the Düsseldorf Regional Court stayed the proceedings and asked the ECJ to clarify under what circumstances the holder of an SEP who is seeking an injunction against an entity that uses this SEP abuses its dominant position in violation of such Article. The ECJ emphasised the fact that SEP status is awarded only in exchange for the patent holder's irrevocable promise to grant licences on FRAND terms.

This creates a legitimate expectation for third parties that such licences will in fact be granted, and it means that a refusal to do so may constitute an abuse of dominance within the meaning of such Article. The ECJ further found that the owner of an SEP is more likely than the alleged infringer to be aware of its SEP being used for a specific standard, and better positioned to draft the terms of a FRAND compliant licensing agreement. The ECJ thus held that a dominant SEP holder who promised to license on FRAND terms and seeks injunctive relief or the recall of products abuses its dominant market position if it fails to approach the alleged infringer in order to reach a licensing agreement.⁴⁹ The ECJ stipulated obligations of the alleged infringer as in order to avoid an injunction, the alleged infringer does not need to accept the SEP

holder's licensing offer. It must, however, respond diligently to that offer, which is specified as in accordance with recognized commercial practices in the field and in good faith, and in particular without delaying tactics; if it rejects the offer, promptly make a written and specific counter-offer based on FRAND terms; and if the proprietor rejects the counter-offer and the alleged infringer still uses the SEP, provide adequate security in accordance with recognized commercial practices in the field. The parties to the dispute may also agree to ask an independent third party to determine the amount of the royalty for them. Finally, the ECJ pointed out that an alleged infringer does not violate any of its obligations towards the SEP holder if it challenges the validity and/or essential nature of these patents during the licensing negotiations.⁴⁹

The above ruling provides important guidelines for the assessment of the duties of SEP holders and alleged infringers of their patents. This lets patent holders apply for injunctive relief without having to defend the validity of their patents at the same time. The ECJ has now stated that it is up to the SEP holder, not the alleged infringer, to alert the other party and to make the first offer. The consequences of this decision for future patent litigators may thus be significant.

Status of FRAND Jurisprudence for SEPs in India

J. Gregory Sidak argues that although India has the world's second-largest telecommunications network, Indian jurisprudence on fair, reasonable, and non-discriminatory (FRAND) terms for licensing standard-essential patents (SEPs) is at a nascent stage.⁵⁰ However, on the other hand in *Telefonaktiebolaget LM Ericsson v Mercury Elecs. & Another*⁵¹ the Delhi High Court passed interim orders in two patent-infringement cases concerning FRAND licensing and the Competition Commission of India (CCI) is simultaneously addressed complaints filed in India concerning FRAND licensing.⁵² Although the CCI has passed orders addressing both complaints, it has not reached a final decision in any case.⁵⁰ The interim order passed by the High Court of Delhi is now considered as evolving of FRAND Jurisprudence in the country. The following part of the paper focuses on proceedings before these two authorities.

Brief of the Proceedings before the Competition Commission of India

In *Micromax Informatics Ltd. v Telefonaktiebolaget LM Ericsson*,⁵³ Micromax

Informatics Limited filed a complaint before CCI and alleged that Ericsson abused its allegedly dominant position by imposing exorbitant royalties for the use of its SEPs. It further argued that using the sales price of the downstream product, as the royalty base constitutes misuse of SEPs that would ultimately harm consumers. The CCI in its preliminary order stated that, in the relevant product market, Ericsson was in a dominant position in the market for devices that implement such standards. The commission observed that patent hold-up undermines the competitive process of choosing among technologies and thus threatens the integrity of Standard Setting activities. It also said that Ericsson's royalty rates were excessive and discriminatory, given that they were set as a percentage of the price of downstream products instead of as a percentage of the price of the GSM or CDMA chip. The Commission concluded that the requested royalties had no linkage to the patented product and were thus discriminatory as well as contrary to FRAND terms. Ericsson challenged the order of the Commission in High Court of Delhi.⁵⁴

In *Intex Techs. (India) Ltd. v Telefonaktiebolaget LM Ericsson*⁵⁵ the commission held that a refusal to share the commercial terms of the FRAND license may lead to discriminatory commercial terms. It also said that charging different licensing fees for the use of the same technology from different users is against FRAND terms and imposing a jurisdiction clause of the agreement that prevented *Intex Tech. (India) Ltd.* from adjudicating its disputes in a country where both parties were in business also provided *prima facie* evidence of an abuse of a dominant position. The commission was of opinion that Ericsson had abused its dominant position ordered that the Director General to combine the investigation with the claims that *Micromax and Intex* had brought against Ericsson.

The Commission has brought two public investigations involving SEPs, both against Ericsson and both based upon allegations that the company violated its FRAND commitments by imposing discriminatory and excessive royalty rates and using Non-disclosure agreements (NDAs). According to the Commission, forcing a party to execute NDA and imposing excessive and unfair royalty rates is *prima facie* abuse of dominance as imposing a jurisdiction clause debarring complainant from getting disputes adjudicated in the country where both parties were in business. In both matters, the Commission

stated that *prima facie* the relevant product market is the provision of SEP for 2G, 3G and 4G technologies in GSM standard compliant mobile communication devices, in India, in which *prima facie* it is apparent that Ericsson was dominant.⁵⁶

In the case of *Best IT World (India) Private Ltd. v Telefonaktiebolaget LM Ericsson*⁵⁷ Best IT World (India) Private Ltd executed a Patent Licensing Agreement and Non-Disclosure Agreement (NDA) to license the use of Ericsson's patents in GSM and WCDMA compliant product. iBall alleged that Ericsson's conduct violates Section 4 of the Competition Act, 2002.⁵⁸ Similar to its orders in Micromax and Intex, the Commission observed that, because there is no alternate technology available for Ericsson's patents in the 2G, 3G, and 4G standards, Ericsson enjoys a complete dominance over its present and prospective licensees in the relevant market. The practice of forcing a party to execute NDA and imposing excessive and unfair royalty rates, *prima facie*, amount to abuse of dominance in violation of Section 4 of the Act.⁵⁹ Ericsson filed an appeal against the order of the Commission the High Court of Delhi.

Brief of the Proceeding before the High Court of Delhi

The High Court of Delhi has now dealt with issues pertaining to SEPs and their availability on FRAND terms in cases filed by Telefonaktiebolaget LM Ericsson against Micromax and other companies alleging infringement of its patents that were essential to the 2G and 3G standards.⁶⁰ The Court in these cases relied on the comparable licenses to determine a FRAND royalty. The Court used the net sales price of the downstream device as a royalty base in calculating amount of royalty. The Delhi High Court decision to use the value of the downstream product as a royalty base and rely on comparable licenses to determine a FRAND royalty was consistent with sound economic principles, and also indicated that the Court was responding to the judicial and industry trends in the rest of the world.⁶¹ In addition to the patent infringement suits, Ericsson also filed appeal against various orders passed by the Competition commission of India wherein it directed investigation by Director General. The High Court of Delhi has granted stay on all such orders passed by the Commission in different cases.⁶¹

In *Telefonaktiebolaget LM Ericsson v Xiaomi Technology & Others*,⁶² the temporary injunction

granted against Xiaomi in December 2014 for patent infringement and for refusing to enter into a licensing agreement with Ericsson was lifted by the Delhi High Court for two 3G standard essential patents on the ground of concealment of information by Ericsson.

Qualcomm Inc and Ericsson AG signed a global patent licensing agreement that allowed Qualcomm to utilize the patented technology in producing chipsets, which were sold to several device manufacturers around the world, including Xiaomi. Since its entry into the Indian market in July 2014, Xiaomi has sold cell phones incorporating Ericsson's patented technology. Before launching its phones in India, Xiaomi was asked by Ericsson to obtain the necessary licences to use Ericsson's patented technology. However, it opted instead to purchase a licence to use Ericsson's patents directly from Qualcomm. The SEP holder filed a patent infringement action against Xiaomi before the Delhi High Court, alleging that it had started using Ericsson's patented technology without a licence, ignoring Ericsson's offer to license the suit patents on FRAND terms. Ericsson reported that it had asked Xiaomi to obtain a patent licence to distribute products in India well before the company entered the Indian cell phone market but failed to report to the trial judge that Xiaomi was already paying royalties for licensing the same patents from Qualcomm.

Further, Ericsson stated that, even though Xiaomi was aware of Ericsson's portfolio of SEPs and Ericsson's willingness to offer a licence, it had refused to acknowledge their position until the Court issued an *ex parte* interim order restraining Xiaomi from a range of actions, including 'manufacturing, assembling, importing, selling, offering for sale or advertising, including their and third party, websites, products that used Ericsson's patented technology. It was observed by the Court that Courts in India are empowered to grant injunctions and stop importation or distribution of infringing products that contain patented technologies, unless accompanied by the required permission. Xiaomi filed an appeal against the injunction on the ground of concealment of material facts by Ericsson. It alleged that Ericsson had not informed the judge who issued the *ex parte* order of the fact that Xiaomi had rightfully purchased a licence from Qualcomm and, therefore, was not infringing Ericsson's patents. In order to strike 'a balance between the right of the appellants', the interim order allowed Xiaomi to distribute its

products, provided the company deposits to the Court amount equivalent to three months' sales; provide information about the presence of chipsets purchased from Qualcomm that incorporated Ericsson's patents; report all invoices to the Court; and added a further deposit according to sales for the month of January in 2015. As per the guidelines set by the Court, Xiaomi was able to continue to sell the allegedly infringing products in India, pending final resolution.

The final order was delivered in favour of Xiaomi on the grounds of concealment. The order was applicable only to the chipsets that were licensed by Xiaomi from Qualcomm, which concerned only two of the original eight suit patents. The Court found that Ericsson had deliberately and materially concealed the evidence of a licensing agreement with Qualcomm. The Court observed that, the party seeking an *ex parte* order has a heightened duty to disclose all the material information relevant for the purpose of the injunction sought, a duty that Ericsson had failed to perform. The use of chipsets from Qualcomm was held as an authorized use of the patents, since Qualcomm was paying royalties to Ericsson. The Court ruled that Ericsson had deliberately concealed the licensing agreement, to the point that they had acted *mala fide* and approached this Court with unclean hands.

This ruling is important for the establishment, enforcement and maintenance of patent rights in India. Amidst the on-going litigations concerning telecom SEPs, it throws light on the conduct of both licensor and licensee in the context of a patent licensing agreement. The decision is a welcome change in light of other similar cases where courts appeared to have considered the issuing of an injunction as the norm, rather than an exception. Further, it draws attention on the need to carry out a thorough assessment of the conduct of the parties on a case-by-case basis. This decision will go a long way towards ensuring that the conduct of the licensing parties is investigated and adequately dealt with for the benefit of SEP holders, technology implementers/manufacturers, and end users.⁶³

Conclusion

The dream of Digital India may only be fulfilled if Indian Government adopts a policy which promotes appropriate use of technology. The problem of compatibility of technologies will always be a difficult issue and the governmental policy needs to deal with such issues in an effective manner. There is

fair amount of controversy over commitments that patent holder licenses its SEPs on terms that are FRAND. Adoption of certain technologies as standard is often beneficial for both the patent holder and the market. The precedent set by antitrust decisions provides a path to patent peace in the telecommunications industry.² In India, the recent trend of litigation seems conflicting as one party wishes to enforce FRAND term and opposite party is arguing that the terms are anti-competitive. The existing legal framework in India, including the rules presiding the grant of injunctions and the licensing of SEPs on strictly FRAND terms, appears to be adequate to protect the interest of all stakeholders. In relation to the view that changes to FRAND licensing is required to respond to future problems, market suggests caution prior to disrupting the carefully balanced FRAND ecosystem.⁵⁶ The Discussion Paper states that FRAND commitments ensure that the holder of SEPs should not abuse the dominant market position. However, experience has shown that FRAND standards are sometimes ineffectual in preventing hold-ups because they are intentionally vague and create anti-competitive results by concealing from the standard-setting process the actual cost of incorporating a patented feature into a standard.⁶⁴ In such a situation, India needs to adopt such a policy which suits the interest of all the stakeholders.

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