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THE EMERGENCE OF STANDARD ESSENTIAL PATENTS IN THE CONUMDRUM OF INTELLECTUAL PROPERTY DISPUTES

KEYWORDS

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ABSTRACT *An economy devoid of monopolistic market tendencies in an effort to pave way to start up companies and ultimately, serve the consumers was the motto of a liberalized economy. With the advancement in the arena of intellectual property, the rights of the owners were the need of the hour. Any violation of such rights was reprimanded. In this regard, the concept of 'Standard essential Patents' was adopted. This paper seeks to inform the readers about the concept of Standard Essential Patents and its relevance and its connections with the growing intellectual property market, establishing a symbiotic relationship with the FRAND terms and the antitrust policies to capitalize original and innovative products. The paper also cites a variety of cases which portray both sides of the same coin, successful adoption and where its essence was misunderstood.*

1. INTRODUCTION

Every single day, there are a number of films and albums being released, companies being established and reconciled with logos and taglines, medicines being invented to cure every other new curable disease cropping up in the world, and the like. Some are unique and different, while the others are merely excuses as identities for their products. Moreover, there are others who use the identifications marks or words of another and call them their own. With the snowballing count of such inventions and establishments and the markets paving way for them to indulge in commerce, it becomes an incessant need to protect them from infringement or unlawful interference in their peaceful running of their expertise. In order to meet such pivotal demands of such owners, the idea of intellectual property rights was adopted. It sought to protect the intellectual property of all the owners from third parties and allowed its use by such third parties only with the consent of the owners and law.

After the introduction of TRIPS and the subsequent amendments in the Patent Act, 1970, the Trademark Act, 1999 and the enactments of the Designs Act, 2000 and the Geographical Indications of Good (Registration and Protection) Act, 1999 in India, the stance of intellectual property law changed drastically. It has moved from purely protecting the rights of the intellectual property holders to finding a balance between meeting the requirements intellectual property protection calls as well as genuflect public interest. On the other hand, Antitrust laws guarantee that the process of buying and selling of products, services and technologies in a competitive market.

The intersection of Intellectual Property Rights and Antitrust Laws is attained when achieving a standard becomes a prerequisite for a patented product. It is here when the silhouette of Standard Essential Patent (SEP) figures. The main notion is to reconcile the interaction between patents that are primarily 'private' and 'exclusive' as against the standards that are meant to be 'public' and 'non-exclusive'[1].

2. STANDARDS

With respect to every part of our day-to-day life, it is common that we inevitably come across certain standards that sculpt our activities. Similarly, when a company entails in the production business, they are obliged to conform to standards that aid them in furthering their products and ensuring an irreplaceable position in the market. Conforming to standards ensure reliability, quality, security while consuming the products, thereby increasing its demand. Hence, standards are technical specifications that seek to provide a common design for a product or process[2]. Simply put, a standard is a document that states the essentialities for a particular product, component, service or system, or elaborately describes a certain method. The components suitable for standardization is vast and includes engineering technologies, health, safety and environment, transport, distribution of goods, construction, agriculture and foods, and added to these are technical characteristics such as physical characteristics, functional characteristics, steps, protocols and rules, and quality management and environment management systems[3]. The WTO Agreement on Technical Barriers to Trade has defined standards and shown the difference between those enforced by law and are mandatory and those that are up to one's discretion.

2.1. TECHNICAL REGULATION

Document that lays down product characteristics or their related processes and production methods, including the applicable administrative provisions with which compliance is mandatory are called technical regulations. It may also include or deal exclusively with terminology, symbols, packaging, marking or labeling requirements as they apply to a product, process or production method[4].

2.2. STANDARD

Standard is a document approved by a recognized body, that provides, for common and repeated use, rules, guidelines or characteristics for products or related processes and production methods, with which compliance is not mandatory. It may also include or deal exclusively with terminology, symbols, packaging, marking or labeling requirements as they apply to a product, process or production method[5].

The technical standards confirm that the competing entities in the market provide for the best products to the consumers and stick to the standards required to abide by. Thus, the standards help in reducing transaction costs along the supply chain to consumers, and facilitates commerce and trade in goods and services[6].

2.3. TYPES OF STANDARDS

Broadly speaking, there are two sets of technical standards adopted. They are de facto standards and de jure standards. De facto standards are established when a particular technology is widely implemented in the market and accepted by the market players so that it becomes a dominant technology, in spite of it not being adopted by a formal Standard Setting body. De jure standards, on the other hand, are set by the Standard Setting Organization (SSO), which are governmental, quasi-governmental or private, such as the European Telecommunications Standards institute (ETSI), the International Telecommunication Union (ITU), Institute of Electrical and Electronics Engineers (IEEE), so on and so forth[7].In India, it is the Bureau of Indian Standards (BIS) that is the national SSO. This proves that standards need not be fathomed only at the regional scale, but also at the national scale or even a worldwide scale. Standards are set up to inculcate the participation of various shareholders in the standard setting process. It is up to the interests of the shareholders that the particular standards are incorporated and their products are made to comply with these standards.

3. STANDARD ESSENTIAL PATENTS

The institution of the concept of Standard Essential Patents (SEPs) took place when the dispute between various smartphone giants erupted. SEPs are basically patents for implementing a certain industry standard. It is a patent that proclaims that a particular invention abides by a particular standard. Such a patent, which protects the invention complying with the standard, is called as a Standard Essential Patent (SEP). In such situations, added to the fact that the patent holders have exclusionary rights over their inventions, is that they are awarded more benefits by their inventions being essential to the standards. Since most of the market players would want to sell standard compliant products to secure a place in the demand market, they will have to license SEPs, thereby giving the SEP holders a competitive edge. SEP was also defined by the Washington District Court in *Microsoft Corp. v Motorola Mobility, Inc*[8].,as "A given patent is essential to a standard if use of the standard required infringement of the patent, even if acceptable alternatives of that patent could have been written into the standard". Even if the patent is implied for an optional portion of the standard, the patent is still essential. Therefore, it becomes impossible to manufacture standard-compliant products without using technologies covered by one or more SEPs[9]. Once a patent is declared as an SEP, it does not face any competition from any of the other patents until such patent becomes obsolete.

4. SEP IN COMPLIANCE WITH FRAND TERMS

It can be deducted from the abovementioned that a device needs to be in agreement with the standards set by the Standard Setting Body in order to bear a mark indicating to the public that it is compliant with the set standards. For this purpose, it is required for the device to use the patent essential for it to be standard compliant. Thus, the use of such patents requires the owner of the patent to license the same.

It is for this reason that the SSOs oblige the owners of essential patents to enter into a promise that they would render such binding patents to the companies in need of them to meet the standards. To avoid any unwanted competition strategies and misuse of the power proclaimed on them, it is mandatory to accept the terms stated under Fair, Reasonable and Non-Discriminatory (FRAND). Hence, this patent right is not absolute as the other patent rights given to the companies[10]. The idea behind conforming to the requirements under FRAND is to ensure that the holders of essential patents do not abuse the dominant position given to them in the market by the widespread adoption of a voluntary technical standard[11]. Following the licensing strategies stated under the FRAND terms forms the basis of the standard development process[12].

5. SEPs WITH REGARD TO COMPETITION LAWS

It is regarded with much respect that Antitrust laws and competition laws do not intervene in the matters of Intellectual Property Rights (IPR). Once an invention has the backing of a patent to its name, the antitrust laws do not have an impact over it. However, considering the standard setting, it does include the repercussions suggested by the competition laws in the managing of the competitors in the market. They are required to meet certain specifications and reach a consensus with respect to these laws before they release their products into the markets. Standard essential patents have a similar dealing with competition laws. Patents that are vital to be included in the market for the standard to be adopted by the products of the companies are under strict supervision to avoid any malpractices taken up by such dominant authorities. To meet this objective, as aforesaid, they must meet the terms of FRAND to elude exploiting the market by demanding exorbitant royalty rates, for instance.

6. CROSS LICENSING AND PATENT POOLING

6.1. CROSS LICENSING

Cross licensing of patents is defined as the shared licensing of the patents as a mutual benefit for the patent holders to use the patents. It essentially means 'You scratch my back and I'll scratch yours'. Such patent holders are likely to avoid any litigation costs that may arise as they do not sue or be sued by the counter patent holders in view of the business entered into.

An example for elucidating cross licensing was given by Gregory Sidak[13]. It provides an analogy of a man replacing his old car for a new one. 'A driver wants to replace her old BMW 328i with a new Toyota Camry. At the dealership, she decides to accept the dealer's offer to trade in her used car and receive a credit toward the price of the Camry. The dealer and the driver are each, in effect, simultaneously buying and selling in this transaction. The dealer offers to buy the used BMW at a price equal to the trade-in allowance. The better the condition of the used BMW, the higher the credit the dealer will grant the driver towards the net price—that is, the total amount of cash exchanged for the new Camry'[14].

6.2. PATENT POOL

Patent pools are formed by basically culminating all the patents of the patent holders willing to advance their patents and ultimately offering them to third parties or to the patent holders. The licensing fees obtained by the pool in licensing such patents are then allocated to the patent holders in proportion to the value of the patents pooled by them.

7. WIPO AND SEPs

The WIPO study report discusses the similarity of the motives between the patents and the standards. It describes the importance of encouragement and motivation the patent system needs to show towards the companies in order to meet the objective of innovation and diffusion of technology. It also states that for the purpose of preventing any discrepancies that may take place between the patent and the standard systems, the Standard Setting Organization have been set up, the methods of reaching pragmatic solutions, and possibility of applying legislative measures relating to competition law[15]. Another strategy for settling disputes is by the WIPO Arbitration and Mediation Center through its process of Alternate Dispute Resolution (ADR). Furthermore, the report expresses the SSO's adoption and the necessary compliance to licensing terms like Reasonable and Non-discriminatory terms (RAND) and Fair, reasonable and non-discriminatory terms (FRAND), royalty-free terms and the need for a transparency, clarity and certainty of patent policies.

8. EX-PARTE INJUNCTIONS[16]

It is an incessant and controversial topic of discussion handled by everyone including those not in the Intellectual Property field. It has always been a matter of concern as to the alacrity of the Courts in deciding matters involving a standard and granting an injunction, without the other party present to defend. The main objective behind adopting such patents is to encourage the people to partake in the use of such patent. It is obvious that these particular kinds of patents are unlike the usual patents adopted in an ordinary circumstance. An important point to take note of is that an injunction cannot be treated as a private right since it is directed towards meeting the criteria of public good. Concerning injunction for pecuniary matters such as royalties, while there lies an utter disregard to the system of establishing the standard patenting in the first place, deciding an expedited trial boosts the reliance of the people in the system.

9.COMPARATIVE STUDY OF THE SEPs IN VARIOUS COUNTRIES

SEPs have digressed from being purely suited to the requirements in one country to spreading the jurisdictional legacy to other countries as well. Over the years, the need to achieve a method that encompasses the laws pertaining to ordering an

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injunction had rocketed and was brought to the attention of the lawmakers. Soon enough, the idea behind SEPs was expanded to many countries, some of which are mentioned below-

9.1. UNITED STATES OF AMERICA

It is common knowledge that Patent law is governed by the Federal District Court in the country. Any cases of infringement would call for the Federal Court to intervene and pass an order for an injunction of the same. Consequently, it determines the fine line between a violation of patent law or an infringement and an innocent replica of the product not amounting to a violation. This is where the US Department of Justice Antitrust Division (DOJ) and the Federal Trade Commission (FTC) come into picture and ensure the fulfillment of the same, keeping in balance the rights and duties provided to and by the SEP holders. On the 8th of January 2013, the DOJ and the USPTO issued a policy statement on remedies for SEPs subject to voluntary FRAND commitments[17]. It marked the incorporation of solutions to flagrant issuance of biased relief on the patent holders, inconsistent order of exclusion or injunctive relief, violation of the FRAND terms, and the like.

To name few of the most important cases, which were decided by the US courts, *Microsoft Corp. v Motorola Inc., Apple Inc. v Motorola Inc*[18]*. and Motorola Mobility, Inc*[19]., and *eBay Inc. v Merc Exchange, L.L.C*[20] are the ones obligatorily to be mentioned. Some of the cases are elaborated below:

eBay Inc. v Merc Exchange, L.L.C

FACTS OF THE CASE

eBay is an Internet website that caters to providing a medium to private sellers wanting to sell their products either through auction or at a fixed price. Half.com, another petitioner in the case filed, carries on a similar business as eBay. Merc Exchange is a patent owner of quite a number of patents, along with a business method patent for an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants[21]. Merc Exchange decided to license its patent to eBay and Half.com but they were unable to meet the agreement. In response, Merc Exchange filed a patent infringement case against the said parties in the United States District Court for the Eastern District of Virginia.

DECISIONS LAID DOWN

It was laid down by the Court that the patent of Merc Exchange was valid and thus, eBay and Half.com had infringed the said patent. However, the District Court denied the motion brought by Merc Exchange for permanent injunctive relief by applying its well-established rules of equity. a four-factor test was applied in the case to determine whether the plaintiff seeking permanent injunctive relief should be granted or not. This test is applied only in the case of disputes under the Patent Act. This test relies on the following points-

a. Whether an irreparable injury is caused
b. Whether the remedies available at law, being monetary damages, are inadequate to compensate the injury caused
c. Whether by weighing the struggles faced by the plaintiff and the defendant, a remedy in equity is required
d. Whether public interest is negated by a permanent injunction.

In order to accept a plea for grant of injunctive relief, it is upto the discretion of the District Court. A judgment made on the basis of such discretion can be appealed against. As per the Court of Appeals, it states that 'the right to exclude others from making, using, offering for sale, or selling the invention can be justified only in terms of permanent injunctive relief. However, such a formulation of the right is distinctive from the provisions given to enable remedies in the case of violation of such right.

INFERENCES DRAWN

It was deduced that there was no fair application of the traditional equitable principles in deciding the case between eBay and Merc Exchange by neither the District Court nor the Court of Appeals. Inspite of the supposed incorporation of the four-factor test in arriving at a decision, the District Court acted irresponsibly in broadening the horizon of what injunctive relief could essentially rely on. It came to a supposition that since there was a willingness on the plaintiff's side to license the patents and due to the lack of commerce in his business to carry on the functioning of the patents in the market, it concluded that there did not lie a possibility of causing irreparable damage to the plaintiff in the case of not granting the injunctive relief. This seemingly broad and vague classification to determine the eligibility of granting injunction does not come with the permission given by the traditional equitable principles. In a situation where some inventors prefer to license their patents in order to aid them financially instead of securing a position for themselves in the trade market does not disqualify them to be given an opportunity to be permitted an injunction. While they meet all the requirements mentioned under the four-factor test and comply with the traditional equitable principles that is embedded in the working of the disputes under the Patent Act, and there is no reason to deny them a reason to request an injunctive relief.

While the District Court enabled a decision made on the basis of categorical denial of injunctive relief, the Court of Appeals took a completely different stand on the matter. It disregarded the implication of the four-factor test and relied on the principles that in such a situation, the deliverance of permanent injunction is subjective to the determination of the infringement and validity involved in the dispute. Injunction would be denied only in the most rare and unusual cases in an effort to protect public interest. The decision by Court of Appeals is flawed on the aspect of relying on principles that ensure a liberal grant of injunctive relief.

THE FINAL JUDGMENT

Due to the obvious presence of flawed decisions on the side of both, the District Court and the Court of Appeals, the Supreme Court reversed the decision of the Court of Appeals and transferred the case back to the District Court. It advanced that the decision in the said case would be based on the discretion of the District Court as was carried out in the initial stages of the case. It shall have an independent decision in the matter.

Microsoft Corp. v Motorola Inc., Motorola Mobility Inc. [22]

FACTS OF THE CASE

The facts of the case are such that Microsoft sued Motorola, alleging that Motorola had infringed few of its smartphone patents, in the U.S. International Trade Commission and the Western District of Washington, in October 2010. It led to a series of discussions being held wherein it was suggested that the two parties enter into a cross-licensing agreement by giving the opportunity to Motorola to be licensed the patents which it was supposedly to be infringing and in the meanwhile, grant Microsoft the licenses to the patents it might have been infringing that belonged to Motorola. Consequently, Motorola sent two letters to Microsoft, willing to license two of its patents; 802.11 and H.264 SEP portfolios, at the rate of 2.25% of the net sale price of the end product. This was claimed by Motorola to be in accordance with the RAND terms. On receipt of the letter, Microsoft filed a case against Motorola alleging that it did not maintain its commitments to the RAND terms as per IEEE and ITU on reasonable terms. Motorola then filed a case against Microsoft in Germany for the infringement of its SEPs EP 0 538 667 and EP 0 615 384. This posed a massive problem to Microsoft since its distribution was in Germany and a resultant injunction could cause Microsoft to disengage its distribution in the country. Consequently, to be on the safe side, Microsoft shifted its distribution center to Netherland for about $11.5 million. On the 2nd of May, 2012, the German Courthouse, Landgericht Mannheim, granted an injunction.

DECISION HELD

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Previous to the granting of the injunction, Microsoft had requested a temporary restraining order from the US District Court, seeking for an injunction from Motorola filing an injunctive relief against it. It was held by the District Court and the 9th Circuit Court on appeal that the agreement entered into by Microsoft and Motorola were constituted with the Standard Setting Organizations and disallowed Motorola from bringing about any suit for injunctive relief with respect to its standard essential patents. As expected, Microsoft sought damages from Motorola for the repositioning of its distribution center and for attorney fees. In the trial, it favoured Microsoft's claims and Motorola was to pay $14.5 million as damages.

Framing an agreement, disregarding the malafide motives of the parties connected with the agreement have become a common issue considering the number of cases brought before the court. With the rising number of strategies and illegal methods to meet the objectives of achieving the gawking conduits of "getting things done your way", the courts are pressurized to read between the lines and while punishing the conspicuous mistakes, it must allow the victimized companies to redeem themselves from the hardships and losses faced due to such sinister acts.

9.2. EUROPE

There has been an alarming increase in violating the terms of righteousness of SEPs, in providing the power to the SEP holders for their right to the property on one hand, and the freedom and protection given to those who wish to implement the standard to proceed with their business. As the objective lies, it is crucial that the strategies and technologies should be made available to those interested at reasonable prices. The patent law available to the 27 members states varies from country to country and the scope of the remedies available differs accordingly.

9.3. CHINA

China takes up a different approach to the injunctive relief for SEPs in the country. It specifies the contrary for the injunctive relief for SEPs i.e., the situations in which injunctive relief is not offered. An apt example is the *Huawei v IDC* case, wherein the court juxtaposed the license agreement of IDC to Huawei and that of other well-established companies like Samsung, Apple and arrived at the conclusion that IDC violated the FRAND terms and thus, would be dubious to deliver an injunctive relief.

Huawei* v *IDC

FACTS OF THE CASE

Huawei is a global supplier of telecommunication equipment, and IDC holds a number of patents relating to 2G, 3G and 4G standards in the wireless communications. There have been a number of conciliations between the two parties considering the royalties to be paid for the patents licensed. IDC agreed to give Huawei non-exclusive global licenses to use its patents wherein the royalties on the said patents had to be paid for all of its patents, irrespective of them being 2G, 3G and 4G patents or not. Moreover, IDC required Huawei to license all its patents to IDC for free. These demands made by IDC were deemed to be a violation of the obligatory FRAND terms. It was deliberated to be an abuse of dominance in the market and the royalties charged by IDC on Huawei were much higher than the royalties charged by it on other companies such as Apple and Samsung. As a result, Huawei filed a lawsuit in the Shenzhen Intermediate People's Court due to the discriminatory requirements and to cease the abuse of dominant position and claimed damages. It also filed another case asking the Court to determine the royalty rates it had to pay for the patents licensed by IDC under the FRAND terms.

OBSERVATIONS OF THE COURT

It was observed by the Court that every SEP holder has an irreplaceable patent in the market. This shows the dominance created by the patent holder and would take down any competitor trying to promote his patent. This power is hitched to the patent holder due to the inexplicable power attached to the SEP. In the present case, the Court agreed with there being an unexplainable charge of higher royalties on Huawei in comparison to the agreement and royalties charged on other companies like Samsung and Apple, regardless of the one-time payment patent royalties standard or the patent royalty rate standard [23]. Additionally, the claim for free licensing of all of Huawei's patents is indicative of foul playing on IDC's part.

It was stated by the Shenzhen Intermediate Court that in the event of entering into a licensing agreement by the parties, the inclusion of the judiciary is not essential. However, since there have been gross discriminatory tactics and overpricing followed by IDC in furtherance of the agreement, there was an ostensible violation of the FRAND terms. Hence, it is crucial to the party partaking in the agreement for a fair and reasonable progress of the agreement, to involve the judiciary to render justice if the plaintiff does not concede to the demands of the defendant. As per the Chinese law, the determination of the reasonable royalty rate is based on the following factors[24]

- the quantity, quality and value of the defendant's SEPs
- relevant licensing situations in the industry, and
- the share of the defendant's Chinese SEPs.

DECISION HELD

The Court accepted the request stated by Huawei and laid down the rate of the royalties to be RMB 20 million and denied any form of overpricing by IDC. All the requests by IDC were refuted. In an appeal by IDC were however taken up by the Appellate Court but rendered in favour of Huawei.

9.4. JAPAN

As of recent, Japan has yanked its SEP Guidelines through the partial amendment of the 2007 Guidelines by the Japan Fair Trade Commission[25], wherein it emphasizes that companies having the power to license SEPs to other interested companies ought to abide by the terms of SEP licensing without any fail, which, if misused, could result in drastic measures being taken against such companies. Once the companies follow the licensing practices in a bonafide manner and in pursuance to normal business practices, they shall be projected as a 'willing licensee' irrespective of the patents being infringed or otherwise. Any companies refusing to license the SEPs on unreasonable or discriminatory terms shall be reprimanded and such activities shall be noted as an illegal 'exclusion of business activities' of other companies[26].

10. SEP IN INDIA

The FRAND licensing practices in India have definitely enhanced over the years. The incorporation of a large number of institutions has appraised the protection given to the SEP holders as well as the companies willing to engage with such holders. One of the pivotal nonbelligerent institutions that has played a glorious role in embarking on this Herculean task of amicably sorting issues is the Telecom Standards Development Society of India (TSDSI), which gathers stakeholders from different spheres to prance towards qualifying India-specific requirements and contributing to a global perspective in terms of telecommunications. The Telecommunication Engineering Center (TEC) focuses on setting standards for IPR related issues and further emphasizes on the specifications for different equipment functioning in the Indian arena. The chief standardization institution in the country is the Bureau of Indian Standards (BIS). Other organizations that aim to create a difference in the private setting standard system in the country are the Development Organization of Standards for Telecommunications in India (DOSTI) and the Global ICT Standardization Forum for India (GISFI).

10.1. JUDICIAL IMPLICATIONS

There have been quite a lot of cases involving anti-competitive practices and stifles in the impact of FRAND terms in the licensing market. The mobile industry is in pickle with the upcoming umpteenth case on its lap about the abuse of

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dominant power of the top selling brands in the sector. They were phony wars between the competitors in the market and unreasonable demands being thrown at each other. While the Apple and Samsung fiasco have caught the attention of millions, little do they know that there are few cases that have been 'glorious eye-openers' to not only those involved in the mobile business, but also among the readers. These cases raised the bar with regard to the enormity of the situations involving SEPs and the unappreciative demands raised by the SEP holders. It blatantly portrays the victimization of the licensees of the standard patents and the disappointing effort put in by the Court and the CCI in helping solve cases which ostensibly denote who is in the wrong.

Ericsson is a Swedish multinational company and is one of the largest patent holders in the mobile industry, 33,000 patents with 400 in India. Ericsson has been party to such contemptuous practices for a while, resulting in a number of suits filed against it. Below are the discussions regarding some of the cases filed against Ericsson due to its treacherous involvements.

***Micromax Informatics Ltd v Telefonaktiebolaget LM Ericsson*[27]**

This is the first case that brought the whole aspect of the fiasco of the unreasonableness and derogatory games played by the dominant players in the market.

FACTS OF THE CASE

The informant, Micromax, started its operations in India in 2008, producing economically convenient mobile phones and unbeatable technologies. It claims to be the largest mobile handset manufacturer in the world. Ericsson, the unyielding player in the telecommunications market with a global market share of 38%.

The case was filed by Micromax, claiming Ericsson to be the black sheep in the SEP licensing fair. Micromax alleged that Ericsson was unwarrantedly charging exorbitant royalty rates for the use of its SEPs, thereby disregarding the Competition Act, 2002. It further alleged that Ericsson was self-assured that as it was the sole licensor for 2G and 3G wireless telecommunication standards, the ball was in its court and ceased to be bothered by its irrational demands. Further, Micromax was asked to pay royalty on the basis of the net sale price of the phone rather than the chipset, which was essentially under the purview of Ericsson's patent. It also wanted Micromax to enter into an NDA on discriminatory and unreasonable terms.

Ericsson laid down that it was aware of the globally acceptable standards and did not charge unreasonable and discriminatory royalty rates. In short, it denied all the allegations brought up by Micromax.

OBSERVATIONS BY COMPETITION COMMISSION OF INDIA

In the preliminary order passed by the Competition Commission of India (CCI), it stated that Ericsson is undoubtedly the largest holder of 2G, 3G and 4G telecommunication gadgets and thus, maintained a dominant position in the market for such devices. While FRAND terms were established ideally to enable a smooth functioning of the competition and licensing of SEPs in the country, it fundamentally ensures the prevention of patent hold-up[28] and royalty stacking that menaces its objectives. However, it agreed with the royalties Ericsson charged for its SEPs being discriminatory and excessive and had 'no linkage to the patented product' and ruled that the antitrust allegations brought forward by Micromax was credible. It had unreasonably charged royalty on the basis of the value of the phone rather than on the chip used in the phone. This caused the royalty to be ten times more than the royalty for an ordinary phone, which upheld the allegations made by Micromax regarding discriminatory royalty rates charged.

DECISION UPHELD

Due to the candour in the criticisms by Micromax, the CCI ordered further investigations to be conducted with respect to the same matter, in an unprejudiced manner, and is to be undertaken by the Director General (DG).

Best IT World (India) Private Ltd v Telefonaktiebolaget LM Ericsson

A similar circumstance cropped up in the case of *Best IT World (India) Private Ltd v Telefonaktiebolaget LM Ericsson*[29].The facts of the case are as below:

FACTS OF THE CASE

Best IT World (India) is an Indian IT & Electronics company that engages in the import and distribution of mobiles, tablets, etc. It began its business operations as a computer accessories supplier under the name 'iBall' in 2001. In November 2010, it raised its business to selling a wide variety of mobile phones.

In November 2011, Ericsson sent a letter to Best IT World (India) that Ericsson's patents have been infringed by the functioning of Best IT's GSM (Global System for Mobile Communications) and/or WCDMA (Wideband Code Division Multiple Access) related products, and thus, suggested Best IT to enter into a Global Patent Licensing Arrangement (GPLA) for all the patents said to be infringed. When Best IT went ahead to sort the issue raised, they requested Ericsson to state the patents that were directly infringed in order to find out whether they were valid and enforceable in the country and thus, were not unreasonable calls by Ericsson. If Ericsson met with this demand, they gladly would enter into a GPLA. However, the case was that Ericsson refused to surrender such information to Best IT. Inspite of there being an obvious mistake on their part, Ericsson went ahead and imposed the need of drafting an NDA with Best IT World with ten years confidentiality agreement whereby all confidential information was to be shared only with a company affiliated to it and any disputes that take place would have to be settled only in Stockholm. Best IT did not agree with these demands of Ericsson and stated that the license agreement that would be entered into will have to be within the FRAND terms and within the jurisdiction of Indian Courts. Ericsson, in response to the request by Best IT, laid down that the license agreement would have to apply to both, the previous and the future sale of the company. All this while, Ericsson remained mum about the request to lay down the list of infringed patents asked by Best IT.

ARGUMENTS

Best IT was of the view that Ericsson disregarded its simple demands and which were crucial to determine the royalties to be paid for the infringed patents. Further, it alleged that Ericsson threatened Best IT to cause patent infringement proceedings, to enter into an unreasonable and onerous NDA, and demanding an excessive and unreasonable amount of royalties using the base as the net sale price of the entire product instead of the actual patent technology. Ericsson was said to have violated Section 4 of the Competition Act by undertaking measures that account to an abuse of dominant position.

OBSERVATIONS BY COMPETITION COMMISSION OF INDIA

The Commission observed that Ericsson was party to the ETSI (European Telecommunication Standards Institute) that functions globally wherein the competitors arrive at a decision and sets common technology standards as under an SSO. With respect to Clause 6 of the IPR Policy of the said ETSI, it mentions that the owner must cite in a written undertaking that it would grants irrevocable licenses on FRAND terms on fair and unbiased terms to the others. The patent owner has to grant irrevocable license to: manufacture, including the right to make or have made customized components and sub-systems to the licensee's own design for use in manufacture; sell, lease, or otherwise dispose of equipment so manufactured; repair, use, or operate equipment; and use methods[30].

Ericsson had disclosed to ETSI that it was the holder of 2G, 3G and EDGE technology standard patents. These patents have been recognized and accepted by the Department of Telecommunication, India and all such telecom service providers must enter into a Unified Access Service License Agreement with DoT. Since the standard patents come under the purview of GSM technology in India, it runs in the market of 'Standard Essential Patents for 2G, 3G and 4G technologies in GSM standard compliant mobile communication devices', with the target territory being India. Calculating the large number of patent to its name, 33,000 patents with 400 alone in India, it is indubitably a dominant party.

All the demands raised by Ericsson makes it crystal clear that they incline towards being discriminatory and contrary to the FRAND terms. There is no linkage whatsoever to the patented product but is connected to the gross total price of the manufactured product. The act of charging two completely unrelated license fees for a product that covers the same technology is, prima facie, unreasonable. Additionally, as is previously mentioned, Ericsson is required to apply the FRAND terms uniformly to the like market players. By coercing Best IT to pay exorbitant royalty rates and enter into an NDA is an outright abuse of dominance in the market and thus, a violation of Section 4 of the Competition Act, 2002.

DECISION REACHED

Due to the obviousness of the case and the outright violation of Section 4 of the Competition Act, 2002, this case is to be investigated by the Director General (DG) of CCI. It also states that the opinions brought about by CCI shall not influence the decisions of the DG in any manner. It is absolutely upto the inferences laid down by the DG that the case shall proceed and any counter observations included by the DG shall be looked into with the same seriousness. This case is still pending before the DG and a final decision is yet to be made.

Intex Techs. (India) Ltd v Telefonaktiebolaget LM Ericsson[31]

FACTS OF THE CASE AND ARGUMENTS LAID DOWN

The case in hand relates to patents of three technologies in the telecommunications sector relating to 2G and 3G devices. The Adaptive Multi-Rate (AMR) speech code that preserves the use of bandwidth and enhances speech quality, the 3G feature and a transceiving unit for block automatic retransmission request (EDGE) were the patents in discussion. Intex alleged that Ericsson, by way of it being one of the largest patent holders, demanded unfair terms from it. Ericsson wanted Intex to get into a Global Patent License Agreement (GPLA) with it and accordingly, pay the royalty rates it demanded. Ericsson had also wanted Intex to accept its demand of having the GPLA governed by the jurisdiction of Stockholm.

Ericsson was of the view that it was committed to the FRAND terms, being a part of ETSI, and proclaimed to lay down only uniform rates for all the like patent licensees. It only required the company to enter into an NDA in order to ensure that there would not be any disclosure of information to third parties without its permission. In addition, it wanted Intex to enter into the agreement as a prerequisite for providing the information to Intex about the infringing patents.

OBSERVATIONS BY COMPETITION COMMISSION OF INDIA

The CCI delivered the same opinions as were laid down in the previous case. It was obvious that Ericsson was a party to the discriminatory and unfair practices being held and violated the provisions of Competition Act, 2002 and the FRAND terms. It raised issue of patent hold-up and royalty stacking, commonly found situations in many of the cases against Ericsson. The unreasonably high royalty rates, the base for calculating royalty being the net sale price of the entire manufactured product rather than the infringed product, were raised even in this case.

DECISION REACHED

It was decided by the CCI that the said case is to be transferred to the DG for further deliverance of the decision of the case. The DG would not be influenced by the opinions of the CCI and would work on the case independently and unprejudiced.

The claims by Intex regarding the malpractices by Ericsson such as excessive and discriminatory licensing fees were similar to those brought by Micromax in the previous case. CCI ruled in favour of Intex, ordering that the inclusion of a jurisdiction clause stating that Intex ought not to adjudicate any disputes in the country where both the companies are in business was derogatory to the competition laws and an abuse of its dominant position. Moreover, the CCI ordered the DG to combine the cases brought by Mircromax and Intex against Ericsson due to the evident parallels in both. As of recent, Ericsson has filed a case against Lava International Ltd for refusing to disclose information about its agreements with third parties. Nonetheless, the case is in its preliminary stage with the failure of the parties to reach a mutual consensus and is to be decided on merits[32].

INFERENCES

While the cases against Ericsson ridiculed the abuse portrayed by it due to its incorrigible dominant position in the market, Ericsson managed to file suits against Micromax and Intex for infringement of eight of its patents concerning AMR technology, 3G technology, 2G technology and Edge technology crucial to the 2G and 3G standards in India. The court relied on the usage of the net sales price of the downstream device to determine the royalty bases for calculating the royalty. Similar views were laid down in the case against Xiomi Technology.

The Delhi High Court's decisions in view of the above cases considering using downstream devices as royalty bases and relying on comparable licenses to obtain a FRAND royalty are widely in compliance the sound economic principles. They opted to meet the judicial and industry trends in the rest of the world[33].

Many appeals were also filed by Ericsson against the orders passed by the CCI, which however, ended in an interim being granted for each one of them.

11. ISSUES FACED

Despite the stringent and self-sufficient orders and rules passed by the key institutions and the regulatory laws, SEP litigation is burdened with problems that hinder the complete disposal of the SEP functioning and licensing. Some are as below[34]:

11.1. PATENT HOLDUP

This scenario is noticed in the cases filed against Ericsson mentioned above. When a manufacturer of a locked-in patent i.e., a patent that conforms to being a standard and is commercially accepted as such, realizes his irreplaceability in the market and misuses the dominant position achieved by him by demanding unreasonable royalty rates in violation of the FRAND terms, such a situation is termed as patent hold-up. The SEP holder is aware of the power granted to him by his patent exclusivity that he decides to increase the royalty rate to lend him an upper hand in the collection of money. It was further deducted in the Micromax and Intex cases that "hold-up can subvert the competitive process of choosing among technologies and undermine the integrity of standard-setting activities. Ultimately, the high costs of such patents get transferred to the final consumers."

11.2. SELECTION OF THE ROYALTY BASE AND ROYALTY STACKING

Selection of the royalty base is a crucial tiebreaker for the calculation of the royalties by the SEP holders. Usually the royalty bases are taken on the net sale price of the final product. It is unfair if the infringing product is only a small component of the final product, which would imply that the manufacturer would be forced to pay more royalties than what it is required to pay. The SEP holders will be improperly compensated for the

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entire product, regardless of the components infringing or not infringing. It was in respect of this issue that the Delhi High Court decided in the aforementioned cases that the royalty base would rely on the net price sale of the downstream device to calculate the royalty, debarring any anti-competitive practices by Ericsson.

Royalty stacking takes place when many royalties for different components of the product are stacked on each other, thereby resulting in an aggregate, which exceeds the total product price. This was another claim put forward by Micromax and Intex in the cases against Ericsson for asking royalty on the entire product rather than the infringing chip.

11.3. REFUSAL TO GRANT LICENSES TO WILLING LICENSEES

The hostile handling of willing licensees by the SEP holders by forcing them to accept unreasonable royalty rates or otherwise, an action for injunctive relief, has become prominent. Foregoing large sums of undeserving royalties to the conniving SEP holders than face a court order to cause an injunction is unfortunately the go-to of many of the SEP implementers. This calls for an urgent recourse as such practices amount to an abuse of dominant position and anti-competitive practices.

12. CONCLUSION

The judiciary, the magnanimous number of laws, acts and declarations, and the involvement of the CCI and other major institutions, have tried to showcase the viable options to reach an amicable consensus between the disputed parties. The veracity, nevertheless, have brought to light the inability of such prestigious institutions to bring to effect a justified and pragmatic approach. The decisions arrived at have not been compiled with due to the absence of another approach, but the need to retain a position in the global sphere. They focus on having a compatible relationship between the parties to ensure a harmonious relationship, furthering their progress in the international domain. It is rather impossible for India to put its future at stake just by defending a party that does not call out to the international progress of the country. As noticed in many cases before Court, despite the relentless struggles of the aggrieved companies to not be overshadowed by the pressure of the SEP holders, the court prefers to stand aside and let time take its toll. This mechanism of the IP jurisprudence ought to be amended. Both, the patent holders and the patent implementers, must be assured of their rights under the FRAND terms and safeguarded righteously. Therefore, in order to focus on the needs of the consumers and the ability to present a justified proof for the amount they are charged for every purchase, the court must be able to take a stand for the sanctity of the justice system and deliver judgments without any prejudice or bias.

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