# SEPs & FRAND

PG Diploma In Cyber Law

NALSAR University of Law, Hyderabad

Contact Class; February, 2020.

# Why Standards?

***Standard****: A set of technical specifications that seeks to provide a common design for a product or process*

- Interoperability necessary in an environment increasingly relying on ICT for:
  - Producers,
  - Users, and
  - Governments
- Standardisation is a consensual
- *ex-ante* means of achieving interoperability
- Emergence of IP issues

- Main types of standards:
  - formal
  - *ad-hoc*
  - *de-facto*
  - open

ISO
International Organization for Standardization

# Standard Setting Organizations (SSO)

An entity that is primarily engaged in activities such as developing, coordinating, promulgating, revising, amending, reissuing, interpreting, or otherwise maintaining hundreds of thousands of standards applicable to a wide base of users.
It aims to generate the acceptance or proliferation of such new standards-based technologies, products or services.

- Typically, achieve interoperability (and balance) through standardization by SSO
- Process is usually
  - voluntary
  - consensus-driven
  - characterized by transparency and openness
- Increasing complexity in standardization has triggered increasing attention to IPR issues, in particular, patents, including in e-government services
- Has resulted in various SSO IPR policies

- Minimizing risk of conflict requires SSO to adopt patent policy.
- Obligation for participants in the standard-setting to disclose essential patents and pending applications.
  - To know whether patent rights on future standards.
  - Non-members not covered
- Obligation to agree:
  - On licenses conditions (RAND, FRAND, RF)
- Cumulative royalty issue:
  - Patent pools, where licenses are granted and revenues are shared among participants in the pool

# Standard setting process

Phase I - Research and develop proposed Standard
Secretariat

Phase II – Focused stakeholder consultation and amendments to proposed Standard
Project groups (technical experts & subject experts

Phase III – Approve Exposure Draft
Board - AGSA and OAG represented

Workshops (treasuries, professional bodies, PAGs, CFO Forums) roundtables
Phase IV – Public consultation

Project groups (technical experts & subject experts
Phase V – Focused consultation on comments and amend Standard

Board - AGSA and OAG represented
Phase VI – Approval of Standard

Phase VII – Consult on effective date
Propose effective date
Develop transitional provisions
Trilateral parties

Secretariat
Phase VIII – Application & implementation (ASB: accounting forum, FAQs, post-implementation reviews, review and amendment (improvements project)

# Standard Setting Organizations (SSO)

| Standard | Description | SSO | EC class |
|---|---|---|---|
| 802.11 | Wireless networking | IEEE | 2 |
| Bluetooth | Short-range wireless networking | Bluetooth SIG | 3 |
| CD | Compact disc (digital media) | n/a[a] | n/a |
| CDMAone/IS-95 | 2G wireless telecommunications | Qualcomm/<br>TIA[b] | n/a<br>2 |
| DVB | Digital video broadcast (Europe) | DVB Forum | 1 |
| DVD | Digital media | n/a[c] | n/a |
| Ethernet | Device networking | IEEE | 2 |
| GPS | Global positioning system | n/a[d] | n/a |
| GSM | 2G wireless telecommunications | ETSI | 1 |
| H.264 | Audio-video encoding | ITU | 1 |
| HDMI | High-definition multimedia interface | HDMI Forum | 3 |
| HDTV | High-definition broadcast TV (US) | ATSC | 3 |
| HTTP | Hypertext transfer protocol | W3C | 2 |
| IP | Internet protocol | IETF | 2 |
| LTE | 4G wireless telecommunications | ETSI | 1 |
| MP3/MP4 | Audio and video compression | MPEG (ISO/IEC) | 1/2 |
| PDF | Portable document format | n/a[e] | n/a |
| SDRAM | Semiconductor memory | JEDEC | 2 |
| UMTS | 3G wireless telecommunications | ETSI/3GPP | 1 |
| USB | Device networking | USB Forum | 3 |
| V.90 | 56k modem | ITU | 1 |
| VHS | Video cassette media | n/a[f] | n/a |
| WWW | Worldwide web | W3C | 2 |
| XML | Extensible markup language | W3C | 2 |

- SSOs vary greatly in size and composition.
- The European Commission identifies three broad categories of SSO:
  - those that are formally recognized by governmental bodies. These include: International groups [e.g., the International Organization for Standardization (ISO) and the International Telecommunications Union (ITU)], regional groups [e.g., the European Telecommunications Standards Institute (ETSI)], and national groups [e.g., Germany's Deutsches Institut für Normung (DIN), the Japanese Standards Association (JSA), China's National Institute for Standardization (CNIS) and the Bureau of Indian Standards (BIS)].4
  - "quasi-formal" groups that are typically large international organizations that share many of the characteristics of formally recognized groups [e.g., the IEEE Standards Association, ASTM International and the Internet Engineering Task Force (IETF)], and
  - smaller, privately-organized consortia (also known as special interest groups or fora), including groups such as the Bluetooth SIG, HDMI Forum, USB Forum and hundreds of others.

# Patents & Standards

## COMMONALITY

- Encourage investment in innovation
- Allows technology developers to disclose/share their ideas openly and early.
- Risk of secrecy
- Enables technical specifications to be promulgated - benefits of the industry and public
- Standards will often include patented technology

## CONFLICTS

- Where implementation of standard requires use of patented technology
- Patents create an exclusive right - entitle owner to exclude others
- Patent owner may have market power
  - merely because his patent is in the standard
  - others have to use patented technology to be compliant with the standard, i.e. for interoperability

# Copyright & Standards

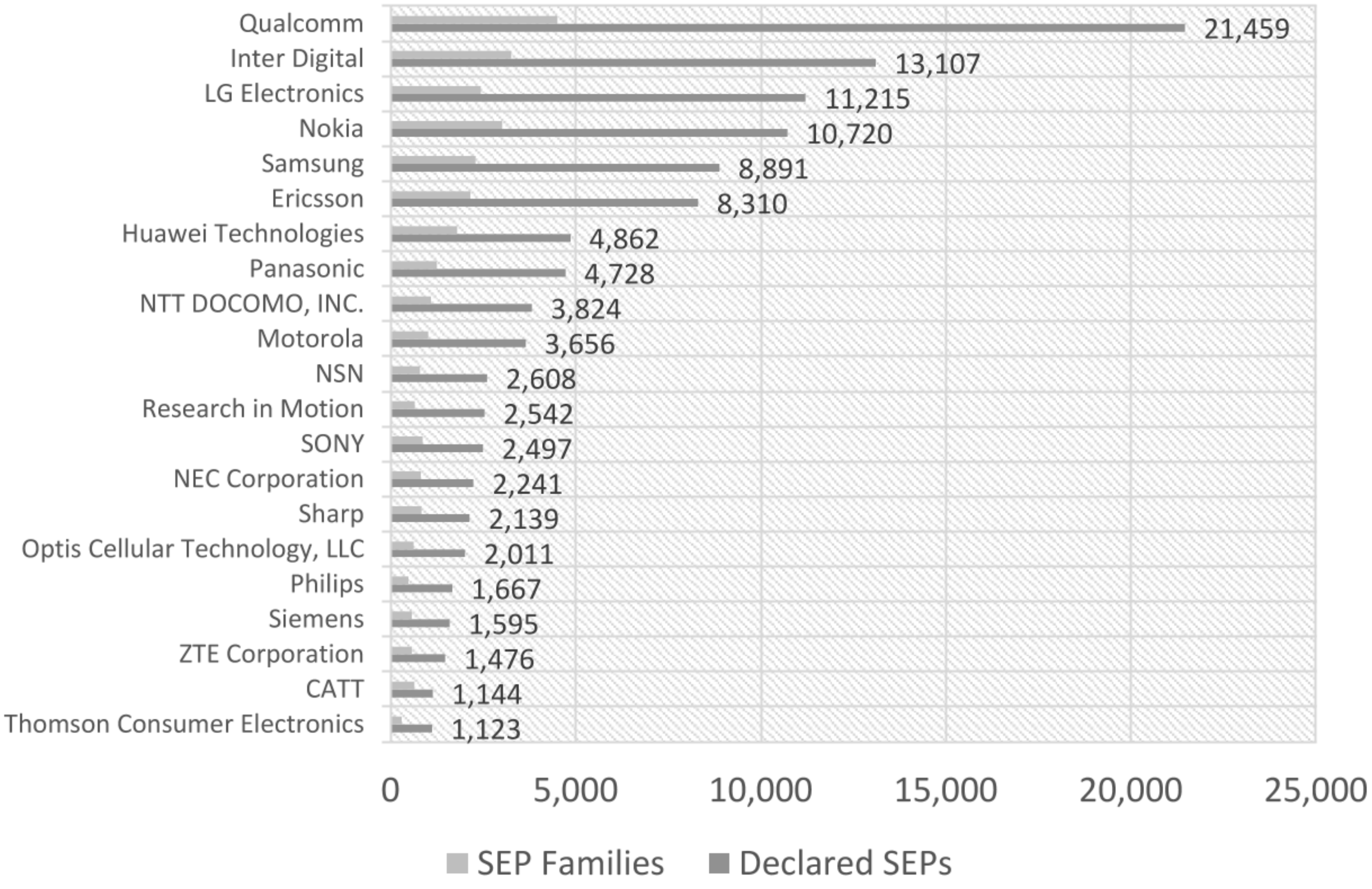
- Many copyright laws require remedies against circumvention of technical measures, protection of rights management information, i.e. DRM
- Interoperable DRM technologies are needed for growth of global marketplace for legitimate delivery of digital content
- Lack of interoperable DRM contributes to unauthorized use of digital copyright content, including piracy
- Standardization is the optimal means to achieve DRM interoperability
- Recent copyright legislation and policy supports DRM standardization
  - interoperability of different systems should be encouraged

- Open source software (OSS) is collaboratively developed and licensed under
- Open standards are technical specifications that meet criteria of openness in their creation, implementation and use, as defined by SSOs (
- Possible conflict between some OS licenses and IPR policies of SSOs (RAND, FRAND), but market shows some degree of co-existence
- Further study required on options available to OS developers to implement open standards consistent with both OS licenses and SSO IPR policies
- Standards as such copyrighted (source of income for SSOs)

# Standard Essential Patents (SEPs)

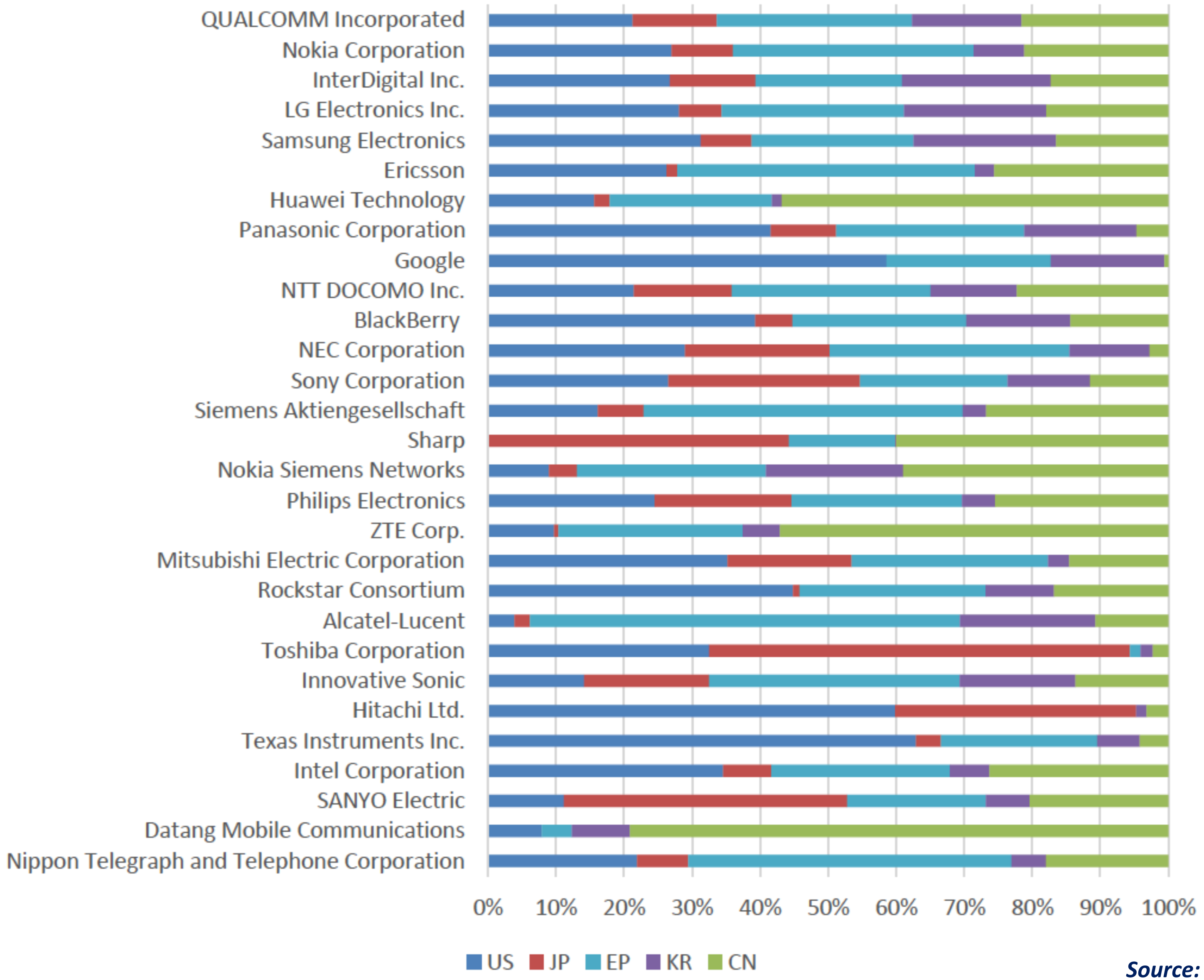
- A patent that claims an invention that must be used to comply with a technical standard.
- Standards organizations, require members disclose and grant licenses to their patents and pending patent applications that cover a standard that the organization is developing.
- Determining which patents are essential to a particular standard can be complex.
- Standardisation organizations require licences of essential patents to be on fair, reasonable, and non-discriminatory (FRAND) terms.

# Major SEPs Holders




**Bloomberg Intelligence: Squeeze of Standards Patent Owners Could Reverse Under Trump**

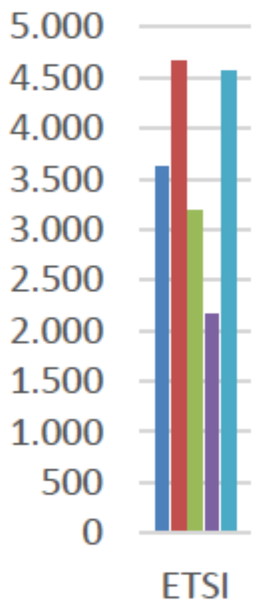
# Major SEPs Holders

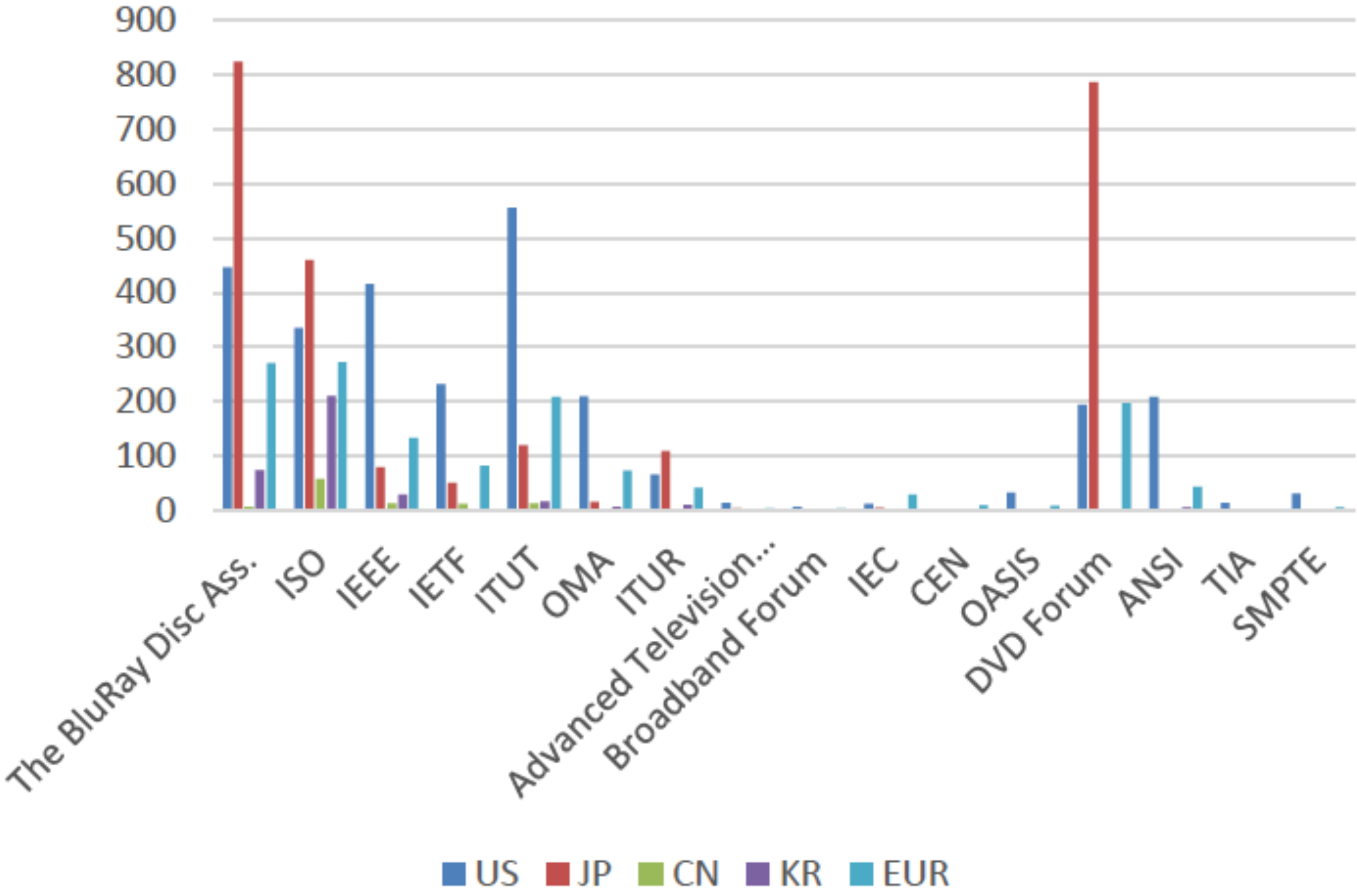



*Source: IPlytics GmbH; Technical University of Berlin*

# SEP Families Per Priority Patent Office and per SSO

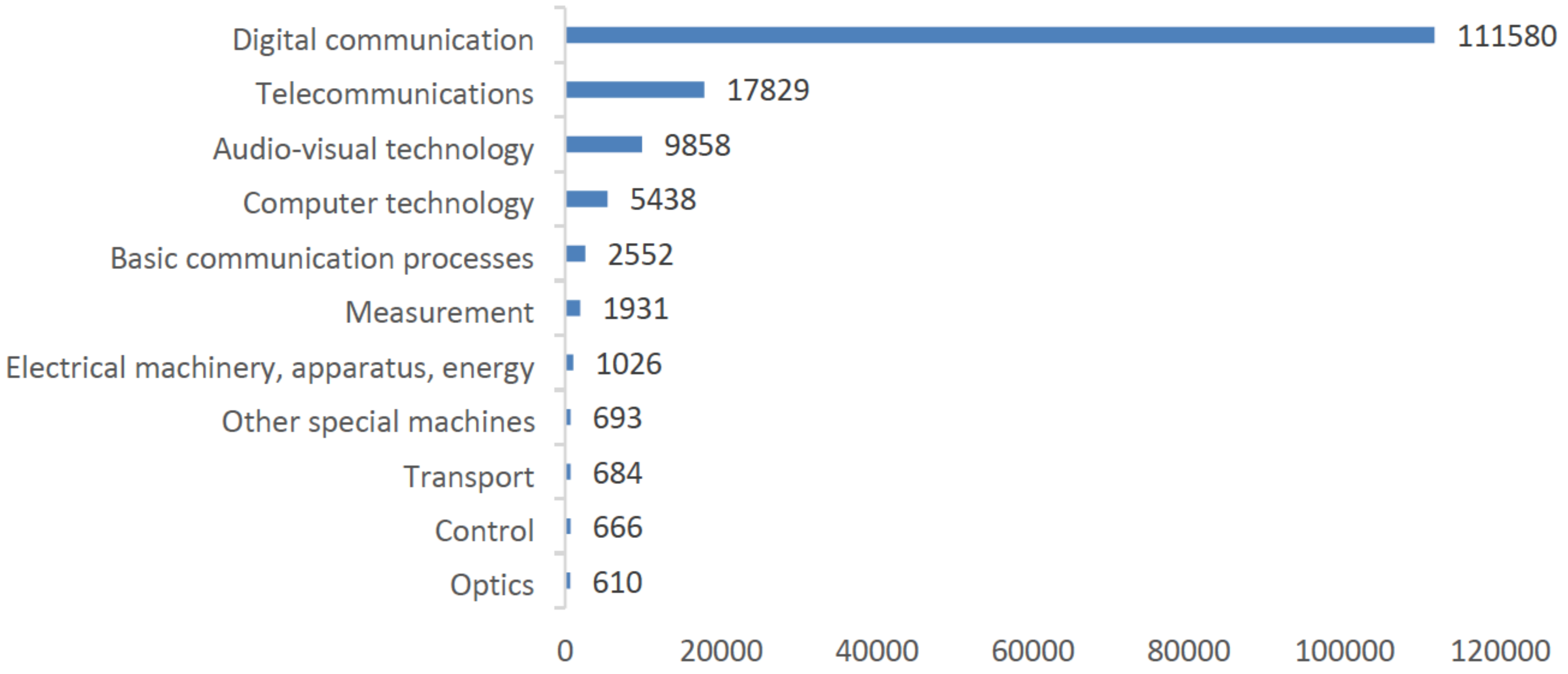
- Overview on the number of declared SEP families as to the respective SSO (standard setting organization). Most SEPs were declared at ETSI representing over 70% of all worldwide SEP declarations.
- ETSI, similar to TIA or IEEE, focus on communication technologies.
- SSOs standardizing technologies for media and consumer electronics such as the BluRay Disc Association, the DVD Forum or ISO also constitute a large share of SEP declarations, while SSOs in the computer technology space such as IETS or OASIS have rather small numbers of declared SEPS.




*Source: IPlytics GmbH; Technical University of Berlin*

# Declared SEP Families as to the Main Industry Fields

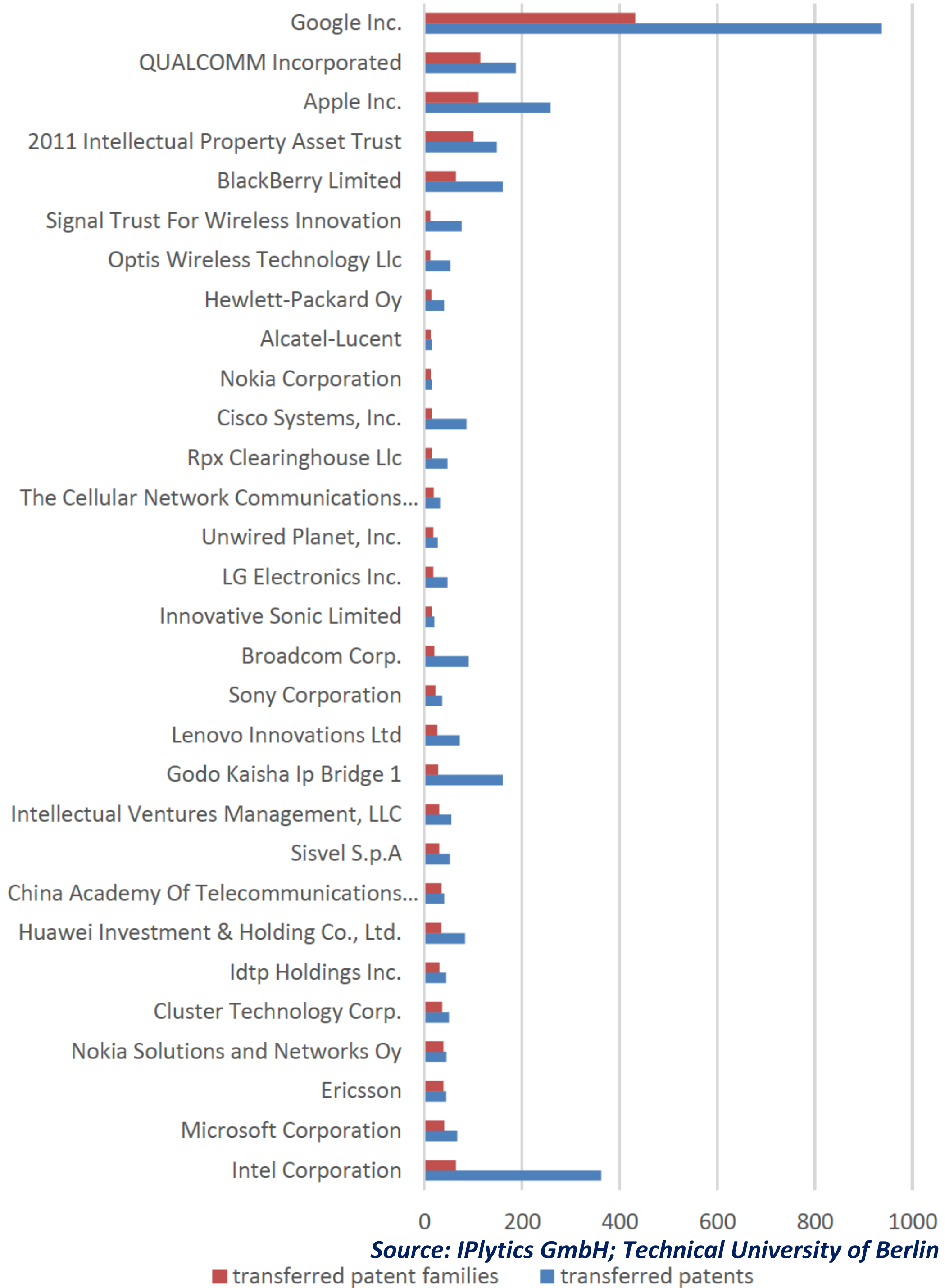



*Source: IPlytics GmbH; Technical University of Berlin*

# Transferred SEPs

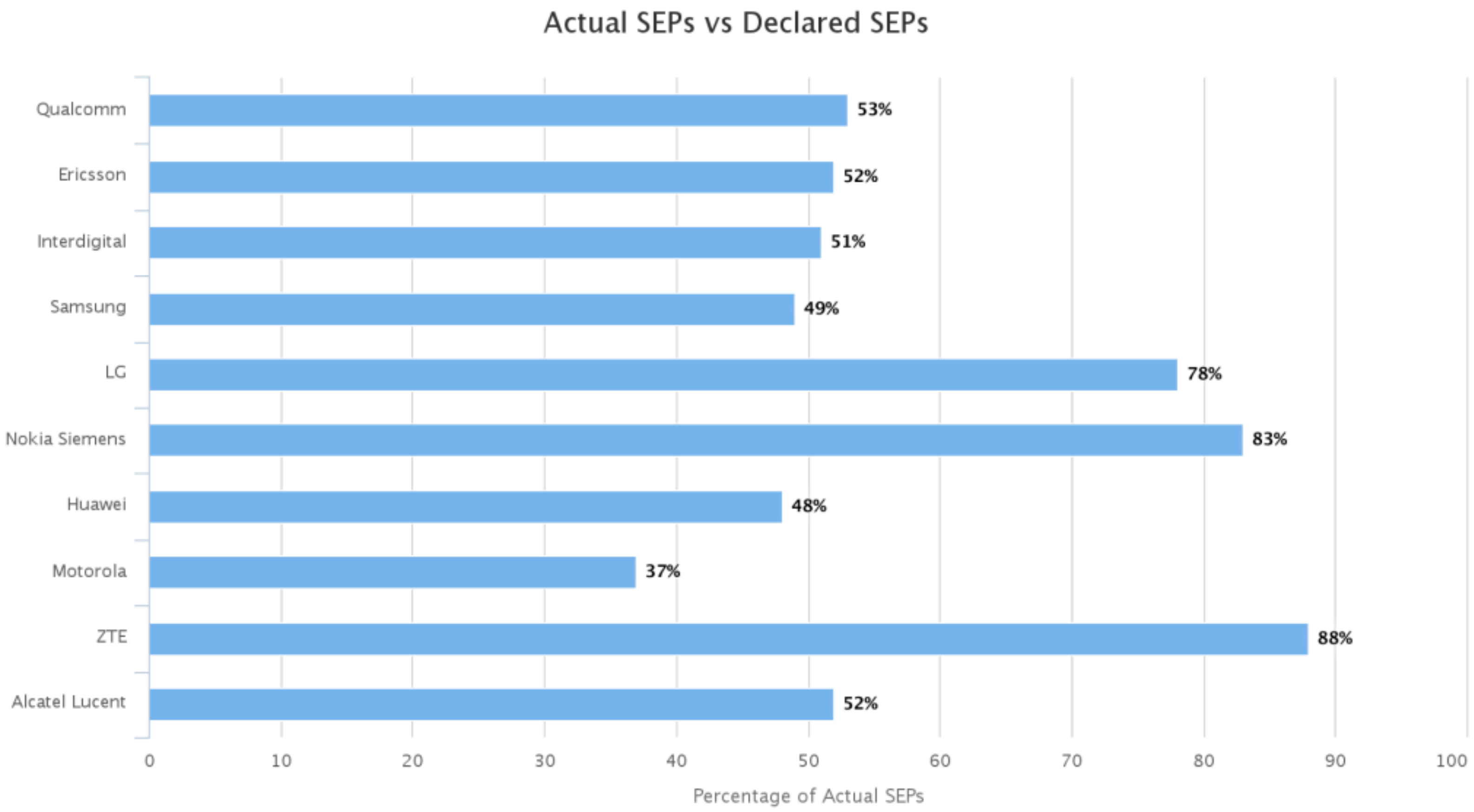
- The most prominent patent trade was Google's acquisition of Motorola and thus also the reassignment of many declared SEPs.
- However, patents are not only traded with regard to a merger or acquisition but also in context of a patent portfolio trade connected to particular technologies or standards.
- Qualcomm, Apple, Blackberry and Intel are the most active buyers of declared SEPs.

| Applicant | Business Model | Assignee | Business Model | SEPs | SEP Families |
|---|---|---|---|---|---|
| Motorola Solutions, Inc. | Manufacturer | Google Inc. | Manufacturer | 853 | 403 |
| Rockstar Consortium US LP | Aggregator | Apple Inc. | Manufacturer | 184 | 72 |
| Nokia Corporation | Manufacturer | 2011 Intellectual Property Asset Trust | NPE | 86 | 51 |
| Ericsson | Manufacturer | Cluster Technology Corp. | NPE | 41 | 34 |
| Sharp Corporation | Manufacturer | Huawei Investment & Holding Co., Ltd. | Manufacturer | 77 | 32 |
| Nokia Corporation | Manufacturer | QUALCOMM Incorporated | Manufacturer | 43 | 31 |
| Rockstar Consortium US LP | Aggregator | Microsoft Corporation | Manufacturer | 50 | 31 |
| Ericsson | Manufacturer | Idtp Holdings Inc. | NPE | 44 | 31 |
| Panasonic Corporation | Manufacturer | Godo Kaisha Ip Bridge 1 | Bank | 137 | 26 |
| InterDigital, Inc. | Manufacturer | Intel Corporation | Manufacturer | 275 | 24 |
| NEC Corporation | Manufacturer | Lenovo Innovations Ltd | Manufacturer | 69 | 23 |
| Nokia Mobile Phones Ltd | Manufacturer | 2011 Intellectual Property Asset Trust | NPE | 31 | 22 |
| Nokia Corporation | Manufacturer | Sisvel S.p.A | NPE | 41 | 21 |
| Datang Mobile Communications Equipment Company Limited | Manufacturer | China Academy Of Telecommunications Technology | Manufacturer | 21 | 20 |
| Ericsson | Manufacturer | Unwired Planet, Inc. | NPE | 25 | 18 |
| Nokia Siemens Networks SA | Manufacturer | The Cellular Network Communications Group, Inc. | Manufacturer | 28 | 18 |
| Rockstar Consortium US LP | Aggregator | BlackBerry Limited | Manufacturer | 50 | 18 |
| Ericsson | Manufacturer | BlackBerry Limited | Manufacturer | 21 | 18 |
| Core Wireless | NPE | 2011 Intellectual Property Asset Trust | NPE | 17 | 17 |
| Siemens Aktiengesellschaft | Manufacturer | Nokia Solutions and Networks Oy | Manufacturer | 18 | 16 |
| Ipwireless Inc | NPE | Sony Corporation | Manufacturer | 22 | 15 |
| ASUSTeK Computer, Inc. | Manufacturer | Innovative Sonic Limited | NPE | 20 | 15 |
| Renesas Electronics Corporation | Manufacturer | Broadcom Corp. | Manufacturer | 43 | 15 |
| Infineon Technologies AG | Manufacturer | Intel Corporation | Manufacturer | 18 | 14 |
| Rockstar Consortium US LP | Aggregator | Rpx Clearinghouse Llc | Aggregator | 40 | 13 |




*Source: IPlytics GmbH; Technical University of Berlin*

# Checking the Essentiality of SEPs




- Unfortunately, not all those patents qualify on the criteria of being a SEP.
- Hence, in many licensing deals, a licensee can end up paying millions for false SEPs.
- How does that happen and how can it be avoided?
- The standard-setting bodies give assignees the option to declare their patents essential.
- The declaration databases of the concerned body, gives comprehensive details of a patent declared as essential.
- The catch, however, is that the concerned standard-setting body is not liable to verify the claims of an assignee which pave ways for many non-SEPs to earn the status of a SEP.

**The answer lies in checking the essentiality of a standard essential patent.**

***Source: Cyber Creative Institute***

# FRAND

- A voluntary licensing commitment that standards organizations often request from the owner of an IP right (usually a patent) that is, or may become, essential to practice a technical standard


## FAIR

- Not Anti-competitive
- Bundling / Grant Backs /Exclusivity

## REASONABLE

- Licensing rates

## NON DISCRIMINATORY

- Treating all licensee similar

# FRAND License – A few Practices

**Hold-up**

refers to the potential problem that arises when a SEP holder has made a commitment to license on FRAND terms and then seeks to use injunctive relief as leverage in negotiations to obtain an unjustifiably higher royalty than would have been possible *ex ante*.

**Reverse Hold-up**

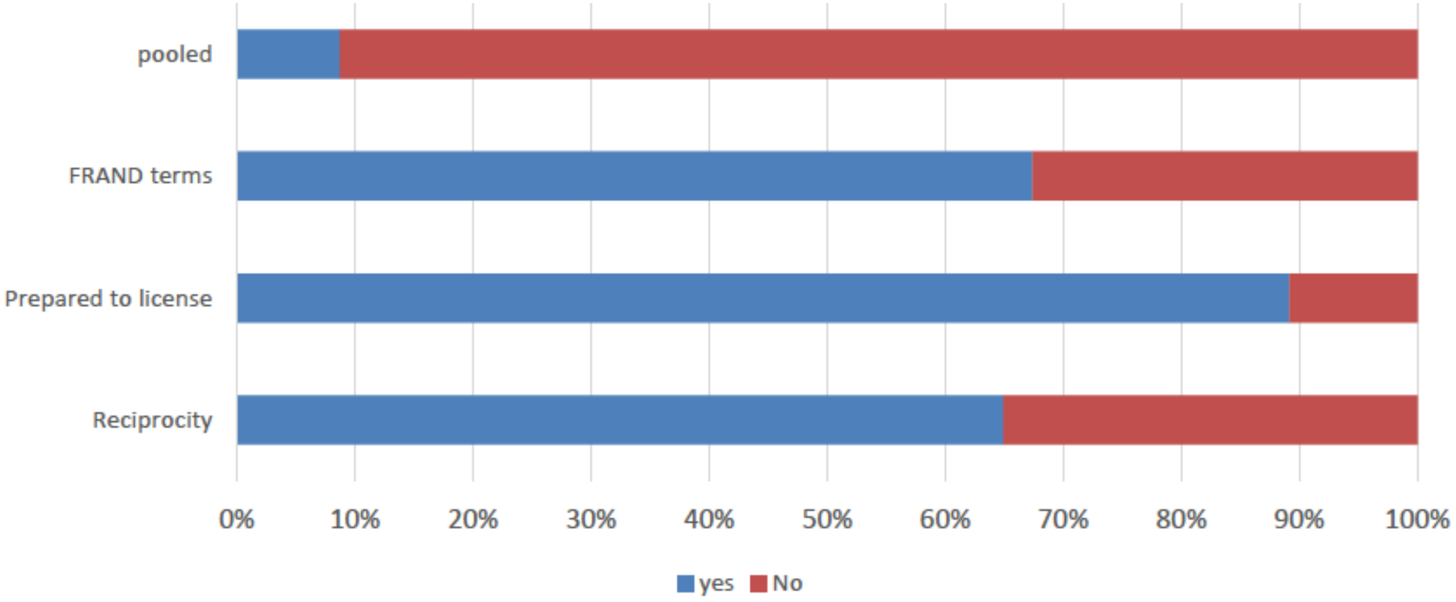
refers to the situation where a firm using the SEP delays good faith negotiations of a FRAND license

**Royalty Stacking**

situations in which a single product potentially infringes on many patents, and thus may bear multiple royalty burdens.

# SEP - Licensing Commitment

- In some SSOs the rights holder can state that they are not prepared to license essential patents, provided that it did not commit to license and thus did not participate in the standard-setting process. This was the case for only 11% of declared SEPs.
- Reciprocity rules describe the possibility of cross-licensing SEPs for a particular standard. 65% of the declared SEPs agree to such reciprocity commitments, allowing for the cross-licensing of patents which are relevant for the same standard.
- Licensing behavior is very much dependent on differences in technology markets. Digital communication technologies often allow reciprocity licensing and in most cases state to be prepared to license under FRAND conditions.




- Patents in the field for audio-visual technologies have the highest share of pooled patents.
- While patent pooling is yet very uncommon for telecommunication technologies.

*Source: IPlytics GmbH; Technical University of Berlin*

# SEPs – The US Approach

**Courts have held that**:

(1) a commitment to a SSO to license on FRAND terms constitutes a binding contract between the SEP holder, the SSO, and its members;

(2) potential users of the standard are third-party beneficiaries of the agreements with standing to sue;

(3) seeking injunctive relief on a FRAND-encumbered SEP may violate the duty of good faith and fair dealing where a SEP holder has made a contractual commitment to license on FRAND terms; and

(4) FRAND licensing *"includes an obligation to negotiate in good faith,"* and that obligation is *"a two-way street."*

**"reasonable" royalty rate**:

(1) limits a patent holder to a reasonable royalty on the economic value of the patented technology itself, apart from the value associated with incorporation of the technology into a standard;

(2) considers the importance of the SEPs to the standard and the importance of the standard and the SEPs to the products at issue;

(3) considers only comparable patents as benchmarks; and

(4) takes into consideration evidence of royalty-stacking by considering the aggregate royalties that would apply if other SEP holders made royalty demands of the implementer.

# SEPs – The EU Approach

## EUROPEAN COMMISION

- put the burden on the implementer to show that it is a willing licensee
- preclude injunctions only in the EEA, and only on patents granted in the EEA
- require a license only to patents in EU
- apply to both current and future injunctions
- arbitration is required only when both parties agree

## FAIR TRADING COMMISION

- sets up a process that must be followed prior to seeking or enforcing injunctive relief,
- puts the initial burden to prove that the licensee is not willing
- covers patents issued/pending anywhere in the world;
- requires to offer global licenses;
- did not require the parties to withdraw pending injunctions
- required to offer and commit to arbitration if the licensee wishes to arbitrate instead of seeking a FRAND declaration in court.

***SAMSUNG - ENFORCEMENT OF UMTS STANDARD ESSENTIAL PATENTS – Antitrust Procedure***
***Matter of Motorola Mobility LLC, and Google Inc.***

# SEPs – The CN Approach

**Supreme People's Court** issued an Advisory Opinion regarding Patents Incorporated into Standards stating that:

(1) where a patentee engages in standard setting or agrees that its patent be incorporated into a national, industrial, or local standard, the patentee is *"deemed to have permitted others to exploit the patent while implementing the standard,"* and thus exploitation of the patent *"does not constitute patent infringement"* under Chinese law; and

(2) essential patents must be licensed at an amount *"significantly lower than the normal license fee".*

**Standardization Administration of China (SAC) and the State Intellectual Property Office (SIPO)** published Interim Regulations on National Standards Involving Patents:

(1) the disclosure of essential patents owned or known about;

(2) that patents included in national standards must be licensed on FRAND terms; and

(3) that, for mandatory national standards, if an essential patent holder does not agree to license on FRAND terms, the SAIC, SIPO, and relevant authorities must negotiate with the patent holder regarding a method for the patent holder to divest the relevant patents.

# SEPs – The KR Approach

- KFTC issued its first decision assessing whether a SEP holder's injunction claim violates the Korean Fair Trade law, concluding that Samsung's injunction claims against Apple on SEPs related to 3G mobile communication technology do not constitute an abuse of dominance or unfair trade practice.
- KFTC further noted that over 50 companies hold over 15,000 SEPs related to 3G technology, and thus this is not the usual case where only one essential facility exists.

**KFTC found that Apple was not a willing licensee:**

(1) filed patent infringement litigation against Samsung while proceeding with negotiations,

(2) proposed license terms that devalued Samsung's patent value, and

(3) engaged in reverse hold-up as evidenced by the fact that it did not have the intent to pay any royalties until the litigation was concluded.

**KFTC found that Samsung did negotiate in good faith:**

(1) before and after filing the injunction claims,

(2) Samsung proposed various license terms to Apple and proceeded with substantial negotiations, and

(3) the royalty rates proposed by Samsung were not excessive.

***Apple Inc. v. Samsung Electronics Co., Ltd.***

***KFTC Press Release (Feb. 26, 2014)***

# SEPs – The IN Approach

Competition Commission of India

**Findings:**

(1) forcing a party to execute NDA and imposing excessive and unfair royalty rates constitutes an abuse of dominance,

(2) transparency is the hallmark of fairness - use of NDAs is contrary to the spirit of applying fair and uniform terms to similarly placed players ,

(3) expressed concern about hold-up and royalty stacking, and

(4) charging of two different license fees per unit phone for use of the same technology *prima facie* is discriminatory and also reflects excessive pricing vis-à-vis high cost phones,

**Interim Order:**

(1) granted an ex-parte injunction restraining the selling, importing, or manufacturing mobile devices that implemented 3G, AMR and EDGE standards,

(2) ordered the CCI not to issue a final order,

(3) Instructed CCI not to interfere with the ongoing litigation,

(4) alleged infringement of its patents that were essential to the 2G and 3G standards

(5) used the net sales price of the downstream device as a royalty base in calculating amount of royalty.

***"The Net Selling Price means with respect to each company product sold by the company or any of its affiliates the Selling Price charged by the company or its affiliate for such company product unless such sale has not been made on arms length basis in which case the net selling price will be the selling price which the seller would realize from an unrelated buyer in an arms length sale of an equivalent product in an equivalent quantity and at the equivalent time and place as such sale."***

# Ericsson's SEPs in India

**AMR Patents**

- IN 203034 -- Linear Predictive Analysis by synthesis encoding method and encoder
- IN 203036 -- Apparatus for producing from an original speech signal a plurality of parameters
- IN 234157 -- A method of encoding/ decoding multi-codebook fixed bitrate CELP signal block
- IN 203686 -- Method and system for alternating transmission of codec mode information
- IN 213723 -- Method and apparatus for generating comfort noise in a speech decoder

**3G Patents:**

- IN 229632 -- Multi-service handling by a single mobile station
- IN 240471 -- A mobile radio for use in a mobile radio communication system

**EDGE Patent:**

- IN 241747 -- A transcribing omit unit for block automatic retransmission request

***Micromax Informatics Ltd. v. Telefonaktiebolaget LM Ericsson***
***Gionee v. Telfonaktiebolaget LM Ericsson***
***Intex Technology Ltd. v. Telfonaktiebolaget LM Ericsson***
***Xaiomi Technologies v. Telfonaktiebolaget LM Ericsson***
***Kingtech Electronics v. Telfonaktiebolaget LM Ericsson***
***iBall v. Telefonktiebolaget LM Ericsson***
***CCI v. Telefonktiebolaget LM Ericsson***
***Lava v. Telefonktiebolaget LM Ericsson***

***ZTE v. Viringo***
***Asus v. Viringo***

# Ericsson v Micromax

| Table 1. Royalty rates that Micromax agreed to pay Ericsson as an interim arrangement | |
|---|---|
| **Standard incorporated in mobile device** | **Royalty rate (as a percentage of the net sales price of the mobile device)** |
| GSM | 1.25% |
| GPRS + GSM | 1.75% |
| EDGE + GPRS + GSM | 2.00% |
| WCDMA/HSPA | 2.00% |

Table 2. Royalty rates that the Delhi High Court Determined in *Ericsson v Micromax*

| Time period | Standard incorporated in mobile device | Royalty rate (as a percentage of the net selling price of the mobile device) |
|---|---|---|
| Filing of Suit to 12 November 2015 | GSM | 0.8% |
| Filing of Suit to 12 November 2015 | GPRS + GSM | 0.8% |
| Filing of Suit to 12 November 2015 | EDGE + GPRS + GSM | 1.0% |
| Filing of Suit to 12 November 2015 | WCDMA/HSPA | 1.0% |
| 13 November 2015 to 12 November 2016 | GSM | 0.8% |
| 13 November 2015 to 12 November 2016 | GPRS + GSM | 0.8% |
| 13 November 2015 to 12 November 2016 | EDGE + GPRS + GSM | 1.1% |
| 13 November 2015 to 12 November 2016 | WCDMA/HSPA | 1.1% |
| 13 November 2016 to 12 November 2020 (or end of trial, whichever is earlier) | GSM | 0.8% |
| 13 November 2016 to 12 November 2020 (or end of trial, whichever is earlier) | GPRS + GSM | 1.0% |
| 13 November 2016 to 12 November 2020 (or end of trial, whichever is earlier) | EDGE + GPRS + GSM | 1.3% |
| 13 November 2016 to 12 November 2020 (or end of trial, whichever is earlier) | WCDMA/HSPA | 1.3% |

# The Philips SEP Decision in India

On July 12, 2018, the Delhi High Court became the torch bearer for intellectual property yet again when it delivered India's first post-trial judgment in a Standards Essential Patent (SEP) lawsuit in *Koninklijke Philips Electronics N.V . vs. Rajesh Bansal A nd Ors.,*

- In 2009, Philips had filed two patent infringement suits against local Indian manufacturers of DVD Video Players alleging infringement of its SEP.
- Indian Patent No. 184753, is essential to the DVD Forum Standard formulated in 1996 and subsequently adopted by the European Computer Manufacturers Association (in 2001) and International Standards Organization (in 2002).
- The defendants were alleged to have been importing components of DVD players, including chips from MediaTek, from China and incorporating them in infringing DVD players sold in India under the brand names Passion and Soyer.
- Despite requests from Philips, the defendants did not obtain a license for the protected technology which eventually led to the filing of the lawsuits by Philips.
- Although, arguably, the lack of evidentiary strength in the defendants' arguments played an important role in the judgment, this case is nevertheless an important one for India's patent landscape.
- It is the first post-trial judgment where the suit patent is a SEP – although a number of SEP infringement matters have been filed and agitated before Indian courts, i.e. the Ericsson and Dolby cases, they have either been settled amicably (after the preliminary phase) or are still pending adjudication.
- Also significant is that this is the first judgment that
  - (i) ascertains infringement of a SEP;
  - (ii) orders defendants to pay the attorneys' fee to the plaintiff Philips; and
  - (iii) assesses punitive damages in a patent case.

**Koninklijke Philips Electronics N.V . vs. Rajesh Bansal A nd Ors., CS(COMM) 24/2016, CS(COMM) 436/2017 (Delhi High Court).**

The salient points covered in the final decision are as follows:

- **Essentiality**
  - The court accepted the *'essentiality certificates'* granted to the corresponding US and European patents and agreed that the suit patent was, accordingly, essential for the fulfilment of the DVD Standard.
  - The court also analyzed that claims of the suit patent matched with claims of the US and European patents thereby confirming its position on essentiality.
- **Infringement**
  - On the issue of infringement, accepting the essentiality argument of the plaintiff, the court stated that the suit patent was a SEP and that the defendants' unlicensed product complied with the standard, thereby infringing the patent.
  - The court also noted that the product-claim analysis of the defendants' product by the plaintiff's expert established infringement.
- **Validity**
  - The defendant's challenge to the validity of the patent, that the claims relate to software per se or algorithm (under *Section 3(k) of the Indian Patents Act*) and, therefore are unpatentable, was struck down by the Court because the written statement filed by the defendants did not plead this defence!
- **Exhaustion**
  - The defendants took the plea that they were not liable for infringement under the common law doctrine of exhaustion of rights because MediaTek was an authorized licensee of Philips and they were using MediaTek chips in their players - the court disagreed, noting that defendants were unable to establish this fact.

…… The salient points covered in the final decision are as follows:

- **Royalty**
  - The court relied on the 2015 U.S. Federal Circuit case, *CSIRO v. CISCO, 809 F.3d 1295 (Fed. Cir. 2015)*, in support of its decision to use the entire market value of the end-product as the royalty base.
  - Thereafter, because, the defendants had not produced any evidence to support their contention that plaintiff's rates were not Fair, Reasonable and Non-discriminatory (FRAND), the court accepted the plaintiff's rates exchanged during informal negotiations and fixed the royalty at US$ 3.175 per unit, from the date of institution of the suit until May 27, 2010 and, thereafter, at US$ 1.90.
  - The actual damages were not set out because of lack of sales data provided by the defendants, and the court appointed a local commissioner to ascertain the exact quantum of damages.
- **Costs and Punitive Damages**
  - In a first for a patent case in India, the court also ordered the defendants to pay the attorneys' fee and court fee to Philips. In addition, relying on *Hindustan Unilever Ltd. vs. Reckitt Benckiser India Limited, 207(2014) DLT 713 (DB) (Delhi High Court)*, which deliberates on the law of punitive damages while referring to principles enunciated in the landmark UK cases *Rookes v. Barnard, [1964] UKHL and Cassell & Co. Ltd. v. Broome, [1972] UKHL 3.*
  - The court imposed punitive damages of approx. US$ 7,300 on the defendants.

## Open Issues

- The court accepted Philips' negotiated rates because the defendants, who argued that the rates were not FRAND, did not support their contention with suitable evidence. This, however, limits the applicability of the decision to instances where one party does not offer FRAND alternatives because there is no discussion on how FRAND obligations of both parties should be determined to arrive at the royalty rate.
- Although the court provided excerpts from several landmark cases on how punitive damages must be calculated, and specifically noted that a punitive award may be calculated *"having regard to the three categories in Rookes and also following the five principles in Cassell"*, there was no discussion on how the categories/principles of *Rookes* and *Cassell* should be applied.
- The court opined that once a threshold requirement is met, i.e., if it is determined that the damages awarded for a wrongdoing are inadequate, a punitive award may be in order. However, there is no guidance on why the court felt that the damages (which would amount to several million rupees) in the present instance would be *"inadequate"* so as to trigger a punitive award, particularly one amounting to approx. US$ 7,300 – a figure quite insignificant in comparison to the potential damages award.
- The court accepts the product-claim analysis of the plaintiff's expert to establish infringement without proper claim construction or claim mapping – a procedure that is contrary to the generally accepted infringement analysis.
- On the issue of whether Philips, along with various other members of the DVD forum, was misusing its position to create a monopoly and earn exorbitant profits by creating patent pools, the court deflected the issue and held that the issue was beyond the scope of the present suit, and was best left to the Competition Commission of India (CCI) to adjudicate.

# FRAND – For Indian Companies

- As India is increasingly covered by cellular networks and has a growing number of Indian smart-phones users, almost unknowingly, standard essential patent (Essential Patent) technology is fast becoming one of the most-used feature of urban Indian life and the driver of huge value to Indian consumers.
- For the last two years, the Competition Commission of India and the Delhi High Court have tussled over defining the nascent jurisprudence of FRAND licensing terms in India.
- Both bodies have passed several interim orders (all Ericsson's patents), which suggest opposing views on the balance of interests between the essential technology contributors and the technology users.
- The contentious issue at hand is the methodology to calculate the Essential Patent royalty rate.
- From a policy perspective, the Delhi High Court's royalty pricing methodology could be seen as accepting that the retail value of a multi-component product, like a mobile phone, is derived from the combinatorial interaction of its multiple component parts – each generating complementarity effects, which enhances the value of the final product.

# INDIA – Looking for a Balanced Approach

- A FRAND commitment means a commitment to license everyone who wants to implement the standard;

- A SEP holder that makes a FRAND commitment must not be permitted to obtain an injunction against an alleged infringer, except in the following limited circumstances:
  - the potential licensee is in financial distress and unable to pay its debts;
  - the potential licensee's assets are located in jurisdictions that do not provide for adequate means of enforcement of damages;
  - the potential licensee is unwilling to enter into a licence agreement on FRAND terms and conditions, with the result that the SEP holder will not be appropriately remunerated for the use of its SEPs.

- It should not be assumed that SEP licenses can be fairly negotiated in a predetermined timeframe as attempts at arbitrary deadlines simply advantage the licensor. For this reason, the assessment of whether a potential licensee is unwilling to enter into a license agreement is a question to be determined by the courts and *”must be made on the basis of objective facts”.*

# INDIA – Looking for a Balanced Approach

- A *"reasonable"* royalty under a FRAND commitment must take into account various factors, which include
  - basing the royalty on only the value of the patented component rather than other components or the entire product;
  - assessing the relative contribution of the SEP to that component, taking into account alternative technologies that were available before the adoption of the standard; and
  - determining the royalty amount in light of other patent licenses required to implement the standard.

- Holders of FRAND-encumbered SEPs may not require prospective licensees to take licenses to patents that are not SEPs as a condition for a license to their SEPs.

- Both parties may agree to negotiate a package license of SEPs and non-SEPs, but mandating the licensing of non-SEPs is not consistent with a FRAND commitment.

# The Future

- Standardized technologies such as LTE, WiFi, NFC, RFID or Bluetooth will strongly contribute to the next technological revolution of the Internet of Things (IoT).
- In this regard standard-essential patents (SEPs) are increasingly the subject of lively debates among market observers, policy makers and regulatory institutions.
- Yet little is known about the overall number truly standard essential patents declared in the numerous standard setting organizations (SSOs).
- Litigation reveals that the frequency of litigated declared SEPs has been constantly increasing since the mid-2000.
- Requirement for a more transparent understanding on the technological concentration and the regional application of SEPs, an overview of global SEP owners as well as an analysis on activities connected to patent licensing, patent trade, patent litigation and patent essentiality.
- Better assessment of the needs and feasibility of more informative patent declarations.
- The overwhelming majority of declared SEPs are renewed indefinitely, which suggests that all of them have significant market value and may be subject to lucrative royalty income.

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