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## FRAND or foe

### **Associates Sutapa Jana and Nikhil Chawla of Singh & Singh Lall & Sethi discuss the challenges faced in standard-essential patent litigation**

The recent tussles between standard-essential patent (SEP) holders and implementers have grabbed the limelight in the arena of patent litigation. To understand these tumultuous wars of SEPs and fair, reasonable and non-discriminatory (FRAND) rates, it is of utmost importance to know exactly what these terms signify.

#### **Advent of SSOs**

The entire telecommunications industry has gone through a lot of developments and improvements over the years to arrive at what we see today. Initially, the technology in this industry varied from region to region. For instance, the US followed the CDMA technology while Europe was inclined towards GSM technology. Although these technologies were efficient in their respective territories, there was no compatibility and operability between the handsets/devices in different regions.

Further, with the passage of time, a need was felt to standardise these technologies in order to ensure compatibility, interoperability, access to the latest technology for the implementers, safety and reliability, and so on, between different devices/handsets in the telecommunications industry, which led to the establishment of various standard setting organisations (SSOs).

Accordingly, SSOs such as the European Telecommunications Standards Institute (ETSI) are responsible for setting up standards for each technology in this field of mobile telecommunications, to be followed throughout the world uniformly. Standards are created by SSOs having taken input from various industry researchers and developers to ensure that the latest and best technologies are incorporated as part of the standards.

#### **Overview of SEPs**

When a technical contribution in a particular technology/aspect of technology is adopted to the standard, the patent rights of the contributor become standard-essential. The SSOs that form part of the telecommunications domain provide assignees the option to declare their patents essential to a specific standard.

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declaration to the effect that they are going to license the SEPs on FRAND terms.

### **Balancing competing interests**

Patent rights are monopolies, which implies that when a patent is granted, the patent holder gets the right to prevent third parties from making, using, offering for sale, selling or importing its invention/product in that particular territory, without the patent holder's consent. Hence, in a general patent system, the right to license a patent is the domain of the patent holder.

On the contrary, SSOs take into consideration both the monopolising power of the SEP holders to license their SEPs on higher royalty rates and the necessity of the implementers to take licences of those SEPs.

As a result, to prevent the SEP holders from exercising their monopolising power, which is anti-competitive in nature, SSOs take many measures. For instance, ETSI makes it mandatory for SEP holders to license their SEPs on FRAND rates. This measure ensures fair remuneration to SEP holders for their investment in the development of the technology and the implementer gets access to the latest technology on a FRAND rate.

### **SEP litigation**

SEP litigation entails the inevitable discussion of FRAND determination, royalty base, anti-competitive conduct by the SEP holder, and so on, as evident from the judgements of courts in the US.

In *Ericsson v D-Link* (2014), the US Court of Appeals for the Federal Circuit abstained from deciding any definite rules for reasonable and non-discriminatory-obligated patents and instructed the court to fashion damages instructions to the specific circumstances and evidence presented in a particular case. The Federal Circuit held that royalty awards must be based on the incremental value of the invention and not the value of any increased value the patented feature gains from its inclusion in the standard.

The court also held that as far as patent hold-up and royalty stacking are concerned, it must provide case-specific evidence on the record of patent hold-up and royalty stacking. The Court reaffirmed the holdings in *VirnetX v Cisco Systems* (also 2014), that comparable licences in general may be used to help the jury decide an appropriate royalty award. Further, the Federal Circuit opined that comparable licences are deemed as the best indication of what are reasonable licensing terms.

The court added that comparable licences will not be inadmissible on the ground that: (i) the licences are

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as the royalty base, rather than the smallest salable patent practicing unit (SSPPU). The Federal Circuit dismissed the rule advanced by Cisco that all damages models to begin with the SSPPU is untenable and used the end product as the royalty base, because limiting the base to the cost of the WiFi chip would not capture the value of the patented technology.

The US International Trade Commission took a position in the Interdigital judgement (Certain Wireless Devices with 3G and/or 4G capabilities and Components thereof, 337-TA-868) that the exclusion order can be obtained by the SEP holder if the infringer is an unwilling licensee and does not act in good faith/applies delaying tactics. The ITC further observed that there is no threat of patent hold-up in this industry. The ITC was of the view that the business model of the SEP holder requires it to license its portfolio to generate revenue and if it should refuse to license its portfolio, or license it at a rate that put its licensee(s) at a competitive disadvantage, the threat to its business would be both immediate and real.

#### **Anti-competitive contentions raised**

Various contentions accusing the SEP holder of anti-competitive conduct or abuse of dominant position have been raised by the implementers during the course of litigation. One such concern is the practice known as 'patent ambush', where a participant in a SSO fails to disclose patents relevant to a standard and then later asserts those patents.

Secondly, it has been argued that the patent holder, after giving an undertaking to SSOs at the time of the standard setting process to license on FRAND rates, subsequently breaches that undertaking and demands a higher royalty rate from the implementer/licensee. This practice by the SEP holder is known as 'patent hold-up'. Such a finding could attract sanctions under the abuse of dominance provision.

Lastly, implementers have advocated that the threat of injunctive relief used by the SEP holder is inherently inconsistent with an SEP holder's commitments to license SEPs on FRAND terms.

To date, there has been no trace of any systemic patent hold-up problem damaging the interests of consumers or discouraging technological innovation and implementation, either in the context of standardised technologies or more generally. The Telecommunications Industry Association held in 2011 that 'hold-up' must include "intentional and deceptive conduct" and that "routine bilateral disagreements over licensing terms" are not a 'hold-up'.

It is pertinent to note that licensing at FRAND rates is

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in looking at the interests of the parties, holding out meets the interest of the implementer, but if the SEP holder exercises hold-up, it will suffer losses along with the licensee.

Further, courts/competition authorities have taken a view that an injunction should not be barred in all circumstances. It has been observed that injunctions on SEPs shall lie, inter alia, “when a prospective licensee refuses to engage in licensing negotiations” or “when a prospective licensee refuses to pay a royalty that is determined to be FRAND by a court”. There is no risk to the implementer in not taking a licence before it exhausts its litigation options. The only risk for violating the agreement is to pay a FRAND-based royalty or fee. This puts the risk of loss entirely on the side of the patent holder.

SEPs have become a rather essential and standard debate for courts and competition regulators across the globe, including India. There are many open-ended questions that courts and authorities need to consider while adjudicating any SEP dispute.

In view of the judicial decisions of the US, it is well settled that there is no concrete/definite rules for FRAND-obligated SEPs. The courts that have dealt with SEP disputes have observed that each case should be dealt according to the facts and circumstances of that particular matter.

However, jurisprudence on certain issues has been well settled. Firstly, as far as patent hold-up hypothesis is concerned, there is no concrete proof of this. Further, this is further evident from the fact that in mobile telecommunications, no trace can be found of any reduction in competition or innovation, elevation of price, or other market distortions.

Secondly, SSOs generally require the SEP holder to offer a licence and the implementers to seek one. There is no such provision anywhere that allows the implementers to simply choose to infringe and then demand a licence on FRAND rate when caught. Further, it is not the requirement of the SEP holder to negotiate a licence but it is also the responsibility of the implementers to come to the bargaining table and negotiate prior to engaging in the (potentially) infringing activities.

In view of the jurisprudence set in US, it is apparent that actual negotiated comparable licences for SEPs are a significant indication of the FRAND criteria of the licence conditions that are offered. Further, royalties on FRAND terms can be based on the end product as the appropriate royalty base, rather than the SSPPU. It is also imperative that FRAND determination is done not on a patent-to-patent basis this would be difficult and costly. Hence,

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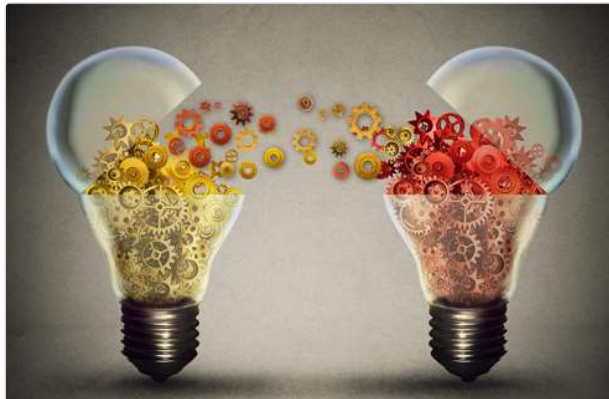
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