STANDARD ESSENTIAL PATENTS WITH RESPECT TO TELECOMMUNICATIONS IN INDIA

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ABSTRACT

Standards are the technical specifications of new product or process Patent, these are the symbol of development and competitiveness in an economy. Standards help to overcome network effects and problem of Patent thickets in network industries. Standard are essential to ensure interoperability and to analyze the pro – competitive and anti – competitive effects of standards. It is necessary to know the pros and cons of standards in relation to consumer interest and competition in the market.

One hand, overly aggressive antitrust enforcement could restrict the legitimate pro-competitive uses of a Patent. On other hand, a lack of appropriate antitrust enforcement could fail to penalizes firms that use bundles of Patents to harm the competitive process to the detriment of consumers

KEY WORDS: ***Licence, Royalty stacking, Exhausted components, Entire market value, Patent hold up, Patent Thickets, Patent Pool.***

INTRODUCTION

The Patent system is designed with a paradigm invention in mind- A new device or machine covered by a single Patent. In contemporary more and more products incorporates not a single invention but a combination of many different components each of which may be the subject of one or more Patents. In the network externality , especially in information technology sector in particular, modern products such as microprocessors, all phones, memory devices can easily be covered by dozens or even hundreds of different Patents[i].

DEFINING STANDARDS

Standards are technical specifications that seek to provide a common design for a product or process. Ensuring that the products conform to standards facilities almost definite reliability, quality, stability when purchasing the products and subsequently, an increase in their demand. To lay it down simply, a standard is a document that exhibits certain requisites for a particular product, element, system or service or elaborately describes a specific method. Formal standards are declared by Standard Setting Organizations (SSOs) and include establishments such as the European Telecommunications Standards Institute (ETSI), Institute for Electrical and Electronics Engineers (IEEE) and various other ad hoc informal organizations. Standards can also be of two different kinds- those with are mandatory or those that are up to one's discretion[ii].

The concept of standard essential Patents (SEPs) is new to India. It acts like a certification mark. The Indian Patent does not contain any provisions with respect to SEPs. in general the Patent Act does not lay down any specific criteria or terms and conditions to be complied with when licensing a technology and thus is very subjective in nature, differs from case to case. Patent rights granted over such standard establishing technologies are called Standard Essential Patent[iii]. In this case of SEPs, where a Patented technology becomes a market standard. Impliedly Patent holder has a term of 20 years(Monopoly[iv]). For the authorised use, manufacturer or related Patent holder, need a permit from the Patentee which in term referred as licence. With respect to information technology, most of the inventions are under the scope of the Patent thickets[v] and Patent pools[vi], so authorised permission is needed from the Patentee. In turn, these SEP holders gain a huge competitive edge in the market and do not face any competition until they expire and move into the public domain. If Manufactures prefer

Products that use non-standardized technologies are generally commercial failures, because consumers want their devices to interact with those of other people[vii].

This SEPs is not absolute right like rest of the Patent rights, Owner is restricted on its use on the ground of RAND (reasonable and non-discriminatory) hence the owner of SEP is under an obligation to grant license to use the technology which sets a standard for the industry. SEP Holder may be allowed to charge a nominal fee but that should be reasonable and justified otherwise Competition law shall intervene to avoid the monopoly.

Major issues involved in SEP

1. Patent holdup:

Once a Patent is adopted as a standard and achieves commercial acceptance, it becomes 'locked-in'. It is necessary for a manufacturer to use the same; otherwise his product would be incompatible with other companies' products and hence unmarketable. Such a situation strengthens the SEP holder's bargaining power because the licensee does not have alternatives to the same technology. Further SEP holder fails to comply the FRAND terms(fair, reasonable, and non-discriminatory) and asking the potential licensee to sign a non-Disclosure agreements for licence negotiations.

FRAND proceedings in India

Ericsson has sued indigenous and several Chinese telecommunications device manufactures for infringement of its 2G and 3G SEPs. in turn some of those indigenous manufactures have filed complaint against Ericson with Indian Antitrust Authority, The Competition Commission of India (CCI), alleging that Ericssons SEP licensing were anticompetitive and violated the FRAND commitments[viii]. In 2013 Micromax Informatics limited filed a complaint with the CCI, alleging that Ericsson abused its allegedly dominant position by imposing exorbitant royalties for the use of its SEP, thereby violating the section 4 of Competition Act 2002[ix]. The royalty base constitutes "Misuse of SEP" that would ultimately harm Consumers.

Micro max added that Ericsson Impose exorbitant royalties[x] because it was aware that "There was no alternative technology available". And it was the sole licensor for SEP necessarily implemented in 2G and 3G wireless telecommunication standards. Further comparatively they are imposing high royalties with respect to other potential licensees. And asking the potential licensee to sign the non- disclosure agreement

CCI expressed that FRAND Licenses are primarily intended to prevent Patent - Hold Up and Royalty Stacking[xi].

2. Royalty base

The reasonableness of a royalty amount depends on the correct selection of the royalty base. The SEP holders tend to impose the royalty rate on the net sale price of the final product rather than only on the component which comprises the infringed Patent. This means even if SEP is used in a single component of a multi component product, the implementer would be liable to pay the royalty on the components which do not include the SEP. this is called Doctrine of Entire Market Value[xii].

3. Royalty Stacking

Royalty stacking is the situation where royalties are layered upon each other leading to a higher aggregate royalty. This happens when different SEP holders impose similar royalties on different components of same multi component product, leading the royalties to exceed the total product price[xiii].

4. Threat of Injunctions

The threat that a Patent holder will obtain an injunction that will force the downstream producer or manufacturer or related Patent holder to pull its product from the market. The injunction threats often involve a strong element of Hold Up in the common circumstances in which the defendant has already invested heavily to design, a, market and sell the product with the allegedly infringing feature. The threat of an injunction can enable a Patent holder to negotiate royalties for in excess of the Patent holder true economic contribution, Especially if the value of the Patentee technology is small relative to the value, but fixes Royalties for the whole product.

Jurisdiction of the CCI
According to Ericsson, neither Patent nor licences for Patents are "goods" or "services". Therefore, a Patent holder cannot not be considered an "enterprise" under Section 2(h) of the Competition Act, in the context of any allegation of demand of excessive royalty or imposition of unfair and unreasonable terms for grant of Patent licences. The court held that Patents are goods, and consequently, Ericsson would fall within the definition of an "enterprise". The court also noted that the *subject matter of the complaints made by Micromax and Intex cannot be excluded from the purview of the Competition Act and "...whether there is any abuse of dominance is solely within the scope of the Competition Act and a civil court cannot decide whether an enterprise has abused its dominant position and pass orders as are contemplated under Section 27 of the Competition Act"*[xiv]**.**

Conflict between the Patents Act and the Competition Act : The court held that in the event of any irreconcilable inconsistency between the two legislations, the Patent Act being a specialised statute, would override the general statute. But here both the statute are specialised statue.

Recommendation

Network externality is the place of interoperability, especially in software Patents overlapping of Patent exist. Due to this issue, the law regulated to issue license to the related Patent holder for using the SEPs by paying the royalties. But fixing up the royalties are leading to multiple royalties. And further through the standardized interoperability, consumers and Potential licensee are likely to be “locked in” to a single product model or manufacturer.

1. Fixing up a Reasonable royalty by obliging the FRAND terms

Reasonable Royalty is an amount “which a person, desiring to manufacture and sell a Patented article, as a business propositions, would be willing to pay as a royalty and yet be able to make and sell the Patented article in the market, at a reasonable profit[xv]

In setting a reasonable royalty rate for the license of an infringed Patent, courts attempt to reconstruct the hypothetical bargain that the parties would have negotiated at the time when the infringing conduct began.

To accomplish this task, courts look to a nonexclusive list of fifteen factors first set out[xvi]:-

The factors are:

1. The royalties received by the Patentee for the licensing of the Patent in suit, proving or tending to prove an established royalty.
2. The rates paid by the licensee for the use of other Patents comparable to the Patent in suit.
3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non- restricted in terms of territory or with respect to whom the manufactured product may be sold.
4. The licensor’s established policy and marketing program to maintain his Patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.

5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter.
6. The effect of selling the Patented specialty in promoting sales of other products of the licensee; that existing value of the invention to the licensor as a generator of sales of his non-Patented items; and the extent of such derivative or convoyed sales.
7. The duration of the Patent and the term of the license.
8. The established profitability of the product made under the Patent; its commercial success; and its current popularity.
9. The utility and advantages of the Patent property over the old modes or devices, if any, that had been used for working out similar results.
10. The nature of the Patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention
11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.
12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.
13. The portion of the realizable profit that should be credited to the invention as distinguished from non-Patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.
14. The opinion testimony of qualified experts.
15. The amount that a licensor (such as the Patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee—who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the Patented invention—would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent.

2. Reasonable royalties should not be framed under the Doctrine of Entire Market Value - Exceptions - functional unit test

In Rite-Hite Corp. v. Kelley Co., the Federal Circuit first enunciated the current standard for the entire market value rule. The court created a “functional unit test” under which the entire market value rule may be invoked to award damages based on any components of an accused device, even those not physically connected to the infringing component, so long as they function together with the Patented invention as part of a single “functional unit.[xvii]”

3. At some cases without the permission of the SEP holder the standards can be used.

Other Use Without Authorization of the Right Holder[xviii]

(l) where such use is authorized to permit the exploitation of a Patent ("the second Patent") which cannot be exploited without infringing another Patent ("the first Patent"), the following additional conditions shall apply:

(i) the invention claimed in the second Patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first Patent;

(ii) the owner of the first Patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second Patent; and

(iii) the use authorized in respect of the first Patent shall be non-assignable except with the assignment of the second Patent.

4.Instead of locking up in a single product model or manufacturer, they can go for the alternate standard product

5.To have a fair competitive trade practice, framing a legislative measure are in need for fixing up the royalties and issuing license to the related Patent holder. Till date no such enactment exists

6.Non Disclosure Agreement is an exception to the restriction of the trade as per section 27 of the Indian contract act, but fixing up of royalties cannot be treated as a trade secrets or business methods. So the element is contrary to the object of NDA agreement. These take up proceeding need to restricted in trade practices.

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[i] *Patent holdup-Royalty Stacking-Mark A.Limley &Carl Shapira, Standard Law Review.*
[ii] *http://www.khuranaandkhurana.com/2017/02/27/frand-ing-Patent-licenses-and-its-implication-in-landmark-cases-in-india/#_ftn1*
[iii] *Washington District Court in Microsoft Corp. v Motorola Mobility, Inc.*
[iv] *a **monopoly** market make the single seller the market controller as well as the price maker. He enjoys the power of setting the price for his goods*
[v] *A Patent thicket is "a dense web of overlapping intellectual property rights that a company must hack its way through in order to actually commercialize new technology" (Shapiro, 2000)*
[vi] ***Patent pool** is an association of two or more companies to cross license their **Patents** in respect to a particular technology*
[vii] *DUFEY GUILLAUME, "Patents and Standardisation: Competition Concerns in New Technology Markets".*
[viii] *FRAND in India The Delhi high Court's emerging jurisprudence on royalties for Standard Essential Patents, J.Gregory sidak, Journal of Intellectual Property Law & Practice, 2015, VOl 10 No.8, Pg 609*
[ix] *Competition Act 2002, Section 4. "Abuse of dominant Position"*
[x] *Exorbitant royalties includes unPatented components, exhausted Patents and for the entire product*
[xi] *Micromax Informatics Ltd v Telefonaktiebolaget LM Ericsson, Case No. 50 of 2013, Competition Comm'n of India (12 November 2013), http://cci.gov.in/May2011/OrderOfCommission/261/502013.pdf; Intex Techs. (India) Ltd v Telefonaktiebolaget LM Ericsson, Case No. 76 of 2013, Competition Comm'n of India (16 January 2014), http://cci.gov.in/ May2011/OrderOfCommission/261/762013.pdf; Best IT World (India) Private Ltd. v Telefonaktiebolaget LM Ericsson, Case No. 4 of 2015, Competition Comm'n of India (12 May 2015), http://www.cci.gov.in/ May2011/OrderOfCommission/261/042015.pdf*
[xii] *Patentee over compensation and the Entire market Value Rule - Brian J. Love, Standard Law Review, Volume 60, Issue-1, Pg.263*
[xiii] *"India: Standard Essential Patents" Dipak Rao and Nishi Shanbana*
[xiv] *Joining the dots in india: in India's Big Ticket Mobile Phone SEP Litigation: Rohini Lakshana, Centre for internet and society, india*
[xv] *Good year tire and Rubber co. vs overman cushion tire co.*
[xvi] *Georgia-Pacific Corp. v. United States Plywood Corp*
[xvii] *ibid*
[xviii] *Trade Related Aspects of Intellectual Property Rights-Article 31*