FICCI's SUBMISSION ON THE DIPP's DISCUSSION PAPER ON STANDARD ESSENTIAL PATENTS AND THEIR AVAILABILITY ON FRAND TERMS

11. ISSUES FOR RESOLUTION

a) Whether the existing provisions in the various IPR related legislations, especially the Patents Act, 1970 and Anti-Trust legislations, are adequate to address the issues related to SEPs and their availability on FRAND terms? If not, then can these issues be addressed through appropriate amendments to such IPR related legislations? If so, what changes should be affected.

And

l) Whether there is a need of setting up of an independent expert body to determine FRAND terms for SEPs and devising methodology for such purpose?

FICCI SUBMISSION: India's legal framework provides adequate protection for innovation through the Patents Act, 1970 while providing effective competition law scrutiny via the Competition Act 2002. These are adequate to address the issues related to Standard Essential Patents (SEPs) and their availability on Fair Reasonable and Non- Discriminatory (FRAND) terms.

The dispute that primarily arises between the owners of SEP (i.e., licensors) and those who use the technology enabled by SEP (i.e., licensee) to manufacture the products is the 'royalty rate' and the 'basis of calculating royalty rates' to be paid to the licensors.

The issue that arises is whether the terms, including the royalty rate, that are being offered by the licensors are FRAND or not. It is submitted that FRAND rates are generally mutually determined by the parties (i.e., the licensors and licensees) through a negotiation process. A dispute arises when the parties are unable to agree upon the royalty rates which are FRAND, or the basis of calculation that leads to FRAND royalty rates.

It is submitted, in this regard, that there is no need of setting up of an independent expert body to determine FRAND terms for SEPs and devising methodology for such purpose. Determination of FRAND royalties should be left to private parties, but with the assistance provided by Standard Setting Organizations, regulators and the courts.

b) What should be the IPR policy of Indian Standard Setting Organizations in developing Standards for Telecommunication sector and other sectors in India where Standard Essential Patents are used?

And

c) Whether there is a need for prescribing guidelines on working and operation of Standard Setting Organizations by Government of India? If so, what all areas of working of SSOs should they cover?

FICCI SUBMISSION: It is submitted that the IPR Policy of Indian Standard Development Organization (SDO), Telecommunications Standards Development Society, India (TSDSI), seems to be adequate and is aligned to the IPR policy of international SSOs. Rules and Regulations of TSDSI and IPR Policy have been approved by Department of Telecommunications (DOT). The IPR policy of TSDSI was formulated with the due process of consultation, openness and transparency. TSDSI was instituted in year 2013 and it would be early to advocate for any IPR policy change of the TSDSI.

SSOs need to be encouraged to craft balanced Fair, Reasonable, and Non-discriminatory policies that reward SEP holders and are agreeable to both the sides. In general, the Indian SSOs should encourage the SEP owners and the implementers to negotiate the license on FRAND terms. The implementers should also ensure that genuine SEP owners are reasonably rewarded and compensated for their research and development efforts and to encourage them to further develop technologies for the benefit of the society at large.

d) Whether there is a need for prescribing guidelines on setting or fixing the royalties in respect of Standard Essential Patents and defining FRAND terms by Government of India? If not, which would be appropriate authority to issue the guidelines and what could be the possible FRAND terms?

And

f) Whether total payment of royalty in case of various SEPs used in one product should be capped? If so, then should this limit be fixed by Government of India or some other statutory body or left to be decided among the parties?

FICCI SUBMISSION: Today, when changes in the technology happen in a very fast pace, setting or fixing the royalties in respect of SEP and defining FRAND terms by the Government would be difficult to achieve and administer. Besides, fixing royalty rates might undermine the true value of innovation and may demotivate companies from making investments in R&D, innovations which are crucial for success of Indian government's "Make in India" and other initiatives. Government may create a framework for royalty setting but it should not set the royalties directly. In the case of disputes where royalty rates cannot be settled amicably, the courts or arbitration provide venues equipped to

make FRAND determinations in an environment that provides full procedural safeguards for both SEP holders and the implementers.

In many cases, when multiple SEPs which are owned by different SEP owners are needed for one standard, SEP owners decide to arrange for a one-stop-shop for the potential licensees. Such patent pools have appeared to be very useful and practice shows that patent pools established by SEP owners can function well without government's intervention.

In this regard, FICCI's earlier submission to Minister of Commerce dated 8th March 2016 and the note (*Annexure I*) - which mentions that the FRAND negotiations are contractual negotiations where the disputes are best left to Courts to adjudicate the matter – is attached. In this regards, it is suggested that the Government should play the role of a facilitator and not of a regulator.

e) On what basis should the royalty rates in SEPs be decided? Should it be based on Smallest Saleable Patent Practicing Component (SSPPC), or on the net price of the Downstream Product, or some other criterion?

FICCI SUBMISSION: It is submitted that there should not be One-Size-Fits-All in case of Royalty base as it is a subjective issue and must be left to the private parties to decide upon. In case of any dispute between the parties, courts should be the final authority to decide upon and pass an order.

g) Whether the practice of Non-Disclosure Agreements (NDA) leads to misuse of dominant position and is against the FRAND terms?

FICCI SUBMISSION: It is submitted that the NDAs may be treated as an important document which are confidential in nature between the contracting parties. Negotiation of a FRAND license agreement often involves exchange of sensitive commercial information which could cause significant harm to the businesses of the negotiating parties. NDAs are a necessary mechanism to deal with this issue, and their use should not lead to the violation of the FRAND terms. In this regard, the recent judgement of Delhi High Court in *Ericsson vs Intex* could be referred to, which mentioned that a Non-Disclosure Agreement (NDA) is a *Sine-qua-non* in every licensing deal, particularly in patent licensing negotiations which entails exchange of various confidential business and technical information between the parties.

h) Whether injunctions are a suitable remedy in cases pertaining to SEPs and their availability on FRAND terms:

FICCI SUBMISSION: It is submitted that injunctions may be a suitable and necessary remedy in certain cases pertaining to SEPs and their availability on FRAND terms wherein the prospective licensee is unwilling to take a license for the utilization of the standard essential patents. Patent holders take the route of an injunction as a last resort in such cases wherein the licensee arbitrarily delays the negotiation process to arrive at a conclusion on the license agreement. However, injunctions may be granted only upon the merits of a specific case.

In this regard, a recent judgement by the Court of *Dusseldorf* in *St. Lawrence Vs Vodafone*, could be referred which mentions that assertion of rights by seeking an injunction shall not be considered as an abuse of dominant position by the SEP holders.

i) What steps can be taken to make the practice of Cross-Licensing transparent so that the royalty rates are fair and reasonable?

FICCI SUBMISSION: It is submitted that the underlying objectives of entering into cross-licensing arrangements are best achieved if the rights holders are given the freedom to negotiate the terms of the arrangements on a one-on-one basis. Parties should not be bound to disclose their cross licensing arrangements and the terms of the same. The patent laws of India are adequate to deal with the problems that may arise in the licensing of standard essential patents.

j) What steps can be taken to make the practice of Patent Pooling transparent so that royalty rates are fair & reasonable?

FICCI SUBMISSION: It is submitted that the patent pools are always voluntary and created by the companies to increase the efficacy of management of license agreements. The best way of dealing with patent pools is to ensure that appropriate FRAND principles are in place so that the patent pool cannot be abused. It may also be ensured that the relevant competition law safeguards are applied and it should not be mandatory for a party to take licenses of non-SEPs as part of the licensing deal.

k) How should it be determined whether a patent declared as SEP is actually an Essential Patent, particularly when bouquets of patents are used in one device?

FICCI SUBMISSION: It is submitted that the Courts are competent to adjudicate on such issues of validity and essentiality.

m) If certain Standards can be met without infringing any particular SEP, for instance by use of some alternative technology or because the patent is no longer in force, what should be the process to declassify such a SEP?

FICCI SUBMISSION: It is submitted that as there is no formal way to classify a patent as SEP, there is no need for a process to declassify a patent as SEP. The patentee can decide to state that his patent is essential for a standard, and if that is disputed, only the courts should have jurisdiction to decide whether a patent is essential for a standard or not. It is also submitted that India is committed to follow the global standards by instituting Telecommunications Standards Development Society, India (TSDSI) which has a robust policy in place for safe-guarding the IP rights of SEP holders. The policies of TSDSI should be considered in following the global standards.

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ANNEXURE I

It is well appreciated that India has been key beneficiary of the SEPs and its availability at FRAND terms. In many sectors, the issue of "accessibility" and "availability" of the patented inventions is often faced which impacts socio economic development. However, such an issue is not faced when it comes to the standardized patented technologies. Unlike a conventional patent, the owner of SEP signs an irrevocable declaration to offer licenses to its SEPs on FRAND terms thus enabling **"Availability"** of technology at **"Reasonable"** rates. The rationale behind FRAND is access to patented technology while ensuring that the patentee is adequately remunerated. This approach is very much in compliance with the Competition Act[1] which ensures that the market dominance is not abused. As a result of such a FRAND commitment by Patentees, India has witnessed exponential consumer demand for the devices that are complaint with global standards. A study by British Standards Institute suggests that the standards could contribute up to 0.3% to 0.9% to the GDP. India today witnesses the mobile subscribers topping 1 billion in short span of time. This empowers millions of Indians to conduct business and participate in governance through their phones.

Thanks to Standardization of telecommunications technology, India has achieved 2nd position in the World in terms of mobile telephony and 4th largest across Asian economies in terms of mobile infrastructure. Telecommunication standards have ensured that new entrants into the market are able to commercialize their products in India and globally by allowing them to use the innovations of other companies' research and development investments without investing at all in the development and innovation of telecommunications technology. In return, it is expected that the new entrants into the market will fairly compensate those technology innovators for their inventions that the new entrants are taking advantage of to build their business. FRAND assured SEPs have given substantial lift to the entry and growth of Indian businesses whose profits have tripled[2] from 2007 to 2013. Many hand set manufacturers of Indian origin have come up gaining market share from market established players because they have taken advantage of the innovations developed by those who collaborated on telecommunication standards.

Any Government intervention in Examining the Standard Essential Patents (SEPs) on Fair, Reasonable and Non-Discriminatory (FRAND) terms by DIPP will lead to unnecessary ripples in the existing market framework which is working efficiently as it relies on the very competent national judicial system to intervene in case of any potential dispute.

Any such intervention is uncalled thus for. Our detailed analysis of potential deterrent effects is given below:

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[1] Section 3 and 4 of Indian Competition Act, 2002

[2] Debunking the Smallest Saleable Unit theory, by Richard J Stark, CPI Antitrust Chronicle, July 2015, see foortnote 5. "SSPPU"

a. Government Intervention in the System Will be Counter-Productive to Market Driven inter-company Licensing Regime and deter "Ease of Doing Business"

The patents laid open for non-exclusive use are given status of Essential Patents which are FRAND assured. Thus, during the negotiations between the parties, the royalties are decided under FRAND terms. FRAND means that the compensation demand should be fair and reasonable for those who require a license to the patented technology. While calculating the FRAND royalties, there are many parameters that are factored in like cross licensing, a guaranteed volume, lump sum license Vs royalty based license etc. Because telecom innovators lived up to their commitment to license their standard essential patents on FRAND terms, the industry and subsequent new entrants were able to widely adopt the standardized technology. Further, FRAND gives due consideration to the value that technology brings to the consumers and towards the performance of standards. While Government of India has a role in ensuring that technology is accessible, there is a limited or no role that Government can play in deciding the licensing terms. Government has utilized its powers in deciding the royalty terms only in the cases of compulsory licensing, recourse to which is available under limited circumstances (U/S 84, 92 and 92A). Presently, the infringers of Essential Patents are demanding Government intervention in determining the guidelines on royalty to set royalties that are not FRAND compliant. If they are successful, this will disincentivize future innovations in this space and consequently adversely limit the scope of innovations that consumers may enjoy in the future. Offering Ease of Doing Business is high on Governments agenda. Larger push is given to provide single window clearance and alleviating bureaucratic delays and red-tapism in a bid to enhance private sector investments. It has been the aspiration of your Government to turn country into a top investment hub which showed positive turn by receiving better ranking in the World Bank Report on "Ease of Doing Business". The present demand of unlicensed Essential Patents implementers regarding patent licensing is contrary to such goals. Therefore, any government intervention in already well-settled FRAND licensing model, which works based on market dynamics, is not necessary.

b. The policy statement will not be aligned with the current thinking/ stand taken by the other Government bodies

The Telecom Standards Development Societies' (TSDSI) IPR framework (available at http://www.tsdsi.org/topic/2014/apr/07/rules-and-regulations/14/) is very much in line with ETSI (European Telecom Standards Institute), to which Department of Telecommunications is also a member. ETSI's objective has been to create standards and technical specifications that are based on solutions which best meet the technical objectives. In order to further this objective, the ETSI IPR Policy seeks to reduce the risk to ETSI, members, and others applying ETSI standards and technical specifications, that investment in the preparation, adoption and application of standards could be wasted as a result of an essential IPR for a standard or technical specification being unavailable"[5] . *"It follows, therefore, that a patent embodied fully or partly in a [ETSI* standard] must be accessible to everybody without undue constraints. To meet this requirement in general is the sole objective of the code of practice. **The detailed arrangements arising from patents (licensing, royalties, etc.) are left to the parties concerned, as those arrangements might differ from case to case".[6]**

[5] Article 3.1, ETSI IPR Policy.
[6] Common Patent Policy for ITU-T/ITU-R/ISO/IEC.

Government department thus ideally does not have any judiciary role in examining whether the SEPs are available on FRAND terms. ETSI, the European Telecommunications standards institute (to which TSDSI is also member), in its guidelines states that specific licensing terms and negotiations are commercial issues between the companies only.

The competition Commission of India has taken a stand that it is not a price setter and will not determine the royalty rate. Like, India's Competition Commission statement that "It is not a Price Setting Agency", European Commission has also stated that it is not in a position to decide "Fair" Pricing under FRAND and should be better left to the negotiating parties. This was clarified by Eliana Cargés Tolón3, deputy chief economist in the Internal Market department. She said that the European Commission is in no position to decide what a "fair" price should be when companies license patents entrenched in technology standards. She acknowledged that it is difficult to know what's fair given the sheer range and complexity of companies using and licensing patents. She also says that the Commission is "watching" and that the only thing they can do is improving negotiation conditions.

The European Commission's guidelines on horizontal agreements also frame standardization as a question of "Access", **not on determining terms of licensing:**

"Where participation in standard-setting is ***unrestricted*** and the procedure for adopting the standard in question is ***transparent***, standardization agreements which contain ***no obligation to comply*** with the standard and provide ***access to the standard on fair, reasonable and non-discriminatory terms*** will normally not restrict competition within the meaning of Article 101(1). Furthermore, the standard-setting organization's rules would need to ensure effective ***access to the standard on fair, reasonable and non-discriminatory terms***. In the case of a standard involving IPR, a ***clear and balanced IPR policy***, ***adapted to the particular industry*** and the needs of the standard-setting organization in question, increases the likelihood that the implementers of the standard will be granted effective access to the standards elaborated by that standard-setting organization."[7]

The largest Standard Development Organizations (SDOs), European Telecom Standards Institute (ETSI) and International Telecom Union (ITU), as per the IPR policy, endeavor to ensure that the technology is made accessible, however the decision on determining the royalty terms has been left on the negotiating parties. Such a policy statement will offer window to IPR infringers (Unwilling Licensees) to manipulate the Government system

The decision in Huawei Vs ZTE clarifies that FRAND is not a one-way street; and attempts to minimize hold-out and gamesmanship on the part of implementers. Increasingly in the last couple of years, many commercial entities are abusing the FRAND regime as an instrument to facilitate hold-out that is a long-term strategy of infringement and litigation aimed at avoiding paying FRAND royalties for technologies that are often the main driver of demand for their products. The decision attempts to put an end to these strategies.

In some of the recent Delhi High Court decisions, the court highlighted that the issue of Hold Out exists (Iball and Intex matter). The Indian Courts have been able to show their competence in deciding FRAND matters in case of Standard Essential Patents. In recognizing technology user's duty

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[3] MLex Article, EU Commission side steps in defining Fair in patent licensing disputes, by Mathews Newman, 11th Dec 2015

[7] EUROPEAN COMMISSION, GUIDELINES ON THE APPLICABILITY OF ARTICLE 101 OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION TO HORIZONTAL CO-OPERATION AGREEMENTS at S. 280, 283-84 (2011), *available at* http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011XC0114(04)&from=EN.

to negotiate in good faith, the decision is in line with U.S. case law, such as the *Ericsson v. D-Link* decision from the United States District Court for the Eastern District of Texas.

It is thus important that any inclination towards authorizing the Government department to Examine *availability of Standard Essential Patents (SEPs) on Fair, Reasonable and Non-Discriminatory (FRAND) terms* by DIPP or "Deity" must be discouraged in upcoming IPR Policy, that can be misused by infringers to their advantage which would be contrary to the decisions handed out by our competent Indian High Courts. This will have an unsettling effect on the cycle of innovation which will deprive the consumers from receiving technological upgrades. This will not only have negative impact on consumer demand, but simultaneously impact the national Telecom Policy that envisages achieving 600 million broadband subscription by 2020.

3. Attempts to define FRAND internationally have Failed[4]

While there is no doubt on the capacity of Government in venturing into the vicinity defining FRAND terms, it will be useful to learn from international perspective in terms of any attempts made in this regard and its potential ramifications.

In the past, under the pressure from implementers, there were several attempts made in year 1993, 2002 and 2006 which led to huge controversy. Such pressures relied on the theory that the SEP holder, being in dominant position, will extract royalty (Hold Up) that is beyond the incremental contribution made by its patents. Although, implementers failed to provide any empirical data that could prove their theory as true.

It was perhaps clearly evident that the Hold Up does not exist and hence, since 2007 in the IPR guidelines of ETSI, it has specifically disclaimed any specific definition of FRAND. Such specific disclaimers have been made by several other SDOs:

"such commercial terms are a matter for discussion between the IPR holder and the potential licensee, outside of ETSI," Id. §2.2, and that "[s]pecific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI." Id. §4.1.

We are attaching some reports which clearly indicate how the attempt made by IEEE has tremendously failed which has led to complete halt in the functioning of standards. Due to non-consensus amongst the members to follow FRAND terms, the standards that were to be published in 2016 have actually been pushed to 2017. As a result billions of rupees that went into developing standardized technologies have been stuck besides depriving the consumers in receiving technological upgrades. Many members have declined to give their Letters of Assurance in making their patents available under the new terms which are neither in compliance with the industry practice of licensing nor aligned to the other international SDOs like ETSI, GPP etc.

In a controversial move, IEEE did amend its IEEE policy under the pressure of implementers in March 2015, by explicitly defining licensing terms. It calls or chip set as the royalty base, besides taking away right of Injunction from the SEP holder besides other restrictions that tilts the balance more

[4] Perilious deviations from FRAND Harmony – Operational Pitalls of the 2015 IEEE Policy, by Ron D. Kaznelson et al., IEEE SIIT, 2015, 9th Intl Conference on Standardization and Innovation in Information Technology, Sunnyvale, CA, Oct 8th 2015

towards the business models of those who do not contribute in Standard Setting. IEEE policy creates a state of paradox and creates more uncertainty when the standard (legacy standard) developed by other SDOs, that follows well accepted policy of licensing on handset, is to be referenced in standard developed by IEEE which follows chip set as royalty base. This leads to a clear case of discrimination amongst licensees, by offering them different royalty base, which is ideally not in compliance with "ND" of FRAND" that calls for non-discrimination. Digital Single Market that envisages 26 billion connected devices, will work only when there are open standards that are developed basis WTO principals of "Transparency," Openness", Fairness". Such an IEEE policy decision is also not in line with the WTO principals. ETSI has openly thrashed IEEE Policy as being incompatible with its own[5].

In line with the aforesaid, we urge that any Government intervention in examining the availability of SEPs on FRAND terms will add another procedural layer towards the transfer of technology. This is, in fact, redundant as Government department is not expected to deliver the role of Judiciary which can best be left to Court of Law in case of any potential dispute. Given that India has a fairly well developed judicial system, Govt. departments such as DIPP/Diety should not be burdened with any additional responsibility of examining the availability of SEPs on FRAND terms and should ideally be left to the market forces/competition.

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[5] http://www.worldipreview.com/news/etsi-says-ieee-policy-is-not-compatible-with-its-ipr-policy-9280