Remfry & Sagar

ATTORNEYS-AT-LAW

TRADE MARKS • PATENTS • DESIGNS • COPYRIGHT

Remfry House at the Millennium Plaza
Sector 27, Gurgaon - 122 009
New Delhi National Capital Region, India
Tel : 91-124-280 6100 Fax : 91-124-280 6101 & 257 2123
E-Mail: remfry-sagar@remfry.com
http://www.remfry.com

376-B (Old No.202)
Avvai Shanmugam Salai, Gopalapuram
Chennai - 600 086, India
Tel & Fax : 91-44-4263 7392
E-Mail : remfry-sagar@remfry.com
http://www.remfry.com

India

Taking the FRAND-ly approach: a first look at FRAND battles in India

By **Pankaj Soni** and **Satyoki Koundinya,** Remfry & Sagar

The acronyms 'SSO', 'SEP' and 'FRAND' are common parlance in the information and communications technology industry today, as individuals and organisations must not only compete with each other, but also work together to achieve their goals – whether commercial or technological, domestic or international. Business strategy permitting, working together requires collaboration via licensing of intellectual property so that the market is not technologically fragmented and consumers can access a broader range of products implementing the same technological standard. After all, nobody wants a repetition of the VHS and Betamax wars. This quest for standardisation has led to the evolution of standards-setting organisations (SSOs) – voluntary organisations whose primary objective is to develop, promulgate and administer formal technical standards intended to address the needs of a wide base of adopters. An important aspect of an SSO's objectives is the identification of patents that are essential to the adoption of a standard (a standards-essential patent (SEP)). In practice, ownership of SEPs covering key aspects of a standard tends to be divided among multiple parties. For businesses, the implication is that whenever a standard is adopted, the SEPs are automatically used (and hence infringed).

Thus, while businesses can look forward to some uniformity in terms of the technical standards to be followed in creating products, in the face of fragmented ownership of SEPs, businesses must collaborate with rivals, through licensing, to bring their respective products to the consumer. To facilitate such collaboration, SSOs require SEP owners to license their patents on terms and conditions that are fair, reasonable and non-discriminatory (FRAND).

This is easier said than done, as the SSO-SEP-FRAND framework requires patentees to cross over and, as licensees, enter into licence agreements with other patentees that own equally essential patents. Unfortunately, in today's aggressive economy the result is often to fight licensing wars in court – after all, the underlying force is a patent, protected by the law and created to grant a limited monopoly to the patentee.

The mobile phone FRAND wars

Recent trends show that the mobile phone industry is perhaps most affected by the vagaries of the SSO-SEP-FRAND framework. Between 2010 and 2012 every major player in the mobile phone space was at war with another party in the same domain. Although the *Apple v Samsung* litigations caught everyone's eye – if only for the quantum of damages awarded – the battles between the other players underscore both the enormity of the issue and its global reach. When last reviewed, Sony, Google, Microsoft, Nokia, Motorola, Kodak, BlackBerry, LG, Pantech and HTC were all battling it out somewhere, primarily in the Western world.

Until recently, India has remained impervious to such licensing battles. People are still focused on more fundamental patent issues, such as Section 3 of the Patents Act and compulsory licensing. However, in the telecoms industry the licensing battle lines are starting to be drawn. Based on data released by the Telecom Regulatory Authority, India is the world's second-largest mobile market by number of subscriptions. Its active user base is more than 770 million and there is still ample room for expansion, as this figure accounts for only 62% of the country's population. Thus, as domestic and international players seek to gain a foothold in this promising market, the mobile phone industry is beginning to engage in patent skirmishes in relation to a thicket of SEPs relating to 2G, 3G and 4G technology. Simply put, India appears to be ready to take the FRAND-ly plunge.

FRAND-based litigation

The *Ericsson* disputes are laying the groundwork for this approach. In 2013 Ericsson filed a lawsuit against Micromax Informatics Ltd, India's largest mobile phone manufacturer, in the Delhi High Court, seeking damages and an *ex parte* and permanent injunction against Micromax with regard to any products infringing its SEPs relating to 2G, 3G and 4G technology. Ericsson claimed nearly Rs1 billion (approximately $16 million) in compensatory damages – the largest sum ever sought in a patent suit in the Indian IT/telecoms sector. It initiated legal action after three years of negotiations failed to yield a licence agreement on its SEPs. A single judge bench of the Delhi High Court granted an *ex parte* injunction, including measures for the confiscation of Micromax consignments at the border by customs authorities. Further, to protect Ericsson's financial interests, the court also ordered that Micromax deposit money in the range of 1.25% to 2% of the sale prices of the affected products as a condition precedent to the release of such products by Customs.

Micromax's countermove also created a precedent. It filed a complaint at the Competition Commission of India (CCI) alleging that Ericsson, as the largest owner of SEPs in the mobile phone industry, was abusing its dominant position and was therefore acting in an anti-competitive manner. Micromax's main contention was that the royalty rates sought by Ericsson

> "Between 2010 and 2012 every major player in the mobile phone space was at war with another party in the same domain"

were being charged based on the value of the entire product, rather than on the cost of the particular component embodying the SEP technology – an unfair and anti-competitive position. Micromax also asserted that Ericsson was refusing to share the terms of FRAND licences given to similarly placed licensees, which was contrary to the spirit of FRAND licensing. Based on Micromax's allegations, the CCI ordered an independent investigation into the allegations. It also expressed concern that the threat of injunctions in the patent battle (at the Delhi High Court) could distort FRAND licensing negotiations and lead to licensing terms that licensees would normally have rejected in the absence of this threat.

In reply, Ericsson petitioned the Delhi High Court contending that the CCI had no jurisdiction to investigate the action as the Patent Act provides adequate mechanisms to balance the rights of patentees and other stakeholders. Observing that a substantial question regarding the CCI's jurisdiction had been raised, the court directed the CCI and its director general of investigations not to pass any final order or report, and held that the CCI's observations would not be considered in respect of adjudication proceedings filed by the parties in the Indian courts.

Ericsson's commitment to enforcing its patents is reflected in the fact that it filed a second suit before the Delhi High Court against Intex Technologies, a smaller manufacturer of computer peripherals, mobile phones and consumer electronics, seeking Rs560 million (approximately $9 million) in damages and an *ex parte* and permanent injunction relating to products incorporating its SEPs in the 2G, 3G and 4G technology space. The court did not grant an *ex parte* injunction and is in the process of hearing both parties on various issues raised in the suit.

Taking its cue from Micromax, Intex also instituted a complaint against Ericsson at the CCI on similar grounds and secured an order for an independent investigation by the director general. Further, given the Delhi High Court's stay of the CCI's final report, Intex filed a special leave petition before the Supreme Court on the CCI's jurisdiction to address licensing and anti-competitive issues. This led the Supreme Court to direct the Delhi High Court to make an expeditious determination of the CCI's jurisdiction to conduct investigations into determining the royalty rate between parties, pursuant to which the Delhi High Court has appointed an amicus to aid the court in addressing the jurisdiction issues.

The outcomes of *Micromax* and *Intex* will provide clarification in respect of the CCI and its jurisdiction, as well as FRAND licensing and royalty rates. These issues of first impression will pave the way for others and underscore the growing importance and uncertainty of licensing negotiations in India.

A different issue is under discussion in the *Vringo* litigation. Non-practising entity (NPE) Vringo Infrastructure Inc filed two lawsuits seeking *ex parte* and permanent injunctions, the rendition of accounts and damages against ZTE and AsusTEK for infringement of its SEPs in India. In *AsusTEK* the Delhi High Court denied an *ex parte* interim injunction and issued a summons to AsusTEK for completion of pleadings.

In *ZTE* the court granted an *ex parte* interim injunction against ZTE and appointed local commissioners to inspect its books of accounts and obtain sales records of various infringing equipment. Further, the court granted the enforcement of border measures: ZTE consignments carrying the alleged infringing device would not be released by Customs at any port or airport without giving written notice to Vringo, enabling inspection and assessment of whether the units were infringing. However, following appeal by ZTE, a two-judge bench varied the injunction by allowing domestic sales of affected products subject to ZTE furnishing a bank guarantee for Rs50 million (approximately $850,000). In contrast to the position taken by Micromax and Intex, one of ZTE's primary arguments is that the Vringo patents are not worked in India, and therefore Vringo – an NPE – is merely seeking to enforce the right to exclude use through the forceful negotiation of licences and threats of litigation.

The *Vringo* cases highlight how FRAND licensing discussions relating to SEPs owned by NPEs will be handled in India and their outcome is eagerly awaited.

> "The public good is a legitimate tool available to an Indian licensee and will likely be used in all instances"

What does the future hold?

The SSO-SEP framework confers considerable power on the SEP holder. An entity that wishes to use a technological standard must obtain permission from an SEP holder, which the latter may choose to withhold by refusing to license its patent. The FRAND declaration attempts to balance inequalities with the idea that an entity should have the right to obtain a licence to desired technology on FRAND terms. However, working out a FRAND-encumbered agreement and determining what constitutes a FRAND practice is controversial. Also, in practice, it is almost impossible to determine what a FRAND royalty actually amounts to.

In India, the situation is more complex because of the predisposition to make everything public policy oriented. The public good is a legitimate tool available to an Indian licensee and will likely be used in all

Contributing profiles

Pankaj Soni
Partner
pankaj.soni@remfry.com

Pankaj Soni is a partner in the patent group, with more than 17 years' industry and legal experience. He manages patent litigation and prosecution in relation to electrical/electronics, computer and mechanical technologies. He has litigated matters in the Indian courts and the US federal courts for Fortune 500 clients. His expertise includes drafting applications, setting litigation strategy, handling technical aspects of claim construction and carrying out infringement/invalidity analysis. Mr Soni has also led client negotiations for litigation settlements and cross-licensing agreements. His qualifications include a JD from Fordham University School of Law (New York), an MBA and a master's in computer science from Illinois State University. He is admitted to practise in India, New York and New Jersey.

Satyoki Koundinya
Associate
satyoki.koundinya@remfry.com

Satyoki Koundinya is an associate at Remfry & Sagar. He holds a degree in law (honours in IP rights) from the Indian Institute of Technology, Kharagpur and a bachelor's degree in electronics and communications engineering. His professional affiliations include membership of the Delhi Bar Association and the Indian Patent Office. He has four years' experience and has worked extensively in all areas of intellectual property, particularly in the field of patents. His practice includes handling prosecution and litigation matters for multinational companies in the electrical, electronics, telecommunications and mechanical engineering industries. He has also authored several papers for national and international journals.

instances. In addition, the fact that domestic manufacturers are showing up on the radar of big global players – several suits are pending against local Indian companies and Chinese manufacturers – indicates that the mobile phone wars are now becoming local, as opposed to a global war being fought in the damages-friendly United States. Although it is still too early to know which way the tide will turn, perspectives from both sides of the battle can be considered.

From Indian licensees' point of view, Western-style capitalism should not find its way into India, as that would result in the SEP holder playing Goliath and trying to intimidate licensees into negotiating on allegedly unfavourable terms. Nor should the SEP holder be allowed to discriminate among its licensees by charging differential royalty rates among different players. Further, at the most basic level, licensees aver that FRAND disputes are about competition and therefore are better dealt with by the CCI because, with the threat of injunctive relief from the high courts looming large, parties are in drastically different bargaining positions, with the SEP holder enjoying the upper hand. Overall, licensees would be happier for the courts to set royalty rates and establish the parameters surrounding FRAND.

On the other hand, SEP holders do not want the government to stop business taking its own course; they prefer each licensee to be bound by confidentiality, with licensing terms dependent on the negotiating power (or prowess) of the parties. After all, a licensee with a sizeable portfolio of its own should not have to pay the same rate as a new player, even though they are targeting the same market with similar products and using the same SEPs. In addition, from SEP holders' perspective, the threat of injunction or the injunction itself – which is arguably the best option available to a patentee in India – is a necessary tool, especially since the classification of a patent as an SEP positively reinforces the patent's strength (patents are not considered to be presumptively valid in India). Furthering their position, SEP holders argue that if SEP enforcement requires many additional steps before an injunction may be available, the prospective licensee has no incentive to license a portfolio of SEPs, as is typical in existing business practice. An unwilling licensee should not be able to hide behind competition or public good to force the SEP holder into a royalty rate – that would make it a compulsory licence.

Conclusion

So what is the right FRAND framework for India? A cookie-cutter approach will not work. While unfair in certain situations, the reality is that the threat of injunction will bring the licensee to the discussion table – an outcome that may not otherwise materialise in India. Based on the fact that mobile phones use hundreds of different patents, determining standard FRAND royalty for one (or several) SEPs is an uphill, if not impossible, task, and therefore impractical. If this is encouraged, the patentee may be incentivised to hold up patents and not submit them to the SSO, thereby increasing the anti-competitive aspect of the situation. On the other hand, SEP holders must realise that India is a high-volume/low-margin market (unlike the West), and the royalty numbers should reflect this difference.

The current trend in India is that injunctions are available, but not assured. After all, Ericsson secured an injunction against Micromax, as did Vringo against ZTE, but so far they have not obtained similar relief against Intex and AsusTEK, respectively. Further, the Competition Commission has become, and will continue to be, a parallel avenue that is asked to determine any allegedly anti-competitive conduct by patent holders. It will be interesting to see how the interplay of patents and anti-competitive behaviour in relation to SEPs is interpreted by the Indian courts and whether the courts are willing to engage in establishing royalty rates. It will also be interesting to see whether these battles go all the way – FRAND wars rarely do – or whether they are settled like most other FRAND litigation around the world. iam

Remfry & Sagar
Remfry House at the Millennium
Plaza Sector-27, Gurgaon-122 009
Haryana, India
Tel +91 124 280 6100
Fax +91 124 280 6101
Web www.remfry.com