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Injunctive relief in SEP litigation: what makes sense in India?

By **Pankaj Soni** and **Priya Adlakha**, Remfry & Sagar

Background

Among the many battles in the standard-essential patent (SEP) arena, the availability of an injunction to the SEP owner is a hotly debated topic. However, before this is analysed further, a quick recap of the relevant terms may be helpful. Standard-setting organisations (SSOs) are groups such as the European Telecommunications Standards Institute, the American National Standards Institute, HDMI and the International Organisation for Standardisation which develop and manage technical standards applicable to a wide base of users outside the standards developing organisation, with the aim of increasing interoperability. A patent identified by its owner as being essential to the use of a standard is referred to as an SEP, wherein adoption of the standard would thus infringe the IP rights of the SEP owner. In order to make the adoption of the standard more attractive, SSOs ask SEP owners to agree to license the use of their SEPs to companies that manufacture or sell products based on the standard (ie, implementers) on terms that are fair, reasonable and non-discriminatory (FRAND). Thus starts the battle between the SEP owner and the implementer, with each trying to get a better business deal out of the transaction.

A multi-pronged debate

There has been much discussion recently on whether the availability of an injunction – a legal remedy whereby the implementer is prohibited from using the technology covered by the SEP owner's patent(s) – is a justifiable outcome within the SEP/FRAND framework. After all, since the SSOs have a commitment from the SEP owner that a FRAND licence will be offered, is stopping the implementer a step in the right direction? Moreover, since the SEP owner will eventually be financially compensated, should an injunction be made available? But what if the implementer's strategy is to delay any meaningful FRAND discussions?

Clearly, there are at least two sides to this debate. Whether to grant an SEP owner an injunction is an important decision, because the outcome may have an impact not only on the parties to the pending dispute, but also on the various stakeholders in the standard-setting process at the various SSOs. At a fundamental level, the availability of injunctive relief would place the parties in drastically different bargaining positions. Commentators on both sides believe that if an injunction is available, the SEP owner would immediately seek to prohibit the implementers from using the patents under dispute; whereas if an injunction is not available, the implementers would choose to continue to use the patents pending the outcome of the negotiations or litigation. This could lead to a stalemate that defeats the very essence of the FRAND requirement.

Authorities in Europe and the United States have expressed concern that the ability to seek injunctive relief (when negotiation with prospective licensees fails) is likely to harm competition by enabling the SEP owner to extract above-FRAND royalties. For example, the European Commission – while recognising that an injunction is a legitimate remedy – has held that because the patent owner has made a voluntary FRAND licence commitment, applying for an injunction may be an abuse of a

"It is crucial to encourage the parties to engage in good-faith negotiations and induce them to reach mutually agreeable terms in an expedient manner"

dominant position where a licensee is willing to enter into a licence agreement on FRAND terms (see *Motorola*, Case AT39985, and *Samsung*, Case AT39939). Further, in *Huawei v ZTE* the European Court of Justice clarified that in order for the SEP owner to obtain an injunction, it must:

- alert the alleged infringer to the infringement;
- designate the SEPs concerned; and
- specify the manner in which they have been infringed.

The SEP owner should also make a written licensing offer on FRAND terms, including the proposed royalty rate and the way in which it is calculated. This has played out most recently in *Unwired Planet v Huawei*, where Justice Birss briefly discussed the injunctive relief request by Unwired Planet and stated that "[s]ince Unwired Planet have established that Huawei have infringed valid patents… and since Huawei have not been prepared to take a licence on the terms I have found to be FRAND, and since Unwired Planet are not in breach of competition law, a final injunction to restrain infringement of these two patents by Huawei should be granted". However, no injunction was granted at the time. Later, in a June 7 2017 judgment, Birss issued an injunction in favour of Unwired Planet, noting that "the undertaking offered by Huawei [after years of litigation and at this juncture in the case] is too late [and] the right thing to do now is grant a FRAND injunction albeit one which will be stayed on terms pending appeal".

Much as in Europe, courts in the United States are reluctant to grant injunctions in the context of FRAND disputes. In light of the Supreme Court decision in *eBay v MercExchange, LLC*, in order to obtain an injunction, an SEP owner must show that:

- it has suffered irreparable harm;
- monetary damages are inadequate compensation;
- weighing the balance of hardships between itself and the alleged infringer, an injunction is warranted; and
- the public interest would not thereby be disserved.

Since *eBay*, patentees in general and SEP owners in particular have faced unique challenges in meeting this standard. Here too, the theory is that an agreement to FRAND licensing carries with it an implied agreement that monetary compensation will be adequate for any use of the SEP by third parties. Moreover, identifying SEPs implies that the owner acknowledges that numerous implementers can (and will) use the SEP, which suggests that such use will not cause irreparable harm. More recently, in *Apple, Inc v Motorola, Inc* the Federal Circuit suggested that injunctive relief might be limited to scenarios in which a third party unilaterally refuses to pay a FRAND royalty or unreasonably delays negotiations – a position that has found support from the Federal Trade Commission and the International Trade Commission. In fact, in *Motorola v Microsoft* Justice Robart went a step ahead and, while refusing an injunction, set what he believed would be the reasonable royalty rate. The court determined a FRAND range for the SEPs covering each standard at issue in order to assess the SEP owner's compliance with its FRAND commitment. Then, in setting a final royalty, the court picked a specific rate within the allowable range. This approach arguably seems more in line with the parties' intent during standard setting and creates a more definite framework for assessing the parties' compliance with their FRAND commitments. The court's position was reaffirmed by the Ninth Circuit, which opined that breach of the FRAND agreement by Motorola was a breach of a contractual obligation which should be ineligible for injunctive relief.

Managing SEP battles in India

So where does this put India? Unsurprisingly, somewhere in the middle.

In India, the implementer's obligation to

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respond diligently to the SEP owner's offer in accordance with recognised commercial practices and in good faith is a rarity. After Ericsson failed to get Micromax to discuss in good faith what Ericsson believed was a FRAND offer, in March 2013 it commenced the first of many SEP battles in India. Ericsson's position then – and perhaps even today – is that with the highly competitive telecoms market in India where the bottom line is squeezed, getting the implementer to the negotiating table to have a fruitful discussion is next to impossible. Thus, in this reverse hold-up situation a patentee needs to have the comfort to fall back on an injunction to ensure that the FRAND negotiations progress.

The Indian judiciary has dealt with this scenario in its own unique way. As is evident from the six SEP litigation cases where Ericsson was the common plaintiff and the four cases where Dolby was the plaintiff, the court has first determined that the SEPs in question are *prima facie* valid and infringed. This is an important issue for a jurisdiction that has applied the rule that a granted patent is *prima facie* not valid (an issue that is questionable and worthy of an entirely separate discussion), as it crosses the first hurdle in establishing the necessity of an injunction. In the initial cases wherein the *ex parte* injunction was granted in favour of Ericsson, the court noted that an exclusion order (eg, the injunction sought against Micromax, Intex, Xiaomi and LAVA) was appropriate where the implementer-licensee:

- refuses to accept a FRAND licence;
- demands terms outside an SEP owner's FRAND commitment; or
- does not engage in a negotiation to determine FRAND terms.

This third point is the most likely operative consideration. However, the court was ready to lift the injunction if the implementers deposited the (court determined) royalty payment with the court during the pendency of the litigation. What has turned out to be a progressive (and contentious) aspect of the cases is the court's willingness to determine the interim royalty rates which are now set as the current standard in telecoms SEP battles. Thus, for Ericsson and similarly placed SEP owners, litigating in India means that an injunction is more likely possible than not, with the implementer having the option of avoiding the injunction by depositing an interim royalty payment as determined by the court. As seen in the recent *Dolby* cases, this outcome is becoming the *de facto* pattern.

However, if injunction is not favoured, how does one manage SEP battles in India?

The key takeaway from the global conflicts is that it is crucial to encourage the parties to engage in good-faith negotiations and induce them to reach mutually agreeable terms in an expedient manner. The Indian courts have already taken steps in this direction. However, a modified version of the two-stage procedure for managing FRAND litigations suggested by Haksoo Ko (22 *Tex Intell Prop LJ* 209 2013-2014) is worthy of consideration. Under this model, once the suit is filed, the court should give the presumption of validity in favour of the patent and focus its attention on whether the licence terms offered by the SEP owner and the counter-offer by the implementer can be considered as *prima facie* FRAND. Therefore, the impetus is on the licensing aspect of the matter, which is appropriate because the basis of the lawsuit is a disagreement between the parties as to licensing obligations. During this part of the proceedings, the court would consider evidence offered to ascertain the parties' prior efforts to reach an agreement on FRAND licence terms. The parties would then be given a limited opportunity to present evidence and argue their case on the licence terms exchanged between them. The court's decision would not be final.

However, if both the offer and counter-offer are not FRAND, the parties could be given a six-month grace period to negotiate new licence terms without an injunction. This induces both parties – especially the SEP owner – to be reasonable and exhibit good faith during the initial negotiation process. If at the end of six months the parties are still unable to reach an agreement, the court would set the interim FRAND rate which, if not paid, will result in an injunction in favour of the SEP owner.

> *"The parties are placed under significant pressure to negotiate in good faith – exchanging offers and counter-offers with truly reasonable terms and from the beginning of the dispute"*

If the SEP owner's offer is not FRAND, the injunction is denied and the court sets the interim FRAND rate which benefits from the counter-offer made by the implementer.

If the implementer's counter-offer is not FRAND, the court will grant the injunction in favour of the SEP owner and will set an interim FRAND rate (guided by the SEP owner's offer) which must be paid by the implementer to avoid the injunction.

Thus, the above model – while keeping the injunction in play – empowers the process in a manner that once the court decides that the offered terms are not FRAND, the parties will be placed under considerable pressure to negotiate in earnest and reach an agreement in an expeditious manner. For this model to work, the following should be borne in mind:

- Any parallel proceedings before the Competition Commission of India (ie, regarding antitrust or monopoly issues) or challenges to the validity of the SEP must be stayed, because they generally cause difficulties in fostering good-faith negotiations between parties.
- If both parties' offer is not FRAND, the parties need to be brought before the court or a third-party adjudicator, which will play a role in facilitating the parties' negotiation instead of

imposing a ruling *ab initio*.

- The government should not play an active role because in such situations the parties' incentives to bargain between themselves and reach a voluntary agreement can dissipate, which goes against the modus operandi of the SSO regime.
- Timelines set by the court need to be strictly adhered to and litigation gamesmanship of granting adjournments must be summarily rejected.
- An *ex parte* injunction should not be taken off the table if the SEP owner can establish at the time of instituting the case that the implementer has consistently used dilatory tactics in the FRAND negotiations.

The main benefit of the above system, especially in the Indian context, is that the parties are placed under significant pressure to negotiate in good faith – exchanging offers and counter-offers with truly reasonable terms and from the beginning of the dispute. Further, the party that is viewed to have been unreasonable is placed at a significant disadvantage in the court case and in subsequent bargaining. This also rules out a *de facto* grant of an *ex parte* injunction at an initial stage, eliminating undue advantage on any side.

Conclusion

There are exciting and uncertain times ahead in SEP litigation in India and the IP regime here has the potential to be a frontrunner in the way that such cases are handled. What makes sense in Europe and the United States will not work in India, so the court must set a clear path for the SEP owner and the implementer in upcoming battles. iam

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