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ABA Section of Intellectual Property Law - International Action Group

International IP Legal Updates

Welcome to our IAG October 2018 Newsletter

Dear ABA-IPL Members;

Welcome to the May edition of the International Associates Action Group Newsletter. We are still looking for contributors so please get in touch with me at david@gearhartlaw.com. All articles are welcome, long or short, previously published or new. If interested in becoming an editor or just want to get involved in our Action group please do let myself or Matthias Berger know. See you next Month!

Yours,

David Postolski

Inside this issue:

The *Philips* SEP Decision and its Implications on India's Patent Cases

On July 12, 2018, the Delhi High Court became the torch bearer for intellectual property yet again when it delivered India's first post-trial judgment in a Standards Essential Patent (SEP) lawsuit in *Koninklijke Philips Electronics N.V. vs. Rajesh Bansal And Ors.*, CS (COMM) 24/2016, CS(COMM) 436/2017 (Delhi High Court).

In the case at hand, in 2009, *Philips* had filed two patent infringement suits against local Indian manufacturers of DVD Video Players alleging infringement of its SEP. The patent in question, Indian Patent No. 184753, is essential to the DVD Forum Standard formulated in 1996 and subsequently adopted by the European Computer Manufacturers Association (in 2001) and International Standards Organization (in 2002). The defendants were alleged to have been importing components of DVD players, including chips from MediaTek, from China, and incorporating them in infringing DVD players sold in India under the brand names *Passion* and *Soyer*. Further, despite requests from *Philips*, the defendants did not obtain a license for the protected technology which eventually led to the filing of the lawsuits by *Philips*.

A First in SEP Cases

Although, arguably, the lack of evidentiary strength in the defendants' arguments played an important role in the judgment, this case is nevertheless an important one for India's patent landscape. It is the *first* post-trial judgment where the suit patent is a SEP – although a number of SEP infringement matters have been filed and agitated before Indian courts, i.e. the *Ericsson* and *Dolby* cases, they have either been settled amicably (after the preliminary phase) or are still pending adjudication.

Also significant is that this is the *first* judgment that (i) ascertains infringement of a SEP; (ii) orders defendants to pay the attorneys' fee to the plaintiff *Philips*; and (iii) assesses punitive damages in a patent case.

The Outcome

The salient points covered in the final decision are as follows:

Essentiality - The court accepted the 'essentiality certificates' granted to the corresponding US and European patents and agreed that the suit patent was, accordingly, essential for the fulfillment of the DVD Standard. The court also analyzed that claims of the suit patent matched with claims of the US and European patents thereby confirming its position on essentiality.

Infringement - On the issue of infringement, accepting the essentiality argument of the plaintiff, the court stated that the suit patent was a SEP and that the defendants' unlicensed product complied with the standard, thereby infringing the patent. The court also noted that the product-claim analysis of the defendants' product by the plaintiff's expert established infringement.

Validity - The defendant's challenge to the validity of the patent, that the claims relate to *software per se* or *algorithm* (under Section 3(k) of the Indian Patents Act) and, therefore are unpatentable, was struck down by the Court because the written statement filed by the defendants did not plead this defense!

Exhaustion - The defendants took the plea that they were not liable for infringement under the common law doctrine of exhaustion of rights because MediaTek was an authorized licensee of *Philips* and they were using MediaTek chips in their players. However, the court disagreed, noting that defendants were unable to establish this fact.

Royalty - The court relied on the 2015 U.S. Federal Circuit case, *CSIRO v. CISCO*, 809 F.3d 1295 (Fed. Cir. 2015), in support of its decision to use the entire market value of the end-product as the royalty base. Thereafter, because, the defendants had not produced any evidence to support their contention that plaintiff's rates were not Fair, Reasonable and Non-discriminatory (FRAND), the court accepted the plaintiff's rates exchanged during informal negotiations and fixed the royalty at US$ 3.175 per unit, from the date of institution of the suit until May 27, 2010 and, thereafter, at US$ 1.90. The actual damages were not set out because of lack of sales data provided by the defendants, and the court appointed a local commissioner to ascertain the exact quantum of damages.

Costs and Punitive Damages – In a first for a patent case in India, the court also ordered the defendants to pay the attorneys' fee and court fee to *Philips*. In addition, relying on *Hindustan Unilever Ltd. vs. Reckitt Benckiser India Limited,* 207(2014) DLT 713 (DB) (Delhi High Court), which deliberates on the law of punitive damages while referring to principles enunciated in the landmark UK cases *Rookes v. Barnard*, [1964] UKHL and *Cassell & Co. Ltd. v. Broome*, [1972] UKHL 3, the court imposed punitive damages of approx. US$ 7,300 on the defendants.

The Open Issues

The *Philips* decision has given us some useful precedent, but it also leaves some critical questions unanswered, leaving us longing for more!

First, the court accepted *Philips*' negotiated rates because the defendants, who argued that the rates were not FRAND, did not support their contention with suitable evidence. This, however, limits the applicability of the decision to instances where one party does not offer FRAND alternatives because there is no discussion on how FRAND obligations of both parties should be determined to arrive at the royalty rate.

Second, although the court provided excerpts from several landmark cases on how punitive damages must be calculated, and specifically noted that a punitive award may be calculated "having regard to the three categories in *Rookes* and also following the five principles in *Cassell*," there was no discussion on how the categories/principles of *Rookes* and *Cassell* should be applied.

Third, the court opined that once a threshold requirement is met, i.e., if it is determined that the damages awarded for a wrongdoing are inadequate, a punitive award may be in order. However, there is no guidance on why the court felt that the damages (which would amount to several million rupees) in the present instance would be "inadequate" so as to trigger a punitive award, particularly one amounting to approx. US$ 7,300 – a figure quite insignificant in comparison to the potential damages award.

Fourth, the court accepts the product-claim analysis of the plaintiff's expert to establish infringement without proper claim construction or claim mapping – a procedure that is contrary to the generally accepted infringement analysis.

Fifth, on the issue of whether *Philips*, along with various other members of the DVD forum, was misusing its position to create a monopoly and earn exorbitant profits by creating patent pools, the court deflected the issue and held that the issue was beyond the scope of the present suit, and was best left to the Competition Commission of India (CCI) to adjudicate.

What Lies Ahead

We must now wait and see if the case goes further on appeal and what clarifications, if any, come out of that process. In the interim, the decision has stoked the SEP fire which has had a dull start in 2018.

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