

A Note on IPR Policies for Make in India- Mobiles and Telecom Sector.....by CMAI/TEMA

Background

DIPP vide press release dated 14th March, 2016 has come out with a “Discussion Paper on Standard Essential Patents and their availability on FRAND Terms dated 1st March, 2016”, http://dipp.nic.in/English/Discuss_paper/standardEssentialPaper_01March2016.pdf)

views or suggestions on which were invited till 31st March, 2016 and now extended till 22nd April, 2016 to be sent to kapoor.sumit@gov.in The stated purposes of discussion paper are:

- i) *Department believes that discussion on the subject will assist the Government to develop a suitable policy framework which aids the growth in telecom sector in India and worldwide which will benefit the ultimate users of technology.*
- ii) to develop a suitable policy framework to define the obligations of Essential Patent holders and their licensees.
- iii) need and importance of regulating SEPs as well as facilitating their availability at Fair, Reasonable and Non-Discriminatory (FRAND) terms.
- iv) achieving the national development and technological goals by protecting private Intellectual Property Rights while securing interest of public at large.

Make in India is an important scheme of Government of India. There has been great interest from national and foreign companies to invest in India for Make in India. Several proposals are coming up in various sectors. CMAI and TEMA are promoting Make in India for electronics, telecom, and Mobile sector.

Of late IPR on electronics, telecom, and mobile has been receiving attention with manufacturers and there are undefined costs on manufacturing. There is also ambiguity on SEP, FRAND and payment of royalty on components or full products. There is also need to arrive at balance between competition and IPR.

There was news in Hindustan Times on 23.2.2016 with heading "Make in India runs into high royalty fee hurdle". Copy of same is attached as Annexure A. The news highlighted the grievances of the manufactures of smart phones/cell phones in India, particularly on the issue of high cost of Royalty payable to the entities having Standard Essential Patents (SEPs). Such high cost has become a hurdle in the Govt. of India's initiative of "Make –in-India". It is also a matter of concern that the Royalty is being charged on the value of entire device of mobile phone in place of the value of the component in which such Patents are used.

High cost of Royalty has always been a cause of concern in the minds of mobile and telecom manufactures and the rate of Royalty has always been the issue contested in the Courts not only in India but also abroad. The law regarding fixation of Royalty is in the developing state. Any determination, though claimed to be on FRAND basis, is hardly a standard industry practice. The determination on so called FRAND basis has always been a question challenged in the Courts along with the issue that whether or not the Royalty should be charged on entire value or to it should be restricted to the small component in which the SEPs has been utilized.

In India the issues was raised before Hon'ble Delhi High Court in the case TELEFONAKTIEBOLAGET LM ERICSSON (PUBL) Vs.

INTEX TECHNOLOGIES (INDIA) LIMITED Judgment pronounced on: March 13, 2015(I.A. No. 6735/2014 in CS (OS) No.1045/ 2014). In this case though final order is not yet passed but by way of interim order lower Royalty has been asked to be paid till appropriateness of the Royalty rate is adjudicated or determined. Hence royalty payments have been started without getting final decision of Hon'ble Court on the total cost of product.

Delhi High Court in its order dated 30.3.2016 Telefonaktiebolaget LM Ericsson (PUBL) versus CCI W.P.(C) 464/2014 & CM Nos.911/2014, 915/2014 and WP (C) 1006/2014 & C M Nos. 2037/2014, 2040/2014 has upheld the authority and views of CCI orders dated 12.11.2013 and 16.1.2014 in the matter of Micromax v/s Ericssons and Intex v/s Ericssons directing the DG CCI to investigate the matter regarding violations of the provisions of the Competition Act by Ericssons, as SEP holders.

Why this Note & Need for Discussions

There is need to discuss these issues with all stake holders and come out with appropriate status on date and its relevance on Make in India and also any suggestions in this behalf for industry or for policy makers.

This note has been prepared by CMAI association of India and Telecom Equipment Manufacturers Association of India (TEMA) on the basis of available information and data on public domain and also on the basis of discussion paper of DIPP (hereinafter referred as "DP Paper") and represents the views which CMAI/TEMA suggests and recommends in the interest of Make in India and a vibrant growth of India coupled with IPR regime and Competition policies. The note would also be submitted to DIPP in response to DFP Paper and to other Authorities concerned in the matter.

Executive Summary in very brief:

The executive summary is no substitute for detailed discussions that follows. This is just to give flavor of what the note suggests very briefly and reliance need to be made on detailed views as appearing hereinafter.

1. IPR Policy of India should be targeted as clear demonstration of protection and advancement of National Interests.
2. There is need for balance approach in between IPR and anti competition policies.
3. The royalty should be paid only on the component on which patent is claimed and NOT on the entire cost of product.
4. The Standard Setting organizations appear to have not disclosed the patents relied by them, in the absence of which there is ambiguity as to what patents are to be followed. There is no way to find as on date, as to what patents the manufacturer need to follow for manufacture of a telecom or mobile product. This gives rise to uncertainty and unknown demands from alleged patent holders. Need for appropriate regulation making it compulsory to disclose the patents involved in standards made by SSO.
5. A private body called SSO setting standards and various countries adopting the same under the excuse of seamless connectivity without knowing that it involves which patents or SEP and without knowing that it involves payment of royalties at what rates. SSO also hardly scrutinize or verify the validity of patent. The technology provider does give undertaking to SSO that it will license the technology on

FRANDS basis. No one knows what is FRAND terms and conditions. SSO does not help or coordinate FRAND terms. There is lack of information of existing royalty terms due to NDA and no statutory backing for FRAND. So it is left to Civil Courts to adjudicate and give judgments on individual cases world over.

6. There is no authority who decides if particular patent is SEP or not. Need to address this issue with legal authorities.
7. Department of Telecommunications has accepted the standards formed by SSO without any knowledge of the patents or SEP involved and the royalties payable on them. This has exposed the Indian companies to unknown liabilities. Need to address this issue.
8. The applicability of SEP and FRAND need much wider consultation and discussions, specially looking at the fact that these are one of most litigant matters worldwide and hardly there is a universal definition.
9. FRAND has no formal definition or procedure or statutory backing and is left for negotiations between parties ie. Patent holder and manufacturers. There is hardly any way to find out what is reasonable royalty in the absence of all data provided by patent holder on the pretext of NDA signed with other users. The NDA when offered to Indian companies says applicable as per laws of Sweden/Singapore or other Countries. Need to address this issue and mandatory applicable of Indian laws.

10. IPR issues have been contested legally world over very forcefully and at high costs where several cases have been filed on each other and statistics reveal that 99% of the cases are settled or negotiated without waiting for a Court judgment. There is admittedly not wide spread knowledge and expertise available within Country in such matters. As in China, there is need for an institutional mechanism to contest IPR cases at Government level rather than individual level.
11. In order to implement Make in India there is need for Compulsory Licensing, which is permitted as per International and National Laws.
12. In the case of telecom and mobiles mostly SKD level manufacturing is started in beginning which is later followed by CKD level. Also the fact is critical component/chips/parts are imported. The purported patents are used not by Indian manufacturers but by the suppliers and manufacturers of chip/components/parts. Hence there is need to address the issue as to how far it is fair to enforce patents on Indian manufacturers, unless they individually make chip/components/parts and actually use the patented technology. Also for the purpose of equal treatment, there is also need to ensure that the purported royalties are also charged on other companies supplying products in India.
13. The purported royalty should be charged from the component manufacturer and inbuilt in the price of the product, rather than demanding from use of chip/component.
14. Again in case of telecom/Mobile, in some cases the complete built units (CBU) are imported from a foreign manufacturer. Obviously it is the foreign manufacturer who utilizes the purported patent and is responsible to follow patents and pay royalty etc. Need to address that in such

- cases how far it is fair to force the patents royalty and applicability on Indian importers. Similar treatment to CBU imports whatsoever in India and royalty on the same.
15. The SEP holder demanding royalties from Indian companies but not on other brands/products marketed in India. These are subject to service tax/sales tax. The demand of service tax/sales tax also need to be raised on other brands/products utilizing the same technology and marketing in India to enable equal treatment to all and not put Indian companies in disadvantages position.

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PARA WISE DISCUSSIONS:

Brief outlines of IPR Issues in Delhi High Court and CCI

High Court matters

1. 4th March, 2013 Ericsson filed patent infringement suit 442/2013 in Delhi High Court against Micromax/Intex.
2. High Court passed some interim orders on 6.3.2013, appealed by Micormax and disposed off by High Court on 12.3.2013 with some directions.
3. On 19th March, 2013 the High Court passed interim payment of royalties in COURT at given rates of 1.25, 1.75, 2% and USD 2.50(on dongle data card)pending determination of royalties payable. This was on total cost of mobiles even

- though patent was for portion on particular chip/component.
4. The above order was modified by High Court on 12.11.2014 and interim royalties rates fixed varying from 0.8 to 1.3% of NET SELLING PRICE
 5. Micromax sought modification of aforesaid orders of 12.11.2014, which was not accepted by High Court vide its orders on 7.7.2015. The Micromax appeal against this before Division Bench is pending (FAO No 555/2015).
 6. The final decision in above case no 442/2013 is pending before High Court.
 7. Almost similar facts are in the case of Ericsson vs Intex. On 15.4.2014 Ericsson filed a patent infringement case against Intex CS(OS) 1045/2014, which was similar to Micromax. High Court passed interim orders similar to Micromax. Intex filed appeal before division bench FAO 138/2015. That is pending for decision.

CCI Matters

1. On 24.6.2013 Micromax filed before CCI accusing Ericsson of abusing its position of dominance (CCI Case No. 50 Of 2013)

2. On 30.9.2013 Intex filed before CCI (Case No. 76/2013)

1. Demonstration of protection and advancement of National Interests

CMAI recommend that the IPR Policy of India should be targeted **as** clear demonstration of protection and advancement of National Interests.

Background

The “Second Modi-Obama Summit” by “Brookings India” published in January, 2015 in Article” IP Rights-Signs of Convergence” by Mr Subir Gokarn, Former RBI Governor vide Page 29 bring out following: (Extracts of the Article are attached at Annexure B)

India’s negotiating position must be based on a clear demonstration of protection and advancement of national interests, relating to both the innovation environment and the spread of benefits of technology

And on Paged 27 is brings out:

The Ministry of Commerce announced the setting up of a think on IPR issue. Chaired by a former judge,It emphasized a larger and very signification motivation: the need to stimulate and incentivize innovation in India. In

effect, it opened up the question of whether the current regime was serving India's own interests;

2. Competition and IPR Policies

CMAI recommend that a proper balance need to be maintained between Competition Laws and IPR Policies and promotion of Innovations/Start Up India and Maker in India

Background

Competition law and Intellectual Property Rights policies are linked together by the needs of innovation and several legal rules regulations to arrive at reasonable balance the scope and effect of each policy.

IPRs policy is meant to foster innovation. This benefits consumers through the new technologies/products. This is expected to spur economic growth. It provides innovators provision to exclude other parties from the commercial use of innovative products/technologies/services for a defined period. This in one way creates monopoly for some period.

Competition law is essential to curb market distortions, prevention of

Anti competitive practices, abuse of monopoly, giving consumers benefits of good prices/ choice/qualities/services.

As per DP Paper the competition law aims to prevent the misuse of dominant position or stockpiling of market power while patent law grants monopoly rights with certain exceptions to prevent abuse of such rights. The basic idea behind the Standard Essential Patents (SEPs) system is to reconcile the interaction between

patents which are primarily 'private' and 'exclusive' as against standards which are meant to be 'public' and 'non-exclusive'.

As regards anticompetitive practices, the Competition Act of Canada gives the Federal Court power to expunge trademarks, to license patents (including setting all terms and conditions), to void existing licenses and generally to abridge or nullify normal patent or trademark rights where the trademarks or patents have been used to injure trade or commerce unduly or to prevent or lessen competition unduly.

The existence of anti-competitive practices is also considered a ground for the granting of compulsory licenses in the laws of Chile, Argentina and the Andean Group Countries etc. In South Africa, a compulsory license can be granted if the demand for a protected product is being met by importation and the price charged by the patentee is "excessive in relation to the price charged therefore in countries where the patented article is manufactured by or under license from the patentee or his predecessor or successor in title".

As per DP Paper:

10.2.1.1 Micromax Informatics Ltd v Telefonaktiebolaget LM Ericsson

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 SEPs, thereby violated the Competition Act, 2002. Micromax further argued that using the sales price of the downstream product, as the royalty base constitutes misuse of SEPs that would ultimately harm consumers. Micromax alleged that Ericsson was charging exorbitant royalties as no alternate technology is available and Ericsson is sole licensor for the SEPs necessarily implemented in 2G

and 3G Wireless Telecommunication Standards .

CCI in its preliminary order stated that, in the relevant product market, Ericsson was 'the largest holder of SEPs for mobile communications like 2G, 3G and 4G patents used for smart phones, tablets etc. and thus was in a dominant position in the market for devices that implement such standards. CCI expressed that 'FRAND licenses are primarily intended to prevent "patent holdup" and "royalty stacking" and observed that "patent hold-up" undermines 'the competitive process of choosing among technologies' and thus threatens 'the integrity of Standard Setting activities. CCI also said that Ericsson's royalty rates were excessive and discriminatory, given that they were set as a percentage of the price of downstream products instead of as a percentage of the price of the GSM or CDMA chip.

The CCI concluded that the requested royalties 'had no linkage to the patented product' and were thus 'discriminatory as well as contrary to FRAND terms'. CCI further ordered investigation in the matter by the Director General.

Ericsson challenged the order of CCI in Hon'ble High Court of Delhi

10.2.1.2. Intex Techs. (India) Ltd v Telefonaktiebolaget LM Ericsson¹

Conclusion in this case is in many regards similar to that of Micromax CCI held that a refusal to share the commercial terms of the FRAND license may lead to discriminatory commercial terms CCI also said that charging different licensing fees for the use of the same technology from different users is against FRAND terms. CCI further said that imposing a jurisdiction clause of the agreement that prevented Intex Tech. (India) Ltd. from adjudicating its disputes in a country where both parties were in business also provided prima facie evidence of an abuse of a dominant position

10.2.1.3. Best IT World (India) Private Ltd. v Telefonaktiebolaget LM

Ericsson

CCI observed that, because there is no alternate technology available for Ericsson's patents in the 2G, 3G, and 4G standards, Ericsson enjoys a

complete dominance over its present and prospective licensees in the relevant market. CCI opined that practice of forcing a party to execute NDA and imposing excessive and unfair royalty rates, prima facie, amount to abuse of dominance in violation of Section 4 of the Act

The Delhi High Court has upheld the jurisdiction of Competition Commission of India (CCI) in the judgment delivered on 30th March, 2016.

3. Compulsory Licensing

CMAI recommend that the Government should invoke compulsory licensing by taking on record that the public requirements with regard to a patented product have not been met and the product is not available for the public at an affordable price.

Background

International Compliance

This is a TRIPS & Indian Patent Act compliant provision empowering the Governments to check and control the misuse of patents.

The concept of Compulsory License at international level was first recognized and provided for vide Article 5A the Paris Convention of 1967/15. The convention specifically mentioned that the member Countries have right to take legislative measures providing for the grant of Compulsory licenses to prevent the abuses which might result from the exercise of exclusive rights conferred by patent.

With the advent of the WTO, Compulsory license is now

dealt in the TRIPS Agreement, and the relevant parts of the Paris Convention are inscribed into the TRIPS Agreement (*Article 2 of the TRIPS Agreement.*) The TRIPS Agreement and the Paris Convention for the Protection of Industrial property do not limit the grounds for application of compulsory licenses by member States. (Paris Convention 1883 as amended by the Stockholm Act of 1967. at http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html)

The TRIPS Agreement only lays down the conditions which have to be respected in granting and working of a compulsory license. These conditions basically require the license to be given only after negotiations with the patent owner for authorized use on reasonable terms have failed, and should last only until the ground for such grant subsists. This condition of prior negotiations can also be waived in situations of 'national emergency', 'other circumstances of extreme urgency', 'public non-commercial use' and 'anti-competitive practices', but the patent Owner has to be informed.

Article 31 of TRIPS outlines conditions under which a Government can legally impose compulsory licensing, including the following,

- The use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time, except in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use;
- The scope and duration of such use shall be limited to the purpose for which it was authorized;

- Such use shall be non-exclusive, non-assignable (except with that part of the enterprise or goodwill which enjoys such use) and authorized predominantly for the supply of the domestic market of the Member authorizing such use;
- Authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur;
- the requirement for prior efforts to seek authorisation and for producing predominantly for domestic use may be waived in cases where the compulsory license is permitted in order to remedy an anti-competitive practice; and
- Compulsory license can extend to dependant patents with conditions.

Countries who have used flexibilities under the TRIPS Agreement or harnessed provision of compulsory licensing are Zimbabwe, Zambia, South Africa, Indonesia, Brazil , Malaysia, Thailand, etc.

Compulsory Licence Provisions

The Government can invoke compulsory licensing if it feels that the public requirements with regard to a patented product have not been met and the product is not available for the public at an affordable price.

Compulsory licensing can be granted on the grounds of the existence of: (i) a refusal to license and (ii) anticompetitive exercises of IPRs by Patent holders.

(It may be noted that in India in the case of Ericsson, the Competition Commission of India has already prima facie found it to be anti competitive and against its enforceability. This was stayed by Delhi High Court in interim judgment. However in the final judgment dated the 30th March, 2016, the Delhi High Court has upheld the authority of CCI and upheld their views. This has been discussed hereinbefore)

Refusal to deal as a ground for granting a compulsory license has been provided in many national laws, such as the patent laws of China, Argentina and Israel.

The existence of anti-competitive practices is also considered a ground for the granting of compulsory licenses in the laws of Chile, Argentina and the Andean Group Countries etc. In South Africa, a compulsory license can be granted if the demand for a protected product is being met by importation and the price charged by the patentee is "excessive in relation to the price charged therefore in countries where the patented article is manufactured by or under license from the patentee or his predecessor or successor in title". *(This Para also appear hereinbefore in the heading of Competition, but repeated here for compulsory licensing provisions)*

Indian Patent Laws for Compulsory Licensing

The Patent Act 1970 of India (Section 84, 90) provided for compulsory licensing of a patented invention to an interested person (only after the expiration of three years from the date of sealing of the patent) on the grounds:

(i) that the reasonable requirements of the public with respect to the patented invention have not been satisfied, which may be the consequence of:

- inadequate manufacture in India or failure to grant licenses on reasonable terms, resulting in (1) prejudice to an existing trade or industry or its development, (2) prejudice to the establishment of a new trade or industry in India, (3) prejudice to the trade or industry of any person or class of persons, (4) demand for the patented article not being met by local manufacture, (5) failure to develop an export market for the patented articles made in India, and (6) prejudice to the establishment of commercial activities in India;

- prejudice to the establishment or development of trade or industry in India in goods not protected by the patent arising from restrictive conditions imposed by the patentee;

- non-working of the patent in India on a commercial scale;

- demand for the patented article being met by importation from abroad; and commercial working of the patented invention in India being hindered or prevented by import of the patented articles from abroad.

(ii) that the patented invention is not available to the public at a reasonable price.

Since the coming into force of the WTO TRIPS Agreement, the Act has been amended three times. The Patents (Amendment) Act, 2002 replaced the old chapter on compulsory licensing.

The Act now provides for compulsory license on the following grounds:

- (a) The reasonable requirements of the public with respect to the patented invention have not been satisfied;
- (b) The patented invention is not available to the public at a reasonably affordable price; and
- (c) The patented invention is not worked in the territory of India.

The Indian law requires authorities to give regard to certain general considerations while granting compulsory licenses. These considerations, given in Section 83, include some directly relevant to the relationship between IP and competition law. They include, inter alia that patents are not granted merely to enable a patentee to enjoy a monopoly for the importation of the patented article; that the patentee does not abuse his rights including through resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology; and that patents are granted to make the benefits of the patented invention available at reasonably affordable prices to the public.

Section 84 specifies the grounds for applying for a compulsory license, which include public interest, affordability and working in India.

(Public interest is explained in sub-section 7. From a competition perspective, any action or omission by the patentee that impedes commercial activity in India could be adjudged as against public interest.)

Section 89 explains the general purposes of granting compulsory license as:

- (i) That the patented inventions are worked on a commercial scale in the territory of India without undue delay and to the fullest extent that is reasonably practicable;*
- (ii) That the interests of any person for the time being working or developing an invention in the territory of India under the protection of a patent are not unfairly prejudiced.*

Section 90 of the Act also empowers the Controller to settle the terms and conditions for compulsory licences.

Sections 92 (1) and 92 (3) enable the Central Government and the Controller, respectively, to deal with circumstances of national emergency or circumstance of extreme urgency related to public health crises by granting relevant compulsory licences.

The new amendment also requires an applicant for a compulsory license to prove that s/he approached the patentee with reasonable terms for a license. Similarly, where the patent holder imposes a condition for a grant-back, prevention of challenges to the validity of the patent is deemed to be against public interest.

The Controller, if satisfied that the reasonable requirements of the public with respect to the patented invention have not been satisfied or that the patented invention is not available to the public at a reasonable price, may order the patentee to grant a licence upon such terms as he may deem fit.

Thus, many provisions in the Indian Patents Act facilitate competition while at the same time preserving the core exclusive rights of patent holders to commercially exploit their inventions and recoup their investment.

4. Royalty on Patented Components and not on entire product

CMAI recommend suitable legal provisions so that royalty is payable only on the cost of component/part/chip where Patent is held and not on the entire cost of product.

Background

It is a matter of concern that in India the Royalty is being charged (as per interim judgment of Delhi High Court dated 13th March, 2015) on the value of entire device of mobile phone in place of the value of the component in which such Patents are used and the patent was for a particular component/chip/part. To quote from DP Paper:

Page 25 Para 10.2.2

Telefonaktiebolaget LM Ericsson against Micromax: The court used the net sales price of the downstream device as a royalty base in calculating amount of royalty.

Intex Techs. (India) Limited² and Xiaomi Technology and Ors

High Court in both the cases took similar view and passed similar orders based on principle followed in Micromax case.

On the face of it, this looks strange as the total cost of product/mobile varies from company to company, brand to brand, features to features.

High cost of Royalty has always been a cause of concern in the minds of manufactures and the rate & basis of Royalty has always been the issue contested in the Courts not only in India but also abroad.

The determination on so called FRAND basis also has always been a question challenged in the Courts along with the issue that whether or not the Royalty should be charged on entire value or to it should be restricted to the small component in which the SEPs has been utilized.

There are several cases in this behalf. Especially in case of pharmaceutical cases the entire product cost has been considered in some cases. Yet it is difficult to apply same principal to electronic/mobile/telecom product, where there are thousands of patents on several components/parts and the cost of final product varies substantially.

There are several case laws in this behalf. Some of which are:

1. One of interesting case is **Cornell University v. Hewlett-Packard Co.**, 609 F.Supp.2d 279 (2009) (United States District Court, N.D. New York) (Copy attached at Annexure.....),

In this case HP was asking royalty on entire product even though he had patent for a small part. The courts give detailed judgment with arguments and justifications. The decision quoted in summary are:

Holdings:

The District Court, Randall R. Rader, Circuit Judge, sitting by designation, held that:

[1] entire market value rule could not be applied to damages calculation;

[2] hypothetical processor revenue was appropriate royalty base;

.....

[5] jury included quantifiable amount in verdict that could be stricken, allowing for remittitur;

(Remittitur is the process by which a court compels a plaintiff to choose between reduction of an excessive verdict and a new trial.)

(A district court's duty to remit excessive damages is a procedural issue, not unique to patent law,)

[6] maximum recovery rule would have been violated by making upward adjustment to unchallenged royalty rate component of verdict.

.....

Damages: An over-inclusive royalty base in patent infringement suit, including revenues from the sale of non-infringing components, is not permissible simply because the royalty rate is adjustable. 35 .S.C.A. § 284.

2. In *Maurits Dolmans Institute for Prospective Technological Studies*, SEP Workshop Seville, Oct 27, 2014, reference has been made to the following decisions wherein the issue that whether or not the Royalty should be charged on the entire value of device.

Entire Market Value – limiting case law

IP Innovation v RedHat (2010): sound economic basis needed “In invoking the entire market value rule, Mr. Gemini included 100% of

Red Hat's and Novell's total revenues from sales of subscriptions to the accused operating systems in his proposed royalty base. Mr. Gemini's methodology **however does not show a sound economic connection between the claimed invention and this broad proffered royalty base. The claimed invention is but one relatively small component of the accused operating systems."**

3. In *Uniloc v. Microsoft* (2011):

CAFC reaffirms limitation of entire market value, but using a low royalty rate is no excuse for using the "entire market value" for minor features: "Uniloc argues that the entire market value of the products may appropriately be admitted if the royalty rate is low enough, relying on the following statement in *Lucent Technologies*. [...] **The Supreme Court and this court's precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate."**

5. Role of Standard Setting Organizations (SSO)

As per DP Paper, while there are various definitions for the term "Standard, in simple terms, a standard can be defined as 'a set of technical specifications that seeks to provide a common design for a product or process'. These standards could be mandatory when enforced by law or voluntary.

The de jure standards are, in general, set by Standard Setting Organizations (SSOs) such as the European Telecommunications Standards Institute (ETSI), the International Telecommunication Union (ITU), Institute of Electrical and Electronics Engineers (IEEE) etc. The role of SSOs is to coordinate and facilitate a standard setting process with the involvement of various stakeholders. Standards can be adopted at a worldwide scale, or only at a regional scale or even national scale.

Membership of technology providers companies in SSOs is a voluntary work rather than a statutory or legal requirement. The working of SSO tends to form standards which favour its members. To that extent there is a conflict of interest. By and large SSO does not inform as to what patents are involved or which are SEP. It is left to patent holder to announce that it has SEP. The commitments made by technology providers to license their patents on FRAND terms are made under a private contract between the standards body and the members. These are not disclosed to world. No fixed royalties and other terms are informed to world. As a result of negotiations between patent holders or SEP and users is left to individual negotiations and terms and laws and interpretations.

Added to this is the fact that there are private negotiations between SEP and users on royalty and other terms. Even in most of litigations, the result is a negotiated agreement outside the court system. And there is a system of NDA, whereby SEP holder and user are not permitted to disclose the terms at what they have licensed to other users.

There is definite need for SSO and its experts from different fields to provide inputs, based on sound legal reasoning and thorough economic analysis, to inform about different methods that can be used to quantitatively determine royalty terms. Yet it is too much to expect from a private members body, unless Government provides statutory requirement for the same.

This is a big dilemma. A private body called SSO setting standards and various countries adopting the same under the excuse of seamless connectivity without knowing that it involves which patents or SEP and without knowing that it involves payment of royalties at what rates. SSO also hardly scrutinize or verify the validity of patent. The technology provider does give undertaking to SSO that it will license the technology on FRANDS basis. No one knows what is FRAND terms and conditions. SSO does not help or coordinate FRAND terms. There is lack of information of existing royalty terms due to NDA and no statutory backing for FRAND. So it is left to Civil Courts to adjudicate and give judgments on individual cases world over.

That means the relevant country laws governing patents and contracts are relied upon to settle disputes between the technology providers and the technology implementers. In the US also the courts are the definitive authority to preside over matters pertaining to patent licensing on FRAND terms.

The Standards bodies, spread across world, differ from one another in the composition of members, the technology underlying the standard, and the IPR policies meant to safeguard the interests of patent licensors as well as the licensees. The Countries have hard time in reconciling various standards set by different SSOs.

Incidentally there is only one and the one a formal statutory body ITU- International Telecom Union, Geneva, a subset of UN, where 197 member countries elect the officers and all decisions are based on majority and consensus. Their working by and large takes a view which is technology independent and not catering to any particular patent or SEP.

6. ETSI..one of SSO

At times it is argued that ETSI determines the FRAND and SEP. It is not correct. ETSI determines standards. ETSI has no role in determining FRAND.

Background

Uniloc v. Microsoft (2011):

It has been mentioned in above that the standards setting bodies like European Telecommunications Standards Institute (ETSI) ETSI, do not play role in determining FRAND. The observations are as under:-

“It is important to note that standards setting bodies, and in particular the European Telecommunications Standards Institute (ETSI) ETSI, do not dictate the terms of template licenses nor do they give guidance on what FRAND might be. Further they do not set a royalty rate, which may be

considered FRAND, and they do not check or scrutinize the purported essentiality of any patent notified to them. Consequently, there is scope for uncertainty, debate and, potentially, litigation.”

7. High Patent Infringement Costs and globally patent is big litigation area...Need for Government Intervention

CMAI recommends suitable institutional mechanism to address the litigations in IPRS and also Special Courts to consider IPR Patent cases.

Background

The contesting patents cases are very high costs. World over patent cases are contested intrinsically. The case involves technical as also legal expertise. There are millions of patents and thousands of contest cases. The success rate is very low. There is compromise in most of the cases. Traditionally India has not been able to develop patent litigation expertise due to lack of abundant Indian patents and other economic conditions. India also does not have specialized courts for patent cases and the cases are bundled with other several pending cases, whereby on several times adequate attention and time is hardly available to argue and submit the details.

Given below are some of facts in this behalf.

- i) **99% of cases are settled.**

As per NALSAR UNIVERSITY OF LAW Paper (Copy attached at Annexure...), A typical patent infringement case in the US costs 1 - 3 million dollars in legal fees for each side. This is despite the fact that 99% of all patent infringement cases are settled.

- ii) Obviously the patent numbers are large. As per IAM study <http://www.iplytics.com/general/iam-magazine-publishes-study-on-standard-essential-patents/>

“Future technologies such as Internet of Things, smart cars, smart home and smart energy will increasingly rely on patented technology standards such as LTE, Wifi, NFC, RFID and Bluetooth. The number of patents that claim an invention on these standards is consequently constantly increasing. So called Standard Essential Patents (SEPs) can be extremely lucrative in terms of royalty income, but also in terms of being strong bargaining chips in cross-licensing negotiations. Accordingly, also the number of SEP litigation cases as well as the number of SEP transfer deals has been become more frequent.”

The study makes use of data from the Iplytics Platform tool, connecting information on:

- 80 million world-wide patents documents
- 2 million world-wide standards documents
- 300,000 declared standard essential patents (licensing statement, FRAND commitment, reciprocity statement, etc.)
- 450,000 patents referencing standard as prior art
- 15,000 patents that are subject to a patent pools
- 42,000 patents that are subject to US litigation

iii) Interestingly, it is seen that companies like Ericsson does not appear to conduct its licensing activities in China, where most of the manufacturing for mobile and telecom is done. If it does, then according to Indian patent law, it cannot ask for a royalty again, as the patents have been exhausted. As stated earlier the actual use of purported patent is in the manufacture of chip, which is then used as a component for manufacturing mobile phone. So obviously it is for the chip manufacturers to follow the patents and not for the mobile manufacturers.

iv) As per DP Paper:

9.1.1 eBay Inc. v. Merc Exchange, L.L.C, the US Supreme Court clarified that there is no special "patent law" that provides for granting injunctions in patent infringement.

9.2.2.2 Samsung v. Apple Court in this case held that seeking an injunction during negotiation of the FRAND license must be considered as an abuse of law or a breach of pre-contractual good faith. The Court held that injunction would put Apple under considerable pressure in the negotiation of the terms and conditions of the FRAND license. The injunction could compel Apple to agree to a license fee that exceeds the level that Apple could claim on the basis on Samsung's FRAND declaration

9.2.3.2 Nokia v. I.P Com's High Court of Justice did not grant IP Com's request for injunctive relief, but ordered Nokia to plead on further issues, including FRAND

9.3 Samsung Electronics vs. Apple, The Tokyo District Court refused Samsung's request for a preliminary injunction on the ground that the asserted patents are SEPs encumbered with a FRAND commitment

9.4 China A Chinese Supreme Court advisory opinion issued in 2008 suggested that a court will not find patent infringement if a patentee participates in

standard-setting or otherwise agrees that the patented technology may be incorporated into a standard and subsequently files suit seeking injunctive

It is to be seen that Delhi High Court passed interim judgment asking to pay royalties without waiting for final judgment.

iv)

8. Eminent Domain

*CMAI would like to recommend that the principal of “**eminent domain**”- which essentially allows the state to subordinate private property right to the public interest in certain circumstances – must be considered for India.*

Background

The “Modi Obama Summit” published by “Brookings India” in September, 2014 in Article” IP Rights-An eminent Domain approach for India and US” by Mr Subir Gokarn, Former RBI Governor vide Page 45 bring out following: (Extracts of the Article is attached Annexure C)

*The issue of patents and regulatory data protection is undoubtedly the most contentious.To the extent that such knowledge is in the private domain, the power of the state to make it public, at least in a limited way, must be used. This situation seems to resemble the ones in which the “**eminent domain**” power is used in the U. S. that power is based on the premise that the public good sometimes outweighs the private interest. Using it in the context of IPR clearly brings a cross-border dimension to an otherwise*

largely domestic issue, but the principal is valid and could provide the basis for a middle-ground solution.

This is again covered in other Article by Mr Subir Gokarn(as mentioned above) in another issue of “ The Second Modi-Obama Summit” published in January, 2015, where vide Page 29 it says:

*On the larger technology for development, the principal of “**eminent domain**”- **which essentially allows the state to subordinate private property right to the public interest in certain circumstances – must be given some space.** Which would require capping the potential returns on IPR Eminent domain is a well-established principal in U. S. jurisprudence.*

9. Standard Essential Patent- SEP declarations by patent holders fared badly in Courts ..Need Government Intervention

i) Make in India, Digital India are big focus of NDA Government and the study shows that number patents that claim an invention on these standards is constantly increasing. Hence there is definite need to look into this as a policy statement/issue. There is definite need for an agency/Body to declare authenticate the declaration of SEP by patent holders.

ii) As per DP Paper with an increasing pervasiveness of standardized technology in virtually all sectors, and particularly telecommunications, in India and worldwide, issues associated with SEPs are increasingly agitated.

iii) As per DP Paper para 10 *Indian jurisprudence on Fair, Reasonable, and Non-Discriminatory (FRAND) licensing practices for standard-essential patents (SEPs) is at a relatively nascent stage.....* para 9, *Standard Essential Patents are yet to receive a legislative definition. No other jurisdiction in the world recognizes SEPs explicitly, i.e. in the IP Policy or Acts, it is always on a case to case, and on a patent basis by judicial determination—there is hardly any need for India to rush to recognize them in its policy.*

iv) As per DP Paper, *SEP is a patent that claims an invention that must be used to comply with a standard.Standards organizations often require members to disclose and grant licenses to their patents and pending patent applications that cover a standard that the organization is developing..... Patent hold-up can occur when the owner of a patented technology fails to disclose its patent to an SSO and then later asserts that patent, when access to its patented technology is required to implement the standard. This conduct may provide the patent owner with market power that is derived from its technology being necessary to access the standard rather than its ex-ante value to buyers.*

..... In order to ensure that standard setting remains beneficial, it is necessary to ensure that in cases where adopting a standard necessarily involves the incorporation of a patent into the industry standard, the relevant patent holder is not in a position to unjustly exploit its market power newly accrued to it (for example, by extracting exorbitant royalty rates) to the detriment of the entire industry.

There appears to be little or no information available in public domain with SSO and manufacturers in India as to what patents are to be followed, as has been stated hereinabove.

v) As per European Commission Competition Policy brief

http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf

there are thousands of SEPs reading on technologies implemented in various standards set by the SSOs. For example, the total

number of SEPs declared to ETSI is 155, 4748. More than 23,500 patents have been declared essential to the GSM and the "3G" or UMTS standards developed by ETSI. These standards need to be implemented in virtually all smart phones and tablets sold in Europe.

In the Samsung and Motorola cases, the Commission clarifies that in the standardization context, where the SEPs holders have committed to (i) license their SEPs and (ii) do so on fair, reasonable, nondiscriminatory (FRAND) terms, **it is anti-competitive to seek to exclude competitors from the market by seeking injunctions on the basis of SEPs if the licensee is willing to take a licence on FRAND terms. In these circumstances, the seeking of injunctions can distort licensing negotiations and lead to unfair licensing terms, with a negative impact on consumer choice and prices.**

As a result of the Commission's investigation, Samsung committed to not seek injunctions in Europe on the basis of SEPs for mobile devices for a period of five years against any potential licensee of these.

vi) The RPX Study <https://www.rpxcorp.com/wp-content/uploads/2014/01/Standard-Essential-Patents-How-Do-They-Fare.pdf> points out:

- **Overall, Alleged and Declared SEPs were relatively unlikely to succeed. Plaintiffs won on slightly more than a quarter of Alleged and Declared SEPs on a Unique Patent Basis across district court and ITC proceedings.**

- **Alleged and Declared SEPs were generally less successful than other patents.** Plaintiffs won nearly twice as often on a Unique Patent Basis on other patents than Alleged and Declared SEPs.
- Alleged and Declared SEPs fared poorly in district court proceedings. Plaintiffs won on only about a fifth of Alleged and Declared SEPs on a Unique Patent Basis and 28% of Alleged and Declared SEPs on a Defendant Patent Basis. Plaintiffs won on 12% of Alleged and Declared SEPs on a Defendant Patent Basis if patents that were dropped or that lost prior to a verdict are taken into account.
- Alleged and Declared SEPs fared better at the ITC. Plaintiffs won on one third of Alleged and Declared SEPs on a Unique Patent Basis and on nearly half of Alleged and Declared SEPs on a Defendant Patent Basis. (Plaintiffs won on only one third of Alleged and Declared SEPs on a Defendant Patent Basis)
- Cases involving Alleged and Declared SEPs tended to proceed further. Defendants in cases involving Alleged and Declared SEPs were roughly twice as likely to reach a summary judgment order (9.8% vs. 5.3%) and trial (2.4% vs. 1%) than defendants in cases that did not involve Alleged and Declared SEPs.

10. Global decisions on IP shall have affect in India.

There is need for a strong IPR cell in India to keep watch on happenings around world, which have bearing on Indian side. One such example is:

Link: http://www.smart-biggar.ca/en/articles_detail.cfm?news_id=1103

i) Google's appeal of worldwide injunction to be heard by Supreme Court of Canada (19 February, 2016)

The Supreme Court of Canada has agreed to hear Google's appeal of a worldwide injunction forcing it to block certain infringing websites from its search results. The appeal raises issues of how to provide meaningful protection of rights over a borderless Internet, while not unduly burdening innocent third parties or preventing access to information.

ii) In a ground-breaking British Columbia Supreme Court [decision](#), Equustek obtained a global interim injunction against Google forcing it to cease indexing or referencing Datalink's infringing websites. In reaching its decision, the Court stated:

"The courts must adapt to the reality of e-commerce with its potential for abuse by those who would take the property of others and sell it through the borderless electronic web of the internet,"

And

"That (injunction) is necessary ... to ensure that the defendants cannot continue to flout the court's orders."

