FRAND ROYALTIES AND THE MATERIALISING JURISPRUDENCE OF SEPS IN INDIA

By SHUBHRA RAI
INTRODUCTION

So far as the interface between patents and competition law is concerned, they both are so intertwined with each other that they appear to be at loggerheads, since the former enshrines and protects monopoly/exclusive rights and the latter seeks to prohibit monopoly in the market.\(^1\) However, we cannot shy away from the fact that entities compete to develop innovative products and processes securing the reward of exclusivity. Hence, both arms of law are intended to act in a complementary role aiming at encouraging inventions, competition and industry.\(^2\) Accordingly, imprudent and unbridled intervention by competition authority diminishing the exercise monopoly rights under the patent law can erode the very motivation to innovate breaking backbone of the patent system.\(^3\) Conversely, giving patent owners a free ride may result in market distortion and can have a dismal impact on competition when a patent holder, commanding a dominant position gravitates towards exploitative or exclusionary practices to establish or expand its turf in the market indulging in refusing to deal, vicious litigations, tying agreements and vertical restraints.\(^4\)

STANDARD ESSENTIAL PATENTS AND Fair Reasonable And Non-Discriminatory LICENSE TERMS

ISO/IEC Guide 2:2004\(^5\) defines “STANDARD” as “a document, established by consensus and approved by a recognized body, that provides, for common and repeated use, aimed at the achievement of the optimum degree of order in a given context.” Hence, “STANDARD” in SEP implies an “industry standard” i.e. the customary prevailing technological requirements so as to make a particular product/process operate determinatively.\(^6\)

So far as “ESSENTIALITY” is concerned, in Microsoft Corp. V. Motorola, Inc., Motorola Mobility, Inc., And Gen. Instrument Corp\(^7\), the Washington District Court held that, “A given patent is essential to a standard if use of the standard requires infringement of the patent, even if acceptable alternatives of that patent could have been written into the standard.”

According to European Telecommunications Standards Institute (ETSI) and its IPR policy\(^8\) the condition for “essential” is:

“ESSENTIAL” as applied to IPR means that it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without

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\(^1\) United States v Westinghouse Electric Corp. 648 F.2d 642, 646 (9th Cir 1981).
\(^2\) Atari Games Corp v Nintendo of America Inc 897 F.2d 1572, 1576 (Fed Cir 1990).
\(^5\) https://www.iso.org/standard/39976.html
\(^7\) 696 F.3d 872 (9th Cir. 2012)
\(^8\) https://www.etsi.org/WebSite/document/Legal/ETSI_IPR-Policy.pdf
infringing that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringements of IPRs, all such IPRs shall be considered ESSENTIAL.  

SSOs are industry groups that set common industry standards in various technological arenas. They advance policies with respect to intellectual property rights providing entities with impetus to invest in research and development for innovations as well as implementation in adoption of standards, progressing towards standards-compliant products and standardised technology parameters. Therefore, Patents that are imperative in complying with standards of an industry having been adopted by a Standard Setting Organisations (SSOs) are SEPs.  

SEPs are put to work by way of LICENSING, which can be exploited by the SEP holders to their benefit as one cannot make an industry specific standard product in absence of such licence. That’s where FRAND comes into play. FRAND signifies FAIR, REASONABLE and NON-DISCRIMINATORY terms of licensing. Before elaborating on FRAND, it must be kept in mind here that adoption of SEPs by SSOs is the governing element in their valuation and SSOs play an indispensable role in preventing situations of “Patent Hold-ups” by not adopting the SEP, the holder of which refuses or is reluctant to grant license in advance. FRAND terms are put in as requirement by SSOs in order to ensure Fair, Reasonable, And Non-Discriminatory licensing of patent to members as well as non-members striking a balance between interests of SEP holders and licensees.  

In context of telecom sector, an ‘industry compliant standard’ mobile handset has two SEPs viz. Code Division Multiple Access (CDMA) and Global System for Mobile Communication (GSM). The International Telecommunication Union (ITU) and the Institute of Electrical and Electronic Engineers (IEEE) are two major SSOs in mobile-cellular and wi-fi array.  

INDIA AND SEP-FRAND  

As of August 2018, India ranks second globally in terms of telecommunication subscriptions, internet subscribers and app downloads (combined iOS App Store and Google Play).  

Nonetheless, India’s tryst with FRAND associated litigations started as late as 2013 when Micromax sued Ericsson in 2013 over SEPs and their licensing and royalties with the Competition Commission of India.  

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9Ibid.  
11Ibid.  
SEP-FRAND jurisprudence in India can be elucidated via studying the orders given by the Competition Commission of India and the Delhi High Court, as these are the judicial bodies that have dealt with these issues. A few cases from other jurisdiction will also be dealt with in the course of this paper which will give an intelligible picture of the judicial trends across the globe.

THE COMPETITION COMMISSION OF INDIA

**Micromax Informatics Limited v. Telefonaktiebolaget LM Ericsson (Publ)**  
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Micromax Informatics Limited (“Micromax”) claiming itself to be the world’s 12th largest mobile handset manufacturer, having started its operations in India in 2008 sued Telefonaktiebolaget LM Ericsson (Publ) (“Ericsson”), founded in 1876 under laws of Sweden and a parent company of the Ericsson group, one of the world’s largest telecommunication companies, having a global market share of 38%, , claiming to have 33,000 patents to its credit, with 400 of these patents granted in India, and the largest holder of “Standard Essential Patents for mobile communication”. 16

As per Micromax, Ericsson was demanding unfair, discriminatory and exorbitant royalty for its patents regarding GSM technology, thereby violating the Competition Act,2002. The royalty demanded by Ericsson was excessive when compared to royalties charged by other patentees for patents similar or comparable to the patents held by Ericsson. 17

Micromax contented that the royalty rates demanded by Ericsson must be based on the value of the technology of chipset in the phone rather than as a percentage of sale price of downstream licensed product i.e. cellular phone handsetresulting into misuse of SEPs harming the consumers eventually. It was asserted by Micromax that Ericsson was known of the fact that there was no available alternative technology and they were the solitary licensor for 2G and 3G technology implementing SEPs, and therefore, were charging exorbitantly high royalties. Micromax informed the CCI that Ericsson demanded all future and intended licensee to sign nondisclosure agreements (NDAs) which testified that royalty charged from complainants can possibly be much higher than that charged from other potentiallicensees. 18

The CCI in its preliminary order defined the relevant product market as the market for the GSM and CDMA standards, with the relevant geographic market being India and held Ericsson to be the “largest holder of SEPs for mobile communications like the 2G, 3G and 4G patents used for smart phones, tablets etc. in the relevant market with no available alternative to existing or prospective licensees.” This was interpreted by the CCI as Ericsson holding a dominant position in the market for GSM and CDMA technologies. The CCI observed that the purpose of FRAND licensing is to avert patent hold-up and royalty stacking

15Case No. 50/2013, Competition Commission of India, (12/11/2013).
17Ibid.
18Ibid.
as patent hold-ups “undermines the competitive process of choosing among technologies and threatens the integrity of standard-setting activities”.  

The royalty rates charged by Ericsson as a percentage of downstream product instead of chipset of GSM/CDMA were held to be discriminatory, excessive and contrary to FRAND licensing terms with royalty having no linkage to the patented product. Ericsson was charging two different licensing fees per handset for the same technology reflecting imprudent pricing with respect to high end models. The CCI took the e.g. that a 1.25% applied to INR 100 model will make the price go up by INR 1.25 whereas in INR1000 model the royalty would be INR12.50. The issues raised before the High Court by OP are in respect of infringement of its IPR rights.

On issue of jurisdiction the CCI observed as follows: “The Informant has every right to raise issues before the Commission. Section 62 of the Act makes it clear that provisions of Competition Act are in addition to and not in derogation of other existing laws. Section 3(5) of the Act protects IPR rights of a person, subject to reasonable conditions. Section 4(1) prohibits abuse of dominant position by an enterprise. Section 4(2) provides that imposition of unfair and discriminatory conditions in purchase or sale of goods or services amounted to an abuse of dominant position. Thus, this Commission has obligation and jurisdiction to visit the issues of competition law. Pendency of a civil suit in High Court does not take away the jurisdiction of the Commission to proceed under the Competition Act.”

Concluding that prima facie Micromax has established a prima facie case of abuse of dominance, the CCI directed the DG to “conduct the investigation without being swayed in any manner whatsoever’ by the observations that the CCI made in the order.”

**Intex Techs. (India) Ltd v Telefonaktiebolaget LM Ericsson**

The allegations of Intex against Ericsson were more or less similar to that of Micromax’s. Intex contended that the Term Sheet for Global Patent License Agreement licensing terms were unfair resulting in abuse of its alleged dominant position in the market. Plus, Ericsson’s demand of NDA for potential licensees was vertically opposite to FRAND commitments. Like Micromax, Intex also argued that the NDA was nothing but a tool to charge different royalty rates/commercial terms from potential licensees of the same category and that Ericsson has abused its dominant position to compel Intex to sign the NDA making it a condition for sharing of Intex’s patent infringement details by virtue of which Intex has been precluded from divulging it to its vendors, as Intex conditioned its vendor to make representations with respect to non-infringement of a third party’s IPR. Through the NDA, Intex was also forced to accept Singapore as a forum for grievance redressal.

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19Ibid.

20Ibid.

21Ibid, p 18.


23 Case No. 76 of 2013, Competition Commission of India, (16/01/2014).

The CCI, not surprisingly, considering its earlier decision of Micromax v. Ericsson, concluded that Intex had established a prima facie case that Ericsson had abused its dominant position and the observations were strikingly alike that case:

- Therelevant ‘geographic market’is India and ‘product market’are GSM and CDMA technologies.
- Ericsson is dominant in themarkets for GSM and CDMA standards in Indiadepending on the number and strength of patents in the field.
- The royalties had no linkage to the patented product and discriminatory as well as contrary to FRAND terms.
- Different licensing fees for the use of the same technology presents excessive pricing vis-à-vis high cost phones.25

Jurisdiction clause foretells an abuse of a dominant position was observed by the CCI and the DG was accordingly ordered to combine the investigation of complaints of Micromax and Intex against Ericsson.26

**Best IT World (India) Private Ltd. v Telefonaktiebolaget LM Ericsson**27

In this dispute between iBall (Best IT World (India) Private Limited) and Ericsson, it was alleged on the part of iBall that Ericsson’s conduct viz.- with iBall willing to enter into patent-licensing contract for GSM and CDMA compliant products on FRAND terms, Ericsson imposed on it onerous conditions through NDA which provided for settling all future disputes through arbitration in Stockholm, ten years’ confidentiality clause, incorporating all sales-past, present, future within the four walls of the agreement and threat of patent infringement suit, unreasonably high royalty based on percentage of product and irrelevant patents bundling in the agreement - Ericsson was once again accused of violating section 4 of the Indian Competition Act,2002.28

Clarifying its stance once again and following the same range of reasoning once more, the CCI observed that Ericsson enjoys a complete dominance over its present and prospective licensees in the relevant market because there is no alternate technology available for Ericsson’s patents in the 2G, 3G, and 4G standards and that their licensing practices resemble to be discriminatory as well as contrary to FRAND terms. Moreover, forceful compliance with NDA as well as imposition of unjustified royalty rates point towards abuse of dominance in violation of section 4 of the Act. Considering it similar to earlier cases against Ericsson, the CCI directed the DG to investigate further.29

However, iBall order by the CCI on May 12, 2015 magnified the ambivalence of laws relating to SEPs in India. Although the CCI considered its former Micromax and Intex orders, the body conveniently over looked the Delhi High Court judgment of March 2015 in Intex

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25Ibid.
26Ibid.
27Case No. 4 of 2015, Competition Comm’n of India (12/05/2015).
29Ibid.
case. Thus, highlighting a stand at the other end of the spectrum and raising a concern amongst the legal fraternity as well the telecommunications sector.

Without any doubt, the above orders do call for some discussion.

**CRITIQUE OF CCI ORDERS**

The stand taken by the CCI is based on the latent understanding that patents create monopoly rights. There is nothing wrong with this premise, however, in the field of telecommunications patents take a different flavour altogether which the CCI misjudged. For starters, this approach is a child of traditional pedantic approach of economics of competition law.

Telecommunications is an ever-expanding technology driven sector where monopoly at the best can be ephemeral. The telecommunications sector and its convergence with the internet and artificial intelligence has seen two developments: (i) a wide range of alternatives to the GSM/CDMA technologies and (ii) combining of different innovations enabling different functions in a mobile and of course, the emergence of apps.  

To elaborate here on the emergence of the apps on the scene. An ‘app’ is short for ‘application’ which is a software designed to perform a specific function in a device, mobile phone, tablet or computer. So, the question that I raise here is whether the chipset involving 2G, 3G or 4G or even 5G technological standards should inform the royalties to be paid for such SEPs or should it be the functions that a device can perform primarily by virtue of apps. No jurisprudence has arisen as yet and only time will tell.

The hallmark of a SEP approved portfolio of patents is that FRAND conditions are voluntary and ensures that for a licensee the technology is available to all firms who agree to pay. Selecting a specific FRAND license being voluntary, there is no compulsion on phone manufacturers to select a SEP.

There is also a question of who needs who in telecommunications market. In between a large domestic manufacturer and a large international SEP owner, the situation is similar to competing dominance than of unequal status, more so in the Indian mobile and handset scene. To argue that ‘fair and reasonable’ tantamount to uniform royalty for all licensees is to ignore the critical fact that a license is a negotiated document between two parties. The prevalence of competitive constraints balances the relationship in a negotiated settlement.

A negotiated settlement normally involves the rights of two parties but in the case of smartphones and telecommunication equipment the rights of consumer have to be considered by antitrust authorities whose concern solely should be that of the consumer and not of the implementers. Issuing of SEP licenses on FRAND terms enables the gains to be used by the implementer to benefit the consumer. The argument put forth by Micromax and Intex in their filings with the Commission that consumers lose out on account of high royalty payments

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31 Ibid.

32 Ibid.
which result in higher costs is simplistic and tends to be an ‘accounts based approach’ towards pricing rather than an ‘economics based approach’ to pricing.33

In a competitive market, the prices of handsets and of smartphones are based on several factors—such as elasticity of demand; number of firms and availability of substitutes; business strategies that different firms adopt to increase sales etc. notwithstanding that royalty payments where SEP is concerned would impact in the same manner for all telecommunication equipment manufacturers. The argument that royalty rates affect the final price resulting in consumer harm is based on simplistic concept of pancaking of costs to arrive at the final costs. The ‘account based’ methodology is mostly used in cost based pricing schemes where all inputs plus a reasonable rate is added to arrive at a reasonable price. The arguments against royalty as a percentage of final selling price and for royalty pricing on the smallest saleable patent practicing component (SSPPC) proceeds on this logic.34

It still leaves the question as to why the CCI considered that charging of relevant fee on the total sale price was exorbitant and instead suggested royalty to be paid on the patented product or what is known as the SSPPC as the royalty base to determine a FRAND royalty. While arguments have been put forward for SSPPC, it goes against the logic of standardization process. In fact, payment of royalty for each patent may result in a larger amount of royalty paid out and misses out on the importance of the basic intention of FRAND which is to determine a value of the entire portfolio.35

A further discussion of it will be continued while critiquing the Delhi High Court’s judgments. Nevertheless, a discussion as to what constitutes ‘Dominance in FRAND’ become imperative, directingto a very recent decision of UK Court of Appeal:

**Unwired Planet v. Huawei (Oct.2018)**

Unwired Planet sued Huawei for the infringement of SEPs needed to implement the 2G, 3G and 4G technologies on the defendant’s devices. These patents had been acquired by Unwired Planet from Ericsson. Samsung and Google being other defendants reached agreements with UP in course of proceedings. UP and Huawei, both had agreed to enter into a licensing agreement, but some confusion existed concerning the terms, relating to conformity with FRAND, object of the license and to its geographic scope. Huawei did not want to pay royalties for Unwired Planet’s entire portfolio and wanted to exclude all patents covering 2G technology as it did not manufacture devices having the same. Huawei insisted on limiting the scope of the negotiations to the UK, while Unwired Planet understood that the license at stake was a global one.36

The three grounds of the appeal were the global scope of the license, the non-discrimination and the abuse of a dominant position derived from Huawei vs ZTE “code of conduct”.

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33Ibid.  
34Ibid.  
35Ibid.  
As for global scope of the license, the CA said that given the characteristics of the licensee, licensor and the portfolio of patents, if both parties willing, they would have had concluded a global agreement. Regarding pending cases in China and Germany, the CA said that the definition of the FRAND terms by a court does not prevent the licensee from discussing the validity or essentiality of all or part of the patents. The CA further said that there is not a sole combination of conditions that can be considered FRAND.37

Regarding the discrimination that Huawei may have suffered concerning UP and Samsung agreement, the CA observed that to consider two transactions equivalent, the relevant commercial aspects of the transactions have to be taken in account and no other and held that the function of FRAND is to prevent hold-up by the patent holder and the benchmark rate which is established reflecting the value of the portfolio can be offered to potential licensees without risking that the return offered to the investment is insufficient. The CA also said that a differential pricing policy can be positive in terms of welfare and must not be negated provided it does not harm competition and any approach leading to most favoured licensee clause is not acceptable.38

The CA accepted that UP has a dominant position and thoroughly reviewed the CJEU judgment in Huawei vs. ZTE (which will be discussed in the following pages), where it establishes that a breach of such conditions may constitute an abuse of a dominant position. In the present case the CA emphasised on the willingness shown by the parties to licensing in and out. The CA also observed that the nature and procedural development of the injunctions differ from one state to another, the procedure of which began before the CJEU’s judgment in Huawei vs. ZTE. With this, the CA held that behaviour of UP was not abusive.39

THE DELHI HIGH COURT

*Telefonaktiebolaget LM Ericsson v. Mercury Electronics & Another*40

Ericsson brought a suit against Micromax for infringement of Ericsson’s eight patents concerning 2G and 3G technology standards registered in India and applied for permanent injunction damages. Back in 2012, Ericsson and Micromax had agreed to a FRAND licence and while the negotiations were going on Micromax had agreed to pay interim royalty on Ericsson’s proposed terms. Plus, Ericsson was to be paid $2.50 by Micromax for each data card sold with the purportedly infringed technology, which was allowed by the Delhi High Court. However, the negotiations fell through and Ericsson was directed by the court to present before the court the 26 licenses (comparable licences) signed with separate Indian parties, after examining which the Delhi High Court granted an injunction to Ericsson against Micromax and directed it to pay royalties to Ericsson ranging from 0.8%–1.3% of the net

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37 Ibid.
38 Ibid.
39 Ibid.
40 CS (OS) No. 442 of 2013
selling price of products assimilating 2G and 3G technology standards and declared it to be an interim arrangement.41

**Telefonaktiebolaget Lm Ericsson v. Intex Technologies (India)**42

In a similar fashion, as in its suit against Micromax, Ericsson brought a suit in the Delhi High Court and sought permanent injunction and damages against Intex for the infringement of eight 2G and 3G standards associated patents registered in India. And identically the Delhi HC directed Intex to pay royalty determined in the judgment and injunction was issued against Intex.43

Ericsson put forward the point that since 2G and 3G technology patents are SEPs any one making, using, or selling devices confirming with these infringe upon their intellectual property and presented coherent records in the HC showing failed negotiations from December 2008 till 2013 and displayed contradictory position taken by Intex on validity and infringement of patents as Intex had participated in the negotiations with Ericsson on one hand and sued them with the CCI alleging abuse of dominance and unavailability of alternate technology and on the other initiated proceedings with the Intellectual property Appellate board for revocation of such patents, which was clear from Intex’s statements with the CCI and IPAB, note of which was taken by the HC. Therefore, court found Intex to be not negotiating in good faith and determined the validity of patents in favour of Ericsson and held that royalty calculated in case of **Ericsson v Micromax** will apply mutatis mutandis in this case as well as the facts are more or less similar.

The High court of Delhi cited 2 cases- one from US and the other from China - while analysing and upholding royalty charging practice of Ericsson depending on end-product pricing and confirming to its FRAND commitments.

The cases are discussed as follows:

**CSIRO v. Cisco**44

It is a landmark case that provides for proving and determining a reasonable royalty for a SEP, and further involves insight into the Federal Circuit’s first decision on this issue a year ago in Ericsson v. D-Link that involved a SEP that did have a FRAND obligation under the IEEE 802.11 Wi-Fi standard.45

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42I.A. No. 6735/2014 in CS(OS) No.1045/ 2014
44COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION v. CISCO SYSTEMS, INC., Appeal from the United States District Court for the Eastern District of Texas in No. 6:11-cv-00343-LED (December 3, 2015)
The Federal Circuit rejected the infringer’s argument that all patent damages methodologies must always start out using the smallest saleable patent-practicing unit (SSPPU). The SSPPU is a principle that can aid courts to determine if a damages expert’s methodology apportions to the patent only the value that the patented technology provides to the infringing product and no other unpatented features. However, it is not the only approach to be considered and different methodologies can be employed, depending on the facts and circumstances if the case. For example, damages methodologies properly may rely on real-world comparable licenses to reliably apportion value to the patented technology, whether the royalties are based on end products or components thereof. This decision reflects vividly that royalties being based on the end product rather than its components is a perfectly acceptable method.\footnote{The court further said that the need to apportion the value of the patented technology from the value of standardization applies whether or not a SEP is subject to a FRAND or other standard setting obligation.}{47}

**NDRC v Qualcomm.**

In February 2015, the National Development and Reform Commission (NDRC) of China heavily penalised Qualcomm, imposing a fine of 6.088 billion yuan ($975 million), or 8% of Qualcomm’s 2013 revenue in China, concluding that Qualcomm had a dominant market position in the market for licensing SEPs involving CDMA, WCDMA, and LTE, and that it abused its dominance by: (1) Charging excessive or unreasonably high royalties by refusing to provide the patent list and also charged royalties for expired patents; requiring royalty-free grant backs of relevant patents; bundling SEPs and non-SEPs; and charging relatively high royalty rate based on the wholesale net selling price of devices. (2) Bundling SEPs and non-SEPs without justification. (3) Imposing other unreasonable conditions on the sale of baseband chips, including waiving the right to challenge the agreement.\footnote{To rectify, Qualcomm agreed: (1) Not to bundle Chinese SEPs and non-SEPs and to provide patent lists during negotiations; (2) To charge royalties of 5% for Chinese 3G SEPs and 3.5% for Chinese 4G SEPs using a royalty base of 65% of the net selling price of the device; (3) Not to condition the sale of baseband chips on signing a licensing agreement with terms that NDRC found to be unreasonable (i.e., containing a no-challenge clause); (4) To provide existing licensees with an opportunity to elect to take the new terms for sales of branded devices for use in China.}{48}

To rectify, Qualcomm agreed: (1) Not to bundle Chinese SEPs and non-SEPs and to provide patent lists during negotiations; (2) To charge royalties of 5% for Chinese 3G SEPs and 3.5% for Chinese 4G SEPs using a royalty base of 65% of the net selling price of the device; (3) Not to condition the sale of baseband chips on signing a licensing agreement with terms that NDRC found to be unreasonable (i.e., containing a no-challenge clause); (4) To provide existing licensees with an opportunity to elect to take the new terms for sales of branded devices for use in China.\footnote{Impressively, the decision of Ericsson v Intex was delivered by the Delhi High Court before the CJEU’s judgment in the Huawei Technologies v. ZTE Corporation, which upholds the view that no abuse of dominant position happen when a SEP holder sues an unwilling licensee, making it important to be discussed here.}{49}

\footnote{Ibid.}{46}

\footnote{Ibid.}{47}

\footnote{DARYL LIM, China’s NDRC Issues Penalty Decision Against Qualcomm, Imposing $975M Fine, Intellectual Property Committee, FEBRUARY 9-14, 2015, https://www.americanbar.org/content/dam/aba/publications/antitrust_law/at315000_tidbits_20150214.authcheckdam.pdf}{48}

\footnote{Ibid.}{49}
Huawei Technologies Co Ltd v ZTE Corp ZTE Deutschland GMBH (July 16, 2015, the Court of Justice of the European Union (CJEU))

The CJEU held that a SEP holder cannot, without abusing its dominant position, file an action for prohibitory injunction or for the recall of products (on its own) before making efforts to conclude a FRAND-license agreement anda balance needs to be maintained between free competition and the requirement to safeguard the proprietor's IPR. Taking into consideration the large number of SEPs composing a standard, it is not a certainty that an alleged infringer will necessarily be of it. Further, as the SEP proprietor is better placed to check whether its offer complies with the FRAND requirements than is the alleged infringer, the CJEU places the burden of initiating FRAND license negotiations on the SEP proprietor. The CJEU held that a SEP proprietor, who made a commitment to anSSO to grant third parties a FRAND-license, does not abuse its dominant position in seeking an injunction or the recall of products only when complying with the following obligations prior to bringing such an action:

- The SEP proprietor must first alert the alleged infringer designating the claimed SEP and infringing products or services.
- If the alleged infringer expresses its willingness to enter into a FRAND license agreement, the SEP proprietor shall send a written offer specifying, in particular, the amount of the royalty fee and relevant calculation method.
- Alleged infringer must respond actively and diligently to SEP holder’s offer, in accordance with the recognized commercial practices in the field and in good faith, determined objectively and especially implying no dilatory tactics.  

If the alleged infringer has to submit to the SEP proprietor a specific counter-offer if the holder’s offer is not acceptable, which corresponds to FRAND terms., which if rejected by the proprietor, but the alleged infringer is still using the SEP, the alleged infringer has to provide appropriate security in accordance with recognized commercial practices from the point at which the counter offer is rejected. Where no agreement is reached, the royalty fee be determined by an independent third party, if requested by patent holder and alleged infringer.  

The CJEU also held that an alleged infringer shall still have the right to challenge the validity of the patent, its standard essentiality, the actual infringing act by the accused products and services. The SSOs not the judge of validity and the actual essentiality of the patent for the standard in question.  

Moreover, the CJEU observed that a SEP holder does not abuse its dominant position if it brings an action for infringement seeking the rendering of accounts only along with or an award of damages in respect of past acts of use, as these actions do not have a direct impact on products being or appearing in the market.  

51Ibid.  
52Ibid.  
53Ibid.
The third case of Ericsson with the Delhi HC was conducted as follows:

**Telefonaktiebolaget LM Ericsson(Publ) v Xiaomi technology and ors.**

Ericsson sued Xiaomi in December 2014, concerning its 2G and 3G SEPs (same as Micromax and Intex) alleging that it asked Xiaomi to take licence, but Xiaomi launched infringing products in India and created an Indian subsidiary for marketing such products instead. The court issued an interim injunction against Xiaomi to prevent it from importing or selling any such device in India. Xiaomi argued that it had obtained Ericsson’s SEPs from Qualcomm Inc., under license from Ericsson, products are not infringing. Based on which Xiaomi was allowed temporarily to import and sell devices containing Qualcomm’s chipsets only. Nonetheless, no royalty rate was determined by the court in this case.

**APPRAISAL OF DELHI HIGH COURT ORDERS**

The Delhi High Court’s decisions on FRAND licensing are in tune with the current judicial and regulatory trends across the world as we have seen in the cases discussed earlier, especially: (1) using the net sales price of the downstream product as the royalty base and (2) relying on comparable licences to derive a FRAND royalty. Both are economically sound principles.

There are several inputs and complementary products that are part of a mobile phone. In a standard they are all part of a package where the royalty payment is for the package. All of them have been harmonized to complement each other leading to what is commonly known as “Network Effects”. Networks create value and fixing royalty as a percent of the final price is the value that the consumers discern and recognize when they buy the product which happens to be the ‘economic based approach’. The standards setting processes of SSOs coordinate the process of a SEP. The value of a single license is enhanced by all the complementary features. They can only function if they are interoperable.

The interaction between the components of a multi-component product breathes a “Complementarity Effect” and enhances the value of the product which transcends the arithmetic sum of the value of the components and create additional usages of the product, in turn amplifying the network effects already present smartphone users.

In contrast, using the price of the smallest saleable patent-practising component or unit (SSPPC/U) as a royalty base is unheeding of the economicsof this methodology. The

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54IA 3074/2015 in CS(OS) 3775/2014, judgment delivered on 22/04/16.
market price of the individual patented components may not account for the value of the complementarity effects and the network effects created by such component.59

Major technology companies, in general practice, in the United States, Europe and Asia, use the retail price of the downstream product as the royalty base for calculating royalties on a multi-component product. It is also pertinent to note here that Comparable licences, that were relied by the Delhi High Court in calculating the royalty rates, provide reliable information to calculate a FRAND royalty. Royalties extracted from existing licences coherently present the market valuation of the SEPs as they divulge the perception of market participants differentiating the value of the SEPs from the value of the non-infringing components and as to what the licensor and licensee appreciate as fair compensation for the use of the patented technology.60

CONCLUSION

Hence, so far, the Delhi High Court did a good job in keeping up with the course, current and movement of SEP-FRAND related happenings in the major jurisdictions of the world. Nevertheless, as recent as July 201861, the High Court of Delhi decided a matter which is a case of firsts in myriad of ways especially being the first one in the country wherein a suit concerning SEP infringement was tried and decreed. Even though it is not concerned with the telecommunications sector, unlike the general discussion in this paper, it provides the perfect conclusion of this paper as to the emerging jurisprudence in SEPs in India.

**Koninklijke Philips Electronics N.V. vs. Rajesh Bansal And Ors.** 62

Philips filed a patent application in 1995 for DVD video players, entitled ‘Decoding device for converting a modulated signal to a series of M-bit Information Words’, which was granted in 2001 which is for channel decoding technology used in a DVD player. Philips sued the defendants in 2009 for infringement of their patent and sought permanent injunction, delivery, rendition of accounts and damages. Philips claimed the patent to be SEP and asserted that any party interested in the manufacturing the DVD video players must have licensed all the SEPs of the relevant patent pool and that the defendant’s product was using the said technology, thus infringing Philips’ patent.63

To determine the ‘essentiality’ of the patent, Philips argued that if the patent could be mapped to a standard, it becomes essential and it would not be technically possible to manufacture the suit patent without infringing. The defendant countered by saying that such a standard was not recognised in India. Still the Court found the patent to be essential and that it was infringed.64

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59Ibid.
60Ibid.
61Koninklijke Philips Electronics N.V. vs. Rajesh Bansal And Ors., CS (COMM) 24/2016 & CS(COMM) 436/2017, Del. HC, 12/07/2018
62CS (COM) 24/2016 & CS(COMM) 436/2017, Del. HC, 12/07/2018
63Adheesh Nargolkar (Partner) and Janaksinh Jhala (Senior Associate), Khaitan & Co., Delhi High Court awards damages and costs in addition to royalty fees in a standard essential patent infringement suit, ERGO-NEWSFLASH, 18 July 2018, https://www.khaitanco.com/PublicationsDocs/Khaitan%20&%20Co-Ergo-Newsflash-18July2018.pdf.
Philips led two privately granted ‘essentiality report’ mapping the Plaintiff’s European and US Patents to ascertain relevant standards in those jurisdictions, but the standards themselves (the ECMO and the ISO respectively) were not proven by them. Such ‘essentiality reports’ should have been rejected logically as standards are often not sufficiently precise to imply that use of the standard can be claimed to be infringing and the standards themselves may be used in ways which not infringing. The court should have shown some discretion in accepting such report at face-value.  

Defendants’ claims that the allegedly infringing players had been imported from a valid licensee of the patentee, hence, no infringement as such, was disregarded by the court. Section 107 of the Indian Patents Act incorporates the principle of ‘International Exhaustion’ in favour of imports of patent products which have been first sold abroad. The court placed an onerous burden on the defendants of having to prove that the entities from which it purchased the devices were duly licensed.

The Court followed its earlier decision in Ericsson v Micromax for the royalty determination based on the net sales price of the DVD player, which certainly is in consonance with global practices as has been discussed earlier in this paper. Peculiarly, and unlike the Ericsson v Micromax case, the Court did not assess rates on comparable licenses but on prior negotiation between the parties, led by their expert witness.

The High Court went on to impose punitive damages on the defendants. It is a welcome note for patent holders and will certainly instil their confidence in the Indian Judiciary that they will be adequately compensated in the jurisdiction if infringement is proved. On the contrary, it may be an untoward and injudicious for SEP jurisprudence development. Damages for SEPs should stand on a different footing from regular damages assessments. The recognition of certain patents in standards implies that some of a patentee’s rights are given up in favour of standardization and to ensure that interoperable technologies or technologies for consumer welfare are adopted consistently. Therefore, this principle should inform the courts while awarding compensation in SEP infringement cases. In brief, an opportunity to elaborate on SEP-FRAND jurisprudence was lost in this case.

Concluding this paper, there is one point that is to be driven home and that is Indian judiciary is still in the formative state vis-à-vis Standard Essential Patents and FRAND jurisprudence and it still has miles to go to before it delivers the likes of mature judgments that are being delivered by the courts all across the major IP jurisdictions. The CCI and the Courts will have to work in consonance so that the trade and industry do not bear the brunt of their incoordination and lack of cohesion. The courts will have to be careful about not losing the chance, as in the above-mentioned case, to elucidate the law and lay down well-informed precedent in SEP-FRAND contested matters.

65Ibid.
66Ibid.
67Ibid.
68Ibid.