

## Comments on the “*Discussion Paper on Standard Essential Patents and their availability on FRAND terms*”

### Executive Summary

Standards, particularly in technology-intensive industries, are *de facto* a supplemental form of international trade regulation, made in substantial measure by patent-holding private corporate actors. These parties devote considerable effort to embedding their patent monopolies in specific standards-recommended technologies. By doing so, they multiply the value of their patent rights by requiring licenses from all implementers of the standard. Even though Government of India now decisively prefers royalty-free and open standards goals for all nationally-developed standards, in many crucial industries, including telecommunications, regional or global standards organizations, such as IEEE and ITU, will impose "standard essential patent" monopolies on the Indian economy. In this paper, SFLC.in makes the following recommendations concerning SEPs:

- Because section 3(k) of the Indian Patent Act makes computer programmes "per se" unpatentable, as recognized by the Patent Office in its recent CRI guidelines, the Office should formally re-emphasize that computer program source code (software per se) implementing standards-recommended technology can never, as a matter of Indian law, infringe SEP monopolies.
- Required FRAND license terms for SEPs identified in Indian national or nationally-adopted standards should be set by BIS. Those license terms should establish both royalty rates and required royalty-free (RF) exceptions. Such exceptions should include required RF licensing for educational, experimental and research implementations of SEPs.
- Required FRAND licensing terms set by BIS should establish royalties based on the Smallest Saleable Patent Practicing Component (SSPPC) measure, rather than as a percentage of the sale price of standards-compliant devices or products. BIS could co-ordinate with sectoral SSOs like Telecom Standards Development Society India.

- BIS should directly regulate the use of Non-Disclosure Agreements to modify or negate, whether directly or indirectly, the required FRAND licensing terms imposed by SEP-holders on standards-compliant licensees.
- BIS should be the dispute resolution body of first recourse in case of any infringement dispute related to SEPs and BIS should decide on the FRAND terms for licensing of SEPs.
- The Government of India has notified the Policy on Open Standards for e-Governance in November 2010 and the policy mandates that the Government shall adopt Single and Royalty-Free (RF) Open Standard progressively for a “specific purpose within a domain”, to meet the laid down objectives of the Policy. Standard Setting Organisations in India should strive to ensure that standards that are adopted are Open and Royalty-free. The Indian SSOs should try to emulate W3C, an SSO which works on standards for the web, which mandates its members to license patents that are essential for implementing a standard on a royalty-free basis.
- The Government could also look at compulsory licensing as an option to ensure that holders of Standard Essential Patents do not abuse their dominant position and to protect public interest.

**Ques 1. Whether the existing provisions in the various IPR related legislations, especially the Patents Act, 1970 and Anti-Trust legislations, are adequate to address the issues related to SEPs and their availability on FRAND terms? If not, then can these issues be addressed through appropriate amendments to such IPR related legislations? If so, what changes should be affected.**

### **Short response**

Although the Competition Act provides remedies to address the issue of the abuse of dominant position by the holder of a Standard Essential Patent, there have been many instances of patent holders getting injunction orders in their favour from the courts against Indian manufacturers. This results in the licensee being forced to agree to license terms which are not fair and are discriminatory. Hence, it will be useful to have a body like the Bureau of Indian Standards (BIS) act as the dispute redressal forum of first recourse in matters related to infringement of SEPs. The provisions of the Bureau of Indian Standards Act, 1986 and the Patents Act, 1970 could be amended for achieving this purpose.

### **Explanation:**

Standards are technical requirements or specifications that seek to provide a common design for products or processes. They ensure quality, reliability of products, enable interoperability, and serve as important drivers of modern, global economies. Success of the Internet is said to be the best example of the great social, technical and financial benefit that comes from massive interoperability<sup>1</sup>. When standards incorporate technologies that are protected by Intellectual Property Rights (IPRs), the owners of such IPRs gain significant power in the market, for whoever wishes to manufacture standard compliant products must necessarily obtain a license from such essential IPR holders. Unlike regular IPRs, there are no alternatives to essential IPRs, which gives its holders high bargaining power against potential licensees. This sometimes leads to anti-competitive behavior where standard essential IPR holders engage in delays and hold ups, do not negotiate terms for licensing with other market players, thus making it tough for new players to participate in a level playing field. Particularly with regard to Standard

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<sup>1</sup> <https://opensource.org/osr-rationale>

Essential Patents, it is suggested by some that “While adoption of protocol or standard across an industry or technology platform has recognized pro-competitive and pro-consumer advantages, incorporating a patent into that industry also has potentially anti-competitive effects.”<sup>2</sup> The European Commission defines an SEP as “a patent that protects technology essential to a standard....SEPs are different from patents that are not essential to a standard (non-SEPs)...This is because, generally, companies can invent alternative solutions that do not infringe a non-SEP (whereas they cannot design around a SEP).”<sup>3</sup>

While the existing IPR legislations provide adequate protection to IPR holders, and competition laws provide redressal against anti-competitive behavior in the market, in the past courts in India have been seen granting interim injunctions in cases dealing with infringement of SEPs<sup>4</sup>. However in jurisdictions such as the USA and EU seeking injunctions based on SEPs is being regarded as abuse of dominant position by courts<sup>5</sup>. Further as a result of unclear FRAND license terms, the determination of royalty rate for licensing SEPs by different authorities has varied. While the Delhi High Court has determined interim royalty rates based on sale price of infringing product, the Competition Authority has found the practice of imposing royalties linked with the cost of manufacturing product contrary to FRAND terms. Furthermore, recently the jurisdiction of the CCI to entertain cases dealing with IPR has also been challenged. Although Delhi High Court ruled that CCI has such jurisdiction<sup>6</sup>, it is recommended that more clarity be provided as with respect to the role of competition law in relation to SEP disputes. Eg. In Europe all standardization bodies have to comply with competition law. In particular, the Guidelines on Horizontal Cooperation Agreements comprise specific guidance for standardization<sup>7</sup>.

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2 “Will Standard Essential Patents Change the US Patent Litigation Landscape? Article by Laura Beth Miller, available at <http://www.mondaq.com/unitedstates/x/266912/Patent/Will+Standard+Essential+Patents+Change+the+US+Patent+Litigation+Landscape>

3 *Competition Policy Brief*, Occasional discussion papers by the Competition Directorate General – General of the European Commission. Issue 8| June 2014

4 Eg. *Ericsson v. Micromax Informatics Limited* (CS(OS) No. 442 of 2013 available at <https://indiankanoon.org/doc/90888012/> ; *Ericsson v. Intex Technologies* (CS(OS) 1045 of 2014 available at <https://indiankanoon.org/doc/74163100/>

5 See decision in *Microsoft Corp. v. Motorola Inc.* 696. F.3d 872 (9<sup>th</sup> Cir. 2012) and European Commission's statement of objections issued to Samsung in violation of EU's anti-trust rules. Available at [http://europa.eu/rapid/press-release\\_IP-12-1448\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1448_en.htm)

6 [http://lobis.nic.in/d\\_dir/dhc/VIB/judgement/30-03-2016/VIB30032016CW4642014.pdf](http://lobis.nic.in/d_dir/dhc/VIB/judgement/30-03-2016/VIB30032016CW4642014.pdf)

7 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:011:0001:0072:EN:PDF>

Furthermore, provisions relating to registration of SEPs may be provided under the Patents Act 1970 in order to define their scope and applicability.

The CCI has the power to determine disputes relating to abuse of dominant position with regard to SEPs. The Delhi High Court in *Telefonaktiebolaget LM Ericsson vs. Competition Commission of India* [W.P. (C) 464/2014 & CM Nos. 911/2014 & 915/2014]<sup>8</sup> held that *“there is no irreconcilable repugnancy or conflict between the Competition Act and the Patents Act. And, in absence of any irreconcilable conflict between the two legislations, the jurisdiction of CCI to entertain complaints for abuse of dominance in respect of patent rights cannot be ousted”*. Further the court held that *“A patent holder has a statutory right to file a suit for infringement....the Competition Act is not concerned with rights of a person or an enterprise but the exercise of such rights.”*

The Bureau of Indian Standards(BIS) is the primary national SSO established by an Act of the Parliament. Considering the expertise of BIS in this area, BIS can be given the power to decide on FRAND rates for licensing of SEPs and to ensure transparency in license agreements. The BIS Act could be amended for this purpose. BIS could also co-ordinate with sectoral SSOs like Telecom Standards Development Society India.

In some cases, the Government can use the provision of compulsory licensing in the Patents Act, 1970 to ensure that a holder of a Standard Essential Patent does not abuse its dominant position.

## **Position in USA**

Standardization in USA is a decentralized activity. The standardization framework is largely contained in the United States Standards Strategy<sup>9</sup>. The Federal Government has rarely intervened in private sector standards activities; instead it has focused on preventing anti-competitive outcomes as well as on assuring the 'fairness' of the system. The government's preference for voluntary consensus standards was reaffirmed in the 1979

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8 Judgment delivered on 30.03.2016. Available at <http://lobis.nic.in/dhir/dhc/VIB/judgement/30-03-2016/VIB30032016CW10062014.pdf>

9 Available at <https://share.ansi.org/shared%20documents/Standards%20Activities/NSSC/USSS-2005%20-%20FINAL.pdf>

Trade Act, which formally recognizes the private sector's role in standards development, and in the Office of Management and Budget Circular A-119, which directs Federal agencies to use voluntary standards wherever possible in both regulatory and procurement activities (OTA 1992) <sup>10</sup>. Private and public sector volunteers participate in the standardization process with funding provided by themselves and not by the US government<sup>11</sup>. In the consensus process, no single organization is permitted to control the process, which is industry-led, even when government representatives participate. The National Technology Transfer and Advancement Act of 1995 (NTTAA) directs federal agencies with respect to their use of private sector standards and conformity assessment practices. The objectives of the NTTAA is for Federal agencies to adopt private sector standards, wherever possible, in lieu of creating proprietary, non-consensus standards. The NTTAA sets up a National Institute of Standards and Technology (NIST) as the agency responsible for coordinating conformity assessment activities. The NIST is required to create guidance on conformity assessment activities<sup>12</sup>.

## **Canada**

Canada's National Standards System (NSS) is the framework for developing, promoting and implementing national standards in Canada. The Standards of Council of Canada (SCC), which receives its mandate from the Standards Council of Canada Act<sup>13</sup>, oversees NSS and is responsible for facilitation, development and use of national and international standards in Canada. SCC is responsible for accreditation of SSOs involved in standards development and product or service certification in Canada. SCC regularly audits accredited organizations to make sure they meet detailed criteria and procedures. The SCC is governed by a 15-member committee consisting of representatives from the federal, provincial and territorial governments and a range of public and private interests, including consumer representatives.

In addition there are bodies that develop voluntary codes, codes of conduct, codes of practice and other specifications that are similar to standards in Canada. However these

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10 "Standards for Standard Setting: Contesting the Organizational Field", D. Linda Garcia

11 <http://gsi.nist.gov/global/index.cfm/L1-5/L2-44/A-165>

12 <http://gsi.nist.gov/global/index.cfm/L1-3/L2-6/A-166>

13 <http://laws-lois.justice.gc.ca/PDF/S-16.pdf>

are not part of the National Standards System. Such bodies usually develop standards that server particular needs and acquire authority due to market share of firms that use them. However such standards are not eligible to be National Standards of Canada. In a joint initiative of the Office of Consumer Affairs, Industry Canada, the Regulatory Affairs Division and the Treasury Board Secretariat, the Canadian government released a Guide for the development and use of Voluntary code in 1998. The Guide provides an eight-step model approach for development of voluntary standards<sup>14</sup>.

## Europe

In Europe in order to avoid anti-competitive behavior in the standard-setting context, the European Commission has provided some basic principles in its Guidelines on Horizontal Co-operation Agreements<sup>15</sup>. Horizontal Guidelines describe the framework for analysis of the most common forms of horizontal co-operation such as agreements in the areas of R&D, production, purchasing, commercialization, standardization, standard terms and information exchange<sup>16</sup>. They provide guidance to companies as to which actions they can undertake without the risk of infringing competition law, however the Guidelines do not provide a specific set-up structure for SSOs. The broad criteria to be adopted while standard setting according to the Horizontal Guidelines provides that:

1. Participation in standard-setting should be unrestricted;
2. Procedure for adopting standards be transparent, open and non-discriminatory;
3. There should be no obligation to comply with the standard; and
4. Access to standards is on fair, reasonable and non-discriminatory terms.

EC does not prescribe detailed rules that standards bodies must adopt. The Guidelines provide guidance as to what may or may not be problematic from an anti-trust perspective so as to ensure that industry can make the most informed choices, but they leave the final choice to the industry. The EC considers that different rules may be appropriate for different bodies and sectors, and industry will generally have a better knowledge of what

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14 *Voluntary Codes, A Guide for their development and Use*. Available at [https://www.ic.gc.ca/eic/site/oca-bc.nsf/vwapj/volcodes.pdf/\\$FILE/volcodes.pdf](https://www.ic.gc.ca/eic/site/oca-bc.nsf/vwapj/volcodes.pdf/$FILE/volcodes.pdf)

15 European Commission (2011). Communication from the Commission (2011/C 11/01) on Guidelines on the Applicability of Article 101 of the Treaty on the Functioning of the EU to Horizontal Co-operation Agreements. Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3A126062>

16 [http://europa.eu/rapid/press-release\\_MEMO-10-676\\_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-10-676_en.htm?locale=en)

works<sup>17</sup>.

**Ques 2. What should be the IPR policy of Indian Standard Setting Organizations in developing Standards for Telecommunication sector and other sectors in India where Standard Essential Patents are used?**

**Short Response:** The Government of India has notified the Policy on Open Standards for e-Governance in November 2010 and Indian Standard Setting Organisations should aim at mandating open standards. The BIS could be the central body which ensures transparency in licensing agreements. BIS should ensure that wherever proprietary standards are used, the licenses are negotiated under FRAND terms.

**Explanation:** When technology included in a standard is protected by intellectual property rights, implementers of such a standard tend to face anti-competitive behavior at the hands of standard essential patent holders. Following adoption of standards, members may try to obtain unjustifiably higher prices for their inventions that would not have been possible before the standard was set. This is referred to as patent hold-up. Or, patent ambush may arise i.e. during standard development phase a member may intentionally withhold information about a patent that such member owns/ intends to file, which is relevant to the proposed standard. Subsequently such a member will assert that its patent is infringed by use of the standard as accepted. Once a standard is adopted, companies wishing to implement the standard may be forced to pay substantial royalties to the essential IPR holder, thus creating barriers to entry that distort competition. This is when SSOs can play a substantial role in reducing anti-competitive behavior by SEP holders by setting effective IPR Policies in place. Using an efficient IPR Policy, SSOs can aid and can have a profound impact on the abilities of innovators to coordinate in developing new technology and on their incentives to innovate. Most importantly an IPR Policies should be binding on members. Further an efficient IPR policy must specify what members must disclose concerning their IPR and at what point during the standard setting process should

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<sup>17</sup> *Standard-setting from a competition law perspective*, by Ruben Schellinghouth. Competition Policy newsletter, 2011. Available at [http://ec.europa.eu/competition/publications/cpn/2011\\_1\\_1\\_en.pdf](http://ec.europa.eu/competition/publications/cpn/2011_1_1_en.pdf)



such disclosure be made; licensing obligations that members must commit to should they wish their technology covered by a patent be included in a standard should also be provided. A 2013 study carried out by Rudi Bekkers, Eindhoven University of Technology, Netherlands and Andrew Updegrove, Gesmer Updegrove LLP, titled *IPR Policies and Practices of a Representative Group of Standards-Setting Organizations Worldwide*<sup>18</sup> proposes certain goals that every IPR Policy of an SSO must aim to fulfill. According to them an ideal IPR Policy should ensure the following:

1. that each SEP and/or cumulative set of SEPs is available at a reasonable fee;
2. that each SEP is available at a fee that bears a reasonable relation to the economic value of the technology;
3. that patented technologies are only included after deliberate consideration of their merits and costs;
4. ensure an equitable distribution of economic benefits of standardization among different types of stakeholders, including upstream technology developers, downstream implementers, vertically integrated companies, small to medium enterprise (SME), component providers, system integrators, service providers, other intermediate users, governments and end users;
5. ensure transparency and certainty relating to which patents claims are essential claims under the standard;
6. enable contractual legal rights that good faith participants can assert in court to defend themselves against bad-faith participants;
7. avoid unnecessarily burdensome IPR-related processes, both within SSO activities and as regards members concerns regarding their patent portfolios.

Further European Commission report titled *“Patents and Standards, a modern framework for IPR based standardization”* provides seven broad goals that every IPR policy must strive to achieve<sup>19</sup>. These are:

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18 [https://www.google.co.in/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwjOyuWfluXLAhWDPo4KHZSIDv0QFggcMAA&url=http%3A%2F%2Fwww.nap.edu%2Fhtml%2F18510%2FBekkers-Updegrove%2520Paper\\_092013.pdf&usg=AFQjCNFjhxYH7fFOFdS1Eim6A\\_LbMEZS7A](https://www.google.co.in/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwjOyuWfluXLAhWDPo4KHZSIDv0QFggcMAA&url=http%3A%2F%2Fwww.nap.edu%2Fhtml%2F18510%2FBekkers-Updegrove%2520Paper_092013.pdf&usg=AFQjCNFjhxYH7fFOFdS1Eim6A_LbMEZS7A)

19 *Patents and Standards, A modern framework for IPR-based standardization*. Final Report (a study prepared for the European Commission Directorate-General for Enterprise and Industry. Available at [http://ec.europa.eu/growth/industry/intellectual-property/patents/standards/index\\_en.htm](http://ec.europa.eu/growth/industry/intellectual-property/patents/standards/index_en.htm)

1. Allow informed decisions about technology inclusion, alternatives or design around at the stage of the standards development;
2. Ensure licenses for SEPs are available;
3. Prevent patent hold-up;
4. Prevent patent ambush or patent blocking;
5. Prevent too high cumulative licensing fees ( royalty stacking);
6. Prevent discrimination between implementers;
7. Ensure transparency about essential patents.

### **1. Disclosure requirements**

In the development of standards, transparency is necessary to facilitate access and participation of all interested parties. Most SSOs require members to disclose potential essential IPRs and their most restrictive SEP license terms<sup>20</sup>. A well-defined disclosure policy allows group members to make informed and appropriate choices concerning inclusion of technologies based on factors such as implementation costs, availability of licenses. Disclosure provides information to implementers and/or potential licensees about IPRs involved in standards, owners of such IPRs, IPR license terms, royalty rates, their validity and essentiality. Thirdly, in the case of patents, disclosure can also help the patent office as it provides a database of prior art information to patent examiners. Further disclosure can aid competition authorities in assessing anti-competitive behavior on the part of essential IPR holders.

In foreign jurisdictions members who have intentionally hidden IPRs essential to standards have been found in violation of competition law as being unfair and injurious to public. Eg. In Europe the European Commission issued a Statement of Objections stating that Rambus had violated Article 102 of the Treaty for the Functioning of the EU by failing to disclose patents and patent applications relevant to the JEDEC standard and thus abusing a dominant position<sup>21</sup>. In USA the FTC found Dell in violation of US Anti-trust law when the latter failed to disclose its IPRs relevant to Video Electronics Standards Association's<sup>22</sup>

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20 Eg. \_\_\_\_\_,

21 [http://europa.eu/rapid/press-release\\_IP-09-1897\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-09-1897_en.htm?locale=en)

22 <http://www.vesa.org/>

VL- bus design standard. It held that Dell's action had restrained competition in the following ways<sup>23</sup>:

*“- Industry acceptance of the VL-bus design standard was hindered because some computer manufacturers delayed their use of the design standard until the patent issue was clarified;*

*- Systems utilizing the VL- bus design standard were avoided due to concerns that patent issues would affect the VL-bus' success as an industry standard;*

*- The uncertainty concerning the acceptance of the VL-bus design standard raised the costs of implementing the VL-bus design as well as the costs of developing competing bus designs;*

*- Willingness to participate in industry standard-setting efforts have been chilled.”*

Additionally, disclosure guidelines should specify the conditions under which members of SSOs are required to inform an SSO that they own IPRs essential to standards, whether a search for relevant IPR in members' own database is necessary, and the ramifications if such disclosures are not made. First, how much and what kind of information needs to be disclosed should be specified, eg. SSOs may require that disclosures identify all specific IPR and/or IPR applications that are believed to include potentially essential claims. The IPR Policy should specify the jurisdictions in which such IPR is enforceable. Some suggest that since standards are global, SSOs should require members to disclose all IPRs world-wide and not just domestic<sup>24</sup>. Second, the time of disclosure should be specified. Ideally, members should make disclosures before voting for adoption of a standard. Some propose the practice of *ex ante* disclosure of IPR as a solution to the problem of patent hold-up and patent ambush<sup>25</sup>. In 2005 the European Telecommunications Standards Institute (ETSI) changed its standard-setting rules following a preliminary view taken by the Director General of Competition that ETSI's rules on IPR did not provide sufficient protection against the risk of 'patent ambush'<sup>26</sup>. The changes strengthened requirements of

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23 <https://www.ftc.gov/system/files/documents/cases/960617dellconsentorder.pdf>

24 *Intellectual Property Rights and Standard-Setting Organizations*, Mark A. Lemley. California Law Review, Vol 90| Issue 6. Available at <http://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=1392&context=californialawreview>

25 See *Innovation Law and Policy in the European Union: Towards Horizon 2020*, By Massimiliano Granieri, Andrea Renda.

26 Competition: Commission welcomes change in ETSI IPR rules to prevent 'patent ambush', 12 December 2005. Available at [http://europa.eu/rapid/press-release\\_IP-05-1565\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-05-1565_en.htm?locale=en)

early disclosure of those IPRs that are essential for the implementation of a standard. Third, IPR disclosed to members of SSOs should also be open to the public. This is to ensure that non-member implementers of a standard have the same chances of negotiation in IPR licensing as members may have. As regards *ex ante* disclosure of the most restrictive license terms, while some suggest that such disclosure may benefit SSOs in that they will know not only the performance trade-offs but also the cost of using the various technologies, including royalty costs<sup>27</sup>. However others argue against *ex ante disclosure* of most restrictive license terms for the reason that required knowledge for determination is seldom available; the missing knowledge will result in vague terms with many disclaimers and it will also create high antitrust risks<sup>28</sup>.

Researchers acknowledge lack of transparency as key issue inhibiting efficient licensing. They suggest following options to target this problem<sup>29</sup>:

1. Updating patent declarations at key events, such as the adoption of the standard, the granting of the SEP, the invalidation or expiry of the SEP, the transfer of ownership;
2. More precise and thus informative patent declaration, notably as regards information to substantiate essentiality;
3. Checking essentiality of declared patents as a matter of routine;
4. Entering licensing information in SSO database;
5. Limiting the use of blanket disclosures<sup>30</sup>, currently allowed by some SSOs
6. Notification of transfer of SEP ownership by recordation;
7. Increased collaboration between SSOs and patent offices by linking the respective databases' to improve the usefulness of SSO databases in a cost efficient manner and allow patent examiners better access to prior art material.

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27 *Promoting Innovation Through Patent and Anti-trust Law and Policy*, Christine A. Varney Asst. Attorney General. (Remarks as prepared for the Joint Workshop of the U.S. Patent and Trademark Office, the Federal Trade Commission, and the Department of Justice on the Intersection of Patent Policy and Competition Policy: Implications for promoting innovation. Available at <https://www.justice.gov/atr/file/518211/download>

28 *Innovation Law and Policy in the European Union: Towards Horizon 2020*, By Massimiliano Granieri, Andrea Renda.

29 Patents and Standards- A Modern Framework for IPR based standardization. Available at

30 Disclosures that do not require the identification of specific patents with claims asserted to be essential. Eg. The ITU Policy allows parties to file blanket disclosures, with one exception, i.e. In case the party is not willing to license its SEPs, the party shall be required to identify patents that have essential claims as well as information on what sections of standards are covered by that party's patents along with a description of the patents.

## 2. Licensing commitments

Fair, reasonable and non-discriminatory (or FRAND) is a common licensing restriction imposed by SSOs, which requires members to commit to license any 'essential' IPRs they own, on FRAND terms to all implementers of the standard. Such licensing commitments ensure that SSO members license their respective intellectual property to each other on equitable terms. This further ensures that SEP holders are prevented from misusing excessive bargaining power to extract higher royalty rates as a result of incorporation of their IPR into a standard and once investments for implementation have been made. However what really constitutes 'FRAND' is seldom provided in the policies of most SSOs and as a result frequent disputes arise among parties.

SSOs must provide what constitutes FRAND in their IPR Policy. The term 'reasonable' refers to royalty rates, 'non-discriminatory' implies that licensing conditions must be same for all potential licensees. The FTC defines FRAND in relation to royalty rates as “*A royalty should be deemed 'reasonable' when it approximates the outcome of an ex ante auction process where IP owners submit RAND commitments coupled with licensing terms and selection to the standard is based on both technological merit and licensing cost.*” According to Prof. Shapiro and Varian, *'Reasonable should mean the royalties that the patent holder could obtain in open, up-front competition with other technologies, not the royalties that the patent holder can extract once other participants are effectively locked in to use technology covered by the patent.'*<sup>31</sup> At the ITU-T Patent Round-table held in 2012, the U.S. Department of Justice proposed the following suggestions for pro-competitive patent policy improvements<sup>32</sup>. He suggested that a standards body could:

- Establish procedures that seek to identify, in advance, proposed technology that involves patents which the patent holder has not agreed to license on F/RAND terms and consciously determine whether that technology should be included in the

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31 Shapiro, C., & Varian, H.R. (1999). Information rules: A strategic guide to the network economy. Harvard Business Press.

32 Six “Small” Proposals for SSOs Before Lunch, Renata Hesse, Deputy Assistant Attorney General, Anti-Trust Division, U.S. Department of Justice. Remarks as prepared for the ITU-T Patent Round table. Available at <https://www.justice.gov/atr/file/518951/download>

standard;

- Make it clear that licensing commitments made to the standards body are intended to bind both the current patent holder and subsequent purchasers of the patents and that these commitments extend to all implementers of the standard, whether or not they are a member of the standards body;
- Give licensees the option to license F/RAND-encumbered patents essential to a standard on a cash-only basis and prohibit the mandatory cross-licensing of patents that are not essential to the standard or a related family of standards, while permitting voluntary cross-licensing of all patents.
- Place some limitations on the right of the patent holder who has made a F/RAND licensing commitment who seeks to exclude a willing and able licensee from the market through an injunction.
- Make improvements to lower the transactions cost of determining F/RAND licensing terms. Standards bodies might want to explore setting guidelines for what constitutes a F/RAND rate or devising arbitration requirements to reduce the cost of lack of clarity in F/RAND commitments. VITA's patent policy, for example, creates an arbitration procedure to resolve disputes over members' compliance with the patent policy; and
- Consider ways to increase certainty that patent holders believe that disclosed patents are essential to the standard after it is set. The number of "essential" patents encumbered by F/RAND licensing commitments at certain standards bodies has increased exponentially in recent years.

Lastly, as regards seeking injunctions based on SEPs a March 2013 issue of the Competition Policy Law International (CPI) Antitrust Chronicle<sup>33</sup> suggests that a FRAND commitment should include a process that SEP owners must follow before they can seek an injunction. This process would include specifying what steps must be taken by parties to resolve disputes over royalty rates, validity, essentiality, or infringement before an injunction may be sought by the licensee. They argue that reducing the ability of licensor to

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<sup>33</sup> *Standard Setting Organizations Can Help Solve the Standard Essential Patents Licensing Problem*, Kai-Uwe Kuhn, Fiona Scott Morton, & Howard Shelanski. CPI Antitrust Chronicle, March 2013 (Special Issue). Available at <https://www.competitionpolicyinternational.com/assets/Free/ScottMortonetalMar-13Special.pdf>

threaten to exclude a product from the market will reduce the licensor's ability to extract royalties above the FRAND rate and other significant licensing conditions from willing licensees.

### **3. Equal participation of stakeholders in standard-setting process**

It is important to have such a mechanism that ensures full participation of interested stakeholders in process of development, adopting and other decision making in relation to standardization.

### **4. Encouraging Open Standards Policies in SSOs**

An open standards policy is one where standards are established and maintained by an open community in which everyone can participate. The entire standardization process is based on consensus among stakeholders and the technical specifications are accessible and implementable to everyone without any restrictions<sup>34</sup>. The Opensource.org states that *“the purpose of an open standard is to increase the market for a technology by enabling potential consumers or suppliers of that technology to invest in it without having to either pay monopoly rent or fear litigation on trade secrets, copyrights, patents or trademark causes of action”*<sup>35</sup>.

In context of the software industry it is recommended that SSOs adopt policies which encourage interoperability and equal participation in the development of standards. ICT standards are said to be the means for ICT companies to organize major technology upgrades on the industry scale while preserving interoperability and market competition. Their joint development is said to be a key catalyst of innovation and technology infusion in the field<sup>36</sup>. Thus it is suggested that an Open Standards Policy is ideal for SSOs in the software market. Further as regards SEPs in software standards, Indian Patents Act 1970 does not allow patents in this field of work. Moreover, recently the Indian Patent Office has notified Guidelines for Examination of Computer-Related Inventions, which provide further clarity to Examiners and will ensure that the Indian software industry will remain free from

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34 [http://www.openforumeurope.org/wp-content/uploads/2015/11/OFA\\_White\\_Paper\\_ICT\\_Standardisation.pdf](http://www.openforumeurope.org/wp-content/uploads/2015/11/OFA_White_Paper_ICT_Standardisation.pdf)

35 <https://opensource.org/osr-rationale>

36 Fair, Reasonable and Non-Discriminatory (FRAND) Licensing Terms, JRC Science and Policy Report. Author: Yann Meniere. Available at <http://is.jrc.ec.europa.eu/pages/ISG/EURIPIDIS/documents/05.FRANDreport.pdf>

the shackles of software essential patents. However software standards may incorporate essential copyrights and it is therefore necessary to consider license terms for such essential IPR. It is recommended that providing open standards in the area of software will prevent lock-ins, promote free competition and ultimately encourage innovation in this field. Some suggest that open technologies, which combine open standards and open source, provide trusted platforms and infrastructures for emerging technologies, on top of which proprietary vendors as well as open source technology providers can achieve competitive differentiation.<sup>37</sup> Moreover the given rate at which ICT and start-up industry is presently growing in India, it is important to create open and transparent processes that enable equal participation.

With respect to the Free and Open Source Software (FOSS) community, while FRAND terms seek to reduce the risk of anti-competitive practices, proponents of open standards argue that FRAND license terms cannot be applied to standards developed on FOSS and thus fail to deliver a level playing field in the software market for such players. Eg. Most FRAND standards require a royalty fee to be paid for each copy of a program that is distributed, which is in conflict with free software licenses like GNU/GPL, which permit anyone to copy and distribute as they choose<sup>38</sup>. Additionally an Open Standards Policy will further foster the growth of FOSS in India. Evidently, FOSS is being increasingly adopted world-wide and in India<sup>39</sup>, which calls attention to standards covered by such IPRs. While some argue that licensing essential IPR on the commonly used “FRAND” terms is inconsistent with basic FOSS license principles<sup>40</sup>, others suggest that standards in the software industry, as a whole, should be available as open standards, i.e. including royalty-free status, and be implementable in open source<sup>41</sup>. Accordingly they propose that open standards, which follow a Royalty-free policy, are critical for free software, interoperability and value for public money. Major software standard organizations such as

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37 Position Paper- Standardization in Support of the Digital Single Market. Available at [http://www.openforumeurope.org/wp-content/uploads/2015/09/OFE\\_Standardisation\\_DSM.pdf](http://www.openforumeurope.org/wp-content/uploads/2015/09/OFE_Standardisation_DSM.pdf)

38 <https://fsfe.org/activities/os/uk-standards-consultation.en.html>

39 In the past year the Government has taken initiative to promote the use of in the software industry. The Department of Electronics & Information Technology's (DEITY) 'Policy on Adoption of Open Source Software for Government of India' and 'Policy on Collaborative Application Development by Opening the Source Code of Government Applications' point towards Government's efforts to encourage growth of the FOSS development in India.

40 Why is FRAND bad for Free Software? Dated 26.01.2016 Available at <https://fsfe.org/activities/os/why-frand-is-bad-for-free-software.en.html#fn1>

41 Standardization in Support of the Digital Single Market, Position Paper, Openforum Europe, 10 September 2015. Available at [http://www.openforumeurope.org/wp-content/uploads/2015/09/OFE\\_Standardisation\\_DSM.pdf](http://www.openforumeurope.org/wp-content/uploads/2015/09/OFE_Standardisation_DSM.pdf)



the World Wide Web Consortium (W3C), generally favor royalty-free licensing. Thus it is recommended that while SSOs are voluntary organizations, encouraging ICT SSOs to use open standards policies when dealing with software standards could be ideal to protect the developer community. Additionally having an Open Standards policy for the SSO's in the software industry will be in line with the Government's recent initiatives to encourage development and use of FOSS<sup>42</sup>. It is therefore recommended that open standards be encouraged by the Government of India.

As per the Policy on Open Standards for e-Governance<sup>43</sup> an Identified Standard will qualify as an "Open Standard", if it meets the following criteria:

- 1 Specification document of the Identified Standard shall be available with or without a nominal fee.
- 2 The Patent claims necessary to implement the Identified Standard shall be made available on a Royalty-Free basis for the life time of the Standard.
- 3 Identified Standard shall be adopted and maintained by a not-for-profit organization, wherein all stakeholders can opt to participate in a transparent, collaborative and consensual manner.
- 4 Identified Standard shall be recursively open as far as possible .
- 5 Identified Standard shall have technology-neutral specification.
- 6 Identified Standard shall be capable of localization support, where applicable, for all Indian official Languages for all applicable domains.

Some recommendations for an Open Standards policy are:

1. Requiring members to disclose upfront standard-essential IPR and associated licensing intention. Opensource.org recommends that in an ideal Open Standards policy, the standard must not withhold information necessary for interoperable implementation. As flaws are inevitable, the standard must define a process for fixing flaws identified during implementation and interoperability testing and to incorporate said changes into a revised version or superseding version of the standard to be released under terms that do not

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<sup>42</sup> Supra 3

<sup>43</sup> [https://egovstandards.gov.in/sites/default/files/Published%20Documents/Policy\\_on\\_Open\\_Standards\\_for\\_e-Governance.pdf](https://egovstandards.gov.in/sites/default/files/Published%20Documents/Policy_on_Open_Standards_for_e-Governance.pdf)

violate the open standard requirement<sup>44</sup>.

2. Standards must be freely and publicly available under royalty-free terms at reasonable and uniform costs. There should not be any requirement for execution of a license agreement, non-disclosure agreements to deploy confirming implementations of the standard.

3. Participation in development of standards shall be open to all persons who are directly and materially affected by the activity in question. There shall be no undue barriers to participation. Voting membership on the consensus body shall not be conditional upon membership in any organization, nor unreasonably restricted on the basis of technical qualifications or other such requirements.<sup>45</sup>

3. When dealing with software standards, all essential IPR must allow modification and derived works, and must allow them to be redistributed under the same terms as license of the original software;

By way of illustration, the World Wide Web Consortium (W3C) follows a substantially different IPR Policy than those of other SSOs. The policy rejects adoption of RAND terms and adopts Royalty Free licensing. According to the policy, a license not conditioned on payment of royalties, fees or other consideration must be made available to all implementers of the recommendation, regardless of whether they are W3C members.

Lastly, various jurisdictions have adopted legislations that promote use of open standards for procurement of ICTs for the government. Eg. The Netherlands' 'Action Plan for the use of Open Standards and Open Source Softwares in the Public and semi-public sector'<sup>46</sup> aims at increasing interoperability by accelerating the use of open standards, reducing supplier-dependence through a faster introduction of open source software and open

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44 <https://opensource.org/osr>

45 [https://share.ansi.org/shared%20documents/Standards%20Activities/American%20National%20Standards/Procedures,%20Guides,%20and%20Forms/2016\\_ANSI\\_Essential\\_Requirements.pdf](https://share.ansi.org/shared%20documents/Standards%20Activities/American%20National%20Standards/Procedures,%20Guides,%20and%20Forms/2016_ANSI_Essential_Requirements.pdf)

46 Available at [https://joinup.ec.europa.eu/community/open\\_standards\\_ict/topic/netherlands-open-connection-action-plan-use-open-standards-and-open-source-software-](https://joinup.ec.europa.eu/community/open_standards_ict/topic/netherlands-open-connection-action-plan-use-open-standards-and-open-source-software-)

standards, and promoting innovation and economy by forceful stimulation of the use of open source software. The UK's Open Standard Principles advocate that rights essential to a standard must be available on royalty free basis<sup>47</sup>.

**Ques 3. Whether there is a need for prescribing guidelines on working and operation of Standard Setting Organizations by Government of India? If so, what all areas of working of SSOs should they cover?**

**Short response:** Government could prescribe guidelines enabling BIS and other sectoral SSOs to co-ordinate and work together to balance the interests of the patent holders and the licensees. The guidelines should ensure transparency with respect to disclosure of patents related to standards by members of SSOs. The guidelines should also mandate transparency in licensing agreements.

**Explanation:** Generally, private SSOs are a consortia of companies interested in developing standards in a particular field of work. Such companies are often competitors in their field of work and as ICT industry advances, more standards will be required leading to increased number of private SSOs. Given the lack of legal framework there is no bar on the number of SSOs that may be created, therefore companies are free to leave an SSO in case it does not meet their commercial needs and join and/or create separate SSOs. Researchers have raised concerns about “forum shopping” across SSOs in order to choose most favorable IPR policies<sup>48</sup>. As a result it becomes necessary to ensure that SSOs do not provide opportunities for anti-competitive behavior by firms. Government of India should provide guidelines that:

- (1) provide legitimacy to SSOs;
- (2) restrict anti-competitive practices by SSOs;
- (3) provide rules for transparency among member of SSOs; and
- (4) make SSO accountable to its members as well as other stakeholders.

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48 Lerner, Josh and Jean Tirole. 2006. "A Model of Forum Shopping." American Economic Review, 96(4):1091-1113. Available at <https://www.aeaweb.org/articles?id=10.1257/aer.96.4.1091>

Further the Government should participate in standard setting efforts and assume the responsibility of assuring public interest. In USA the National Technology Transfer and Advancement Act (NTAA) 1995 directed government agencies to abandon the practice of developing 'government unique' standards, to utilize private sector standards wherever applicable, and to participate in private sector standards development.

### **Position in Europe**

SSOs in Europe fall into three categories – Formal, i.e. recognized standards bodies, quasi-formal standards bodies and Standardization consortia. Three European SSOs, CEN, Cenelec and ETSI are recognized standard bodies within the EU<sup>49</sup>, which also receive funds from the EU. Under the New Approach to Standards introduced in 1985, the European Commission can mandate recognized standards bodies to produce certain standards known as European Norms. Compliance with ENs automatically implies that all relevant essential requirements are met, and standards implementers have no additional burden to prove so. In 2011 the EC published a 'strategic vision' and a 'proposal' for updating the entire EU standardization framework. One of the significant changes in the proposed framework is that standards formulated by SSOs other than the recognized bodies may be considered for procurement provided they meet certain criteria.

**Ques 4. Whether there is a need for prescribing guidelines on setting or fixing the royalties in respect of Standard Essential Patents and defining FRAND terms by Government of India? If not, which would be appropriate authority to issue the guidelines and what could be the possible FRAND terms?**

**Short Response:** The Government could empower BIS to act as a central authority to decide on issues related to FRAND terms and fixing of royalties. BIS could also work in co-ordination with other sectoral SSOs in this regard.

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<sup>49</sup> Directive 98/34EC.

**Explanaton:** Ideally, SSOs should mandate open standards with royalty-free use of SEPs. However, where open standards are not feasible the SSOs should require their members to commit to license SEPs on FRAND terms. The basis for providing SEPs on FRAND terms is to avoid anti-competitive behavior on the part of SEP holders. However what constitutes 'FRAND' is not often provided in SSOs' IPR policies and ambiguity around the meaning of the term has resulted in several SEP litigations around the world<sup>50</sup>. While it may be beneficial to lay down broad guidelines for the working of SSOs, it may not be feasible to define blanket FRAND terms to be followed by all SSOs. This is because what may constitute FRAND in one industry may not be suitable for the other. Thus it is recommended that BIS should be entrusted the responsibility of determining royalties and what constitutes 'reasonable' and 'non-discriminatory' on a case by case basis.

A commitment to FRAND must require SEP holders to give up their right to seek injunction against any willing licensee for infringement of its SEPs. Some argue that explicitly ruling out injunctions will steer bilateral negotiations towards a reasonable royalty rate, so long as the arbitration procedure is unbiased. They state that introducing injunctions would drive negotiated royalty rates away from reasonable rates to artificially high ones reflecting the threat of holdup.<sup>51</sup>

**Ques 5. On what basis should the royalty rates in SEPs be decided? Should it be based on Smallest Saleable Patent Practicing Component (SSPPC), or on the net price of the Downstream Product, or some other criterion?**

**Short Response:** The royalty rate in SEPs should be based on SSPPC as charging royalty on the end-product would lead to excessive royalties. This is for the reason that if an SEP holder was allowed to impose royalty based on the net price of the end product, potential licensees would effectively be paying royalty on even those components of the product to which the SEP makes no contribution. In fact non-SEP components might be

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51 Mark A. Lemley & Carl Shapiro, A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents, BERKELEY TECH. L.J. 2-3 (2013) (forthcoming), available at <http://faculty.haas.berkeley.edu/shapiro/frand.pdf>.

the IPR of a potential licensee itself.

**Explanation:** In U.S.A, the case of **Apple, Inc. and Next Software Inc., v. Motorola Inc. and Motorola Mobility. Inc.**, [June 2012, Case No. 1:11-cv-08540] emphasizes that 'Fair and Reasonable' must reflect the outcome of ex-ante technology competition, not of the manufactured ex-post monopoly situation. Judge Posner in this case held *“The proper method of computing a FRAND royalty starts with what the cost to the licensee would have been of obtaining, just before the patented invention was declared essential to compliance with the industry standard, a license for the function performed by the patent. That cost would be a measure of the value of the patent. But once the patent becomes essential to a standard, the patentee's bargaining power surges because a prospective licensee has no alternative to licensing the patent; he is at the patentee's mercy.”* This position also finds support in the US Federal Trade Commission's (FTC) report titled *“The Evolving IP Marketplace: Aligning Patent Notice and Remedies With Competition”*<sup>52</sup>, dated March 7 2011, which recommends that *“Courts should identify as the appropriate base that which the parties would have chosen in the hypothetical negotiation as best suited for accurately valuing the invention. The practical difficulty of identifying a royalty rate that accurately reflects the innovation's contribution to a much larger, complex product often counsels toward choosing the smallest priceable component that incorporates the inventive feature”*. By way of illustration, the Institute of Electrical Engineers (IEEE) recently amended its IPR Policy to state that members holding patents covering IEEE standards may charge reasonable royalty that is based, among other things, on the value that the patented technology contributes to the smallest salable component of the overall product<sup>53</sup>.

In Europe, the European Commission while deciding Rambus's case held that *“Royalty should be determined on the basis of the price of the individually sold chip and not of the end-product. If they are incorporated into other products, the individual chip price remains determinative.”*<sup>54</sup>

52 Available at <https://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf>

53 <http://patentlyo.com/patent/2015/02/amends-patent-policy.html>

54 Case COMP/38.636 – Rambus. Available at

**Ques 6. Whether total payment of royalty in case of various SEPs used in one product should be capped? If so, then should this limit be fixed by Government of India or some other statutory body or left to be decided among the parties?**

In many cases, if there is no capping, royalties on multiple patents could result in royalty stacking, thus making the end product very expensive. The decision on capping can be made by BIS in consultation with sectoral SSOs.

**Ques 7. Whether the practice of Non-Disclosure Agreements (NDA) leads to misuse of dominant position and is against the FRAND terms?**

**Short Response:** Yes, the practice of the licensor mandating the licensee to execute and NDA leads to misuse of dominant position and is against FRAND terms. The Competition Commission of India, in iBall<sup>55</sup>, Intex<sup>56</sup> and Micromax's<sup>57</sup> complaint against Ericsson, opined that Ericsson's 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.”*

**Explanation:** An EU Report titled Patents and Standards: A Modern Framework for IPR-based standardization, states that lack of transparency (including asymmetric information) is a key issue inhibiting efficient licensing.<sup>58</sup> Further it states *“The right of licensees to be treated in a non-discriminatory way is already ensued in the 'non-discriminatory' leg of FRAND, yet the lack of insight a (prospective) licensee has into what others are paying (and what other conditions are agreed upon) is very limited.”* It goes on to propose a “database on royalty rates”, which entails the creation of a database on actual royalty rates paid charged by SEP holders in bilateral contracts. Such a database allows for the

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[http://ec.europa.eu/competition/antitrust/cases/dec\\_docs/38636/38636\\_1203\\_1.pdf](http://ec.europa.eu/competition/antitrust/cases/dec_docs/38636/38636_1203_1.pdf)

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58 Patents and Standards : A Modern Framework for IPR-based standardization, 2014. Available at [http://ec.europa.eu/growth/industry/intellectual-property/patents/standards/index\\_en.htm](http://ec.europa.eu/growth/industry/intellectual-property/patents/standards/index_en.htm)

development of benchmarks facilitating standard implementers to negotiate for new licensing agreements, the Report argues. Three proposals for the process of collection of such information include:

- The 'licensee-helps-licensee' approach, where each party that has entered into an agreement with an SEP holder, may anonymously list the cash it is paying for the SEP license;
- The 'most attractive awarded cash price' listing, where the SEP owners are required to publish the most attractive price offered to a licensee, and also update the posting if a more attractive price is awarded to later licensees.
- Collecting licensing revenue from secondary information sources (e.g. data received by tax authorities) and then processed in such a way that it becomes informative in terms of individual standards<sup>59</sup>.

**Ques 8. What should be the appropriate mode and remedy for settlement of disputes in matters related to SEPs, especially while deciding FRAND terms? Whether Injunctions are a suitable remedy in cases pertaining to SEPs and their availability on FRAND terms?**

**Short Response:** As explained in the answers to earlier questions Injunctions cannot be a remedy for settlement of disputes in matters related to SEPs as the licensee is put at a disadvantageous position and the licensor can negotiate from a position of strength. The disputes related to SEPs could be settled through an arbitration mechanism housed at BIS. BIS should also have the powers to decide on royalties.

**Explanation:**

## **USA**

In USA, Federal Circuit has suggested that injunctive relief might be limited to scenarios in which a third party unilaterally refuses to pay a FRAND royalty or unreasonably delays negotiations<sup>60</sup>. Further in *Microsoft Corp. v. Motorola Inc.* the Federal Circuit found that

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<sup>59</sup> Page 152, *Ibid*

<sup>60</sup> *Apple, Inc v Motorola, Inc*, 757 F3d 1286, 1331-32 (Fed Cir 2014)



Motorola's RAND declarations to the ITU, where it promised to “grant a license to an unrestricted number of applicants on a world-wide, non-discriminatory basis and on reasonable terms and conditions to use the patented material necessary”, created a contract enforceable by Microsoft as a third-party beneficiary. The Court found implicit in this promise a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made<sup>61</sup>.

## Europe

In Europe, Samsung Electronics was refrained from seeking injunctions on the basis of its SEPs against licensees that were willing to enter into a specified framework wherein any disputes regarding FRAND would be settled by a court, or if both parties agree, by an arbitrator<sup>62</sup>. The European Commission held that while injunctions are legitimate remedy for patent holders in case of unauthorized use, seeking injunctions based on SEPs may amount to abuse of dominant position if a patent holder has committed to license its SEPs on FRAND terms and the implementer is willing to enter into such FRAND terms. Further it stated that even the threat of injunctions may lead to anti-competitive licensing terms that potential licensees would not have accepted absent such threat. This would be detrimental to innovation and could harm consumers<sup>63</sup>. Shortly after, the European Court of Justice in a preliminary ruling in the case of *Huawei Technologies Co. Ltd. v. ZTE Corp., ZTE Duestchland GmbH* observed that proprietor of an SEP can prevent product manufactured by competitors from appearing or remaining on the market and thereby reserve to itself the manufacture of products in question. Furthermore undertaking to grant licenses under FRAND terms creates legitimate expectations on the part of third parties that SEP holder will in fact grant license on FRAND terms, and later refusal by SEP holder to grant a license on those terms may constitute an abuse within the meaning of Article 102 TFEU. The ECJ laid down the following rules to be followed by a potential licensee and an SEP

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61 696 F. 3D 872 (2012). Available at <http://www.leagle.com/decision/In%20FCO%2020120928162/MICROSOFT%20CORP.%20v.%20MOTOROLA,%20INC.>

62 In its statement of objections issued on 21 December 2012, the EC had found Samsung in violation of EU's anti-trust rules. Available at [http://europa.eu/rapid/press-release\\_IP-12-1448\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1448_en.htm)

63 Press Release, European Commission. Antitrust: Commission accepts legally binding commitments by Samsung Electronics on standard essential patent injunctions, available at [http://europa.eu/rapid/press-release\\_IP-14-490\\_en.htm](http://europa.eu/rapid/press-release_IP-14-490_en.htm)

holder before an infringement suit can be filed:

- Prior to filing a suit the SEP holder must alert the infringer of the infringement complained about, by designating the SEP and specifying the way in which it has been infringed.

For the reason that a large number of SEPs compose a standard such as that at issue in the main proceedings and it cannot be ascertained whether an infringer of one of those SEPs will necessarily be aware that it is using the teaching of an SEP that is both valid and essential to a standard.

- After the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, it is for the SEP holder to present to the alleged infringer a specific, written offer for a license on FRAND terms, specifying the amount of the royalty and the way in which that royalty is to be calculated.
- It is for the alleged infringer diligently to respond to that offer, in accordance with recognized commercial practices in the field and in good faith, a point which must be established on the basis of objective factors and which implies that there are no delaying tactics.
- Should the alleged infringer not accept the offer made to it, it may rely on the abusive nature of an action for a prohibitory injunction or for the recall of products only if it has submitted to the proprietor of the SEP in question, promptly and in writing, a specific counter-offer that corresponds to FRAND terms.
- Furthermore, where the alleged infringer is using the teachings of the SEP before a licensing agreement has been concluded, it is for that alleged infringer, from the point at which its counter-offer is rejected, to provide appropriate security, in accordance with recognized commercial practices in the field, for example by providing a bank guarantee or by placing the amounts necessary on deposit. The calculation of that security must include, inter alia, the number of the past acts of use of the SEP, and the alleged infringer must be able to render an account in respect of those acts of use.
- Where no agreement is reached on the details of the FRAND terms following the

counter-offer by the alleged infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay.

A proposal made by Prof. Lemley and Shapiro argues that SSO IPR Policies should be amended so that if an SEP holder and implementer cannot agree on licensing terms, the SEP owner should be obligated to enter into binding arbitration with any willing licensee to determine the royalty rate<sup>64</sup>.

**Ques 9. What steps can be taken to make the practice of Cross-Licensing transparent so that royalty rates are fair & reasonable?**

A cross-licensing agreement is a contract between two or more parties where each party grants rights to their intellectual property to the other parties. As explained earlier, terms of any licensing agreement should be disclosed. BIS could act as the central agency to whom such information may be disclosed.

**Ques 10. What steps can be taken to make the practice of Patent Pooling transparent so that royalty rates are fair & reasonable?**

Patent pools are formed when two or more parties collaborate and arrange to license their patents as a package. These can play a huge role in standardization in ICT sector, where several essential patents may be included in a single product and that are owned by a variety of different patent holders. This would mean that those seeking to commercialize new products or services which include a certain standardized technology have to obtain licenses from multiple patentees, which require significant cost, time and resources. Thus patent pools provide a one-stop solution to potential licensees. Since the patent pools generally involve collaboration among competitors, it is important to ensure that they do not end up becoming anti-competitive devices. It is claimed that royalty paid for a patent portfolio may cover many patent licenses, and it can be difficult, or even

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<sup>64</sup> Mark A. Lemley & Carl Shapiro, A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents, BERKELEY TECH. L.J. 2-3 (2013) (forthcoming), available at <http://faculty.haas.berkeley.edu/shapiro/frand.pdf>.

impossible, to allocate the portfolio royalty to individual patents in a meaningful way<sup>65</sup>. Furthermore, implementers of the standard who do not have patents of their own might not be able to enter the patent pool and eventually end up licensing SEPs from each holder separately. This may result in potentially anti-competitive license terms. Therefore SSOs policies must provide for mandatory disclosure of licensing arrangements of an SEP holder with third parties. Further SEP holders should not be allowed to enter into non-disclosure agreements with potential licensees as this allows SEP holders to indulge in discriminatory licensing practices.

**Ques 11. How should it be determined whether a patent declared as SEP is actually an Essential Patent, particularly when bouquets of patents are used in one device?**

Generally, patents are said to be essential to a standard when compliance with such a standard cannot be achieved without using the invention claimed by said patents. Further in case of disputes, the determination of essentiality could be done by BIS in co-ordination with the sectoral SSO.

**Ques 12. Whether there is a need of setting up of an independent expert body to determine FRAND terms for SEPs and devising methodology for such purpose?**

Yes, an independent body for determining FRAND terms for SEPs and devising methodology for such purposes would in fact aid in lightening the burden of courts and enable faster settlement of disputes. Moreover since disputes relating to SEPs involve both IPR and competition issues, there is a need to set up an independent body that consists of experts from both these fields. In this respect it is recommended that an independent body may be constituted under the BIS, which may be given the authority to determine FRAND terms for SEPs. Further such an independent body shall act as an arbitrator before parties can proceed to courts for final settlement of disputes.

**Ques 13. If certain Standards can be met without infringing any particular SEP, for instance by use of some alternative technology or because the patent is no longer in force, what should be the process to declassify such a SEP?**

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<sup>65</sup> National Research Council. *Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communication Technology*. Washington, DC: The National Academies Press, 2013

The process of declassification shall be undertaken by SSOs that are responsible for setting and development of standards. Furthermore, SSOs using the principles of disclosure and transparency may require all members to regularly update the status of each of their IPRs, i.e. their validity, essentiality etc. It is recommended that this will enable all interested parties, as well as the SSO, in verifying whether a patent is actually standard essential.