DOLBY

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Shri Arvind Kumar
Advisor, Broadband & Policy Analysis
Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhawan
Jawaharlal Nehru Marg
New Delhi 110 002

Respected Sir,

Sub: *Submission by Dolby Laboratories, Inc. to TRAI's Consultation Paper No. 12/2017, Regarding Local Telecom Equipment Manufacturing (the "TRAI Paper")*

Dolby Laboratories Inc. ("Dolby") appreciates the opportunity to provide its comments in response to the above-referenced consultation paper. In particular, Dolby's comments will be directed primarily to the following topics in the TRAI paper:

i) Whether SEPs are recognized in India; (pg. 12)
ii) The question of the proper royalty base with respect to standard essential patents (SEPs), i.e., whether a royalty / license fee should be charged on the value of the Smallest Saleable Patent Practicing Component (SSPPC), on the net price of the downstream product, or on some other criterion; (pg. 12-13)
iii) The practice of using confidentiality requirements and non-disclosure agreements; (pg. 13)
iv) Whether Customs seizures of infringing products should be opposed on the ground that they extend beyond the requirements of the TRIPS agreement; (pg. 13)

Along with providing its views on the subjects above, Dolby would also like to provide input on certain specific additional issues raised in the TRAI Paper. Dolby holds several portfolios of standard essential patents in different technical fields, and feels it is imperative to address these subjects and share its experiences related to FRAND licensing.

Regards,

Nishant Sharma
Lead Counsel (India) – IP & Litigation
Dolby Technology India Pvt. Ltd.

Dolby’s Comments –

Consultation paper released by TRAI on

“Promoting Local Telecom Equipment Manufacturing”

Brief introduction:

The consultation paper released by TRAI invites comments from all stakeholders regarding the steps necessary to boost local manufacturing of telecom equipment. India depends heavily upon the importation of telecom equipment from abroad to fulfill the demands of 1.3 billion Indian telecom subscribers. The TRAI Paper observes that while the Indian mobile phone manufacturing industry has grown considerably, with able support from various Government programs, there has not been corresponding significant growth in the Indian telecom equipment manufacturing sector. In addition, the paper highlights the poor innovation capital generated by Indian manufacturers, as well as the high expenditures local manufacturers incur in royalty payments to SEP holders. Specifically, the paper tries to project SEPs as belonging to an entirely different category than ordinary patents. The paper also mentions that SEPs have a huge bearing on the cost of telecom equipment, more so in view of the fact that there are no fixed criteria for the licensing of SEPs.[1]

The TRAI Paper is aimed at receiving recommendations that would enable the Indian telecom industry to substantially boost local manufacturing. In view of this, certain issues (numbered 1 to 10) have been identified for consideration and comment.[2] While many of these issues relate to policy matters and fiscal incentives, the following are two primary questions to which Dolby would like to provide its perspective and comments:

Q.3 Are the existing patent laws in India sufficient to address the issues of local manufacturers? If No, then suggest the measures to be adopted and amendments that need to be incorporated for supporting the local telecom manufacturing industry.

Q.5 Please suggest a dispute resolution mechanism for determination of royalty distribution on FRAND (Fair Reasonable and Non-Discriminatory) basis.

Before commenting on these topics, however, there is a need to address certain statements made in the paper that serve as the foundation for the highlighted concerns related to the lack of growth of local telecom manufacturers. These statements in Dolby's opinion are factually incorrect or fail

1 Section 1(e)(ii) on page 12 of the paper.
2 Chapter IV, pages 30-31.

to take into account the complete picture, and should thus be reconsidered and viewed holistically with an international perspective and growth vision for Indian industry.

<u>Preliminary submissions regarding factual statements in the paper:</u>

1. ***Standard Essential Patents:*** The paper tries to label and treat the protection and enforcement of SEPs differently than non-standard essential patents. The paper does so by highlighting that SEPs do not have any special statutory recognition in Indian Patents Act and by appearing to raise the question of whether this should be changed. SEPs are no different than non-SEPs in terms of the protection that is available to them under Indian statutes as well as their enforceability after grant. In fact, the origin (filing, prosecution leading to grant) of an SEP is identical to that of a non-SEP, and the only difference that arises between the two is the possibility of a voluntary FRAND/RAND commitment that exists between an SEP owner and an SSO/SDO (standard setting organization / standard development organization). In fact, the FRAND/RAND commitment associated with many SEPs ensures that, unlike non-SEPs where a patentee can exclude all parties from practicing the patented invention, an SEP implementer can readily have access to patented standardized technology despite the implementer's lack of contribution towards standardization or R&D, provided such a party is willing to take a FRAND/RAND license.

   Accordingly, SEP patents encourage multiple implementers to utilize the patented standardized technology by developing and manufacturing standard-compliant products. Thus, SEPs as opposed to non-SEPs, promote indigenous manufacturing of standard compliant products. An exemplary model of this is the handset manufacturing industry in India, which is seeing consistent rapid growth with multiple players increasingly entering the sector. Further, the idea that SEPs have somehow stunted growth of manufacturing capabilities in India is erroneous as is evident from consideration of the international position on SEPs and manufacturing. Entities across the world are successfully increasing their manufacturing capabilities while respecting patent rights of third parties. Huawei, which at present is regarded as one of the biggest telecom infrastructure players in the market, until a few years back did not have even a single patent to its name. Despite this, Huawei has grown to its current position of strength not by violating patent rights of third parties, but by investing more in R&D, participating in standardization process, investing in manufacturing capabilities while respecting SEPs and making requisite royalty payments. Rather than stifling growth, respect for intellectual property rights including SEPs best protects R&D investments, is a sign of a legally mature market, and attracts foreign direct investment.

It is therefore incorrect to assume that SEPs stifle the growth of manufacturing in India. Historically, patent protection has boosted innovation rather than subverting it. Dolby believes that in order to achieve the vision implicit in the "Make in India" initiative, steps towards protecting investment in R&D for boosting innovation and manufacturing capabilities need to be taken. Also, for ensuring growth in foreign investments, it is imperative that India presents an IP-friendly outlook to the world, and proposals like an India specific SEP-related provision could be a step in backward direction. It would rather be fruitful if the Government promotes means to strengthen the Indian IP regime and encourage Indian manufacturers by provision of tax exemptions, research grants, etc., to regularly and consistently invest in R&D.

In conclusion, SEPs provide the same protection to the patent holder as any other patent, i.e., the patent holder may license the SEP, assign rights to any other person or enforce the SEP in a manner similar to other patents. There is no specific statutory distinction between SEPs and non-SEPs, and in view of the best practices for SEPs established worldwide, SEPs fall within the purview of the Patents Act, 1970. Further, no such distinction exists in any other jurisdiction and there is no reason for India to make a departure from the current position. On the contrary, the TRIPS agreement by way of Article 27 requires all its signatories to provide equal patent protection to different technology areas without any discrimination. Further, as mentioned, international empirical data evidences that SEPs have not adversely affected the manufacturing capabilities in any sector/industry.

2. ***Royalty Base***: The question of the proper royalty base turns on the contribution made by the patented technology to the user/product and the manner of implementation. The same technology may be implemented in different ways in different devices by different entities.

Accordingly, to restrict the royalty base to a chipset, component, or other "smallest saleable patent-practicing unit," which does not incorporate or represent the full value conferred by the technology is incorrect, unfair, and would under-compensate the innovator/licensor for its contribution. It is not an economically sound approach to pricing. In fact, in addressing the royalty base question in the area of mobile phones, tablets, etc., courts and antitrust agencies have generally recognized the end-user product to be the proper base. Further, as a practice, many licensors including Dolby charge a fixed amount per unit (with or without volume discounting) which reflects the value of their patented technology independent of the end user product pricing or chipset pricing.

3. ***Non-Disclosure Agreements ("NDAs"):*** The TRAI Paper mentions that SEP holders require prospective licensees to execute NDAs, which may allow differential royalty arrangements with different licensees and possibly lead to rate discrimination. At the outset, it is worth mentioning that under a FRAND obligation, an SEP holder commits to treating all similarly situated licensees in a non-discriminatory fashion. The modalities of negotiating an SEP license are no different than a non-SEP license, and may involve the exchange of confidential business-related information between the parties involved, including highly sensitive financial information and product sales volumes. In addition, during the course of negotiations, potential licensees tend to share information regarding sales volumes, expansion plans, growth projections, etc., and thus demand the execution of an NDA. NDAs are mutually beneficial for maintaining the confidentiality of business-related information shared by the potential licensee and licensor and are often necessary to consummate a license. As a result, the use of NDAs is quite common in all business negotiations to provide a healthy and comfortable environment for enabling negotiating parties to share their thoughts and apprehensions as well as critical information. It is for this reason that Courts across the world have recognized the value of incorporating confidentiality protections (e.g., confidentiality clubs, protective orders) when issues related to third party license agreements or FRAND/RAND rates are adjudicated in a litigation or arbitration, as the public dissemination of such sensitive information may make or break a company. Once such a disclosure is made or is misused by a competitor no order of the Court can save the company from loss or fully restore it to its original position.

Setting up such confidentiality protections is thus the standard practice followed in India[3] and all across the globe[4] and is in consonance with the intent and purpose of executing an NDA in addition to being reflective of industry practice.

4. ***TRIPS agreement:*** The TRAI Paper erroneously states that the power to seize infringing goods, as provided in Article 51 of TRIPS, is limited to infringement of Trademarks and Copyrights. According to this paper, in the Indian context, this power has been capriciously extended to encompass patent infringement as well, which has resulted in an increase in patent litigation in India. In this regard, the relevant provision under TRIPS is reproduced below:

Article 51 - Suspension of Release by Customs Authorities

> *Members shall, in conformity with the provisions set out below, adopt procedures[13] to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods[14] may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods. <u>Members may enable such an application to be made in respect of goods which involve other infringements of intellectual property rights, provided that the requirements of this Section are met</u>. Members may also provide for corresponding procedures concerning the suspension by the customs authorities of the release of infringing goods destined for exportation from their territories. [emphasis added]*

It is clear from the text of Article 51 itself that the provision contemplates having members set up customs procedures beyond cases of trademark and copyright infringement, and can include other IP rights such as patent infringement. In fact, Article 53 of TRIPS specifically identifies patent infringement as falling under Article 51: *"Where pursuant to an application under this Section the*

[3] *Mr. M. Sivasamy vs. M/s Vestergaard Frandersen A/S & Ors* [FAO (OS) 206/2009]; *Roche Products (India) Pvt. Ltd. & Ors. vs. Drugs Controller General of India and Ors.* [CS(OS) 355/2014] on 25th April, 2016 etc.
[4] *Patrick McKillen vs. Misland (Cyprus) Investment Limited* (2012) EWHC 1158 (Ch).

release of goods involving industrial designs, patents, layout-designs . . . ." (emphasis added). It is therefore incorrect to state that the Indian provisions somehow breach the boundaries set by TRIPS Article 51. Indeed, such patent customs enforcement actions are commonplace among TRIPS signatories internationally. The TRIPS provision enshrined in Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007[5] in India is merely an additional measure available to IPR holders beyond the legal remedies available under the Patents Act.

With the above background, Dolby's response to the specific questions pertaining to IPRs are as follows:

Q.3 Are the existing patent laws in India sufficient to address the issues of local manufacturers? If No, then suggest the measures to be adopted and amendments that need to be incorporated for supporting the local telecom manufacturing industry.

Dolby's response: As discussed above, SEPs are on the same legal footing as non-SEPs in terms of the protection available and enforceability. Further, the existing Indian patent law has sufficient provisions to protect the rights of patent holders, including SEP holders, and potential licensees, including implementers of SEPs. In particular, rights of patent holders are governed by Section 48 (Rights of Patentee)[6] and Chapter XVIII (Suits concerning infringement of patents)[7] of the Act. The interests of potential licensees are protected under Section 140 (Avoidance of certain restrictive conditions),[8] which aims to prevent imposition of any restrictive conditions by, inter-alia, a patent licensor on a potential licensee. Further, various checks and balances are present under the Patents Act to prevent the abuse of patent rights.[9] Thus, it is evident that the provisions of the present Patents Act are sufficient to handle all scenarios arising out of the licensing of patents, including SEPs, and any lack of manufacturing capabilities cannot thus be attributed to

[5] http://www.cbec.gov.in/Cbec_Revamp_new/htdocs-cbec/customs/cs-act/formatted-htmls/ipr-enforcementrules
[6] http://ipindia.nic.in/writereaddata/Portal/ev/sections/ps48.html
[7] http://ipindia.nic.in/writereaddata/Portal/ev/sections/ps104.html
[8] http://ipindia.nic.in/writereaddata/Portal/ev/sections/ps140.html
[9] For example, Section 25: Pre and Post grant oppositions, Section 64: Revocation of Patents, Section 66: Revocation of patent in public interest, Section 84: Compulsory Licenses, Section 85: Revocation of Patents by the Controller for non-working, Chapter XVII: Use of inventions for the purposes of the Government and acquisition of inventions by the Central Government etc.

the patent regime. On the contrary, what is required is for different entities to promote the vision of "Make in India" in their functioning and growth plans.

It is noteworthy to mention here that the established general principles and industry practices related to SEP enforcement aim to balance the interests of both SEP holders and implementers. A heavier burden is on the SEP holder, who generally commits to offer a license to prospective willing licensees on FRAND/RAND terms. In view of the foregoing, it could be concluded that the existing Indian patent law with able support of the established global practice and international jurisprudence provide valuable rules of law for the adjudication of SEP related disputes.

Additionally, the TRAI paper mentions that there are no guiding factors available for determining royalties in an SEP dispute. It is to be noted that the industry practice, and FRAND/RAND jurisprudence clearly establish the guiding factors that may be applied. The process of royalty determination depends upon various considerations, such as sales volumes, which are specific to each case. A royalty rate can best be decided through arm's length negotiations between an SEP holder and an implementer, or by the Courts (based on established international jurisprudence) in the event of a failure of negotiations. Royalty issues are governed by market dynamics and thus there can never be a one-size-fits-all formula devisable for royalty determination in SEP disputes. In fact, SSOs/SDOs and anti-trust agencies across the world have recognized that licensing terms are to be resolved bilaterally between a licensor and a licensee and that the SSOs/SDOs and anti-trust agencies themselves should not act as price setters. Further, in case of any dispute it is the Courts that determine FRAND terms based on comparable agreements and industry practices. Thus, the Patents Act, 1970 is a comprehensive self-contained code designed to deal with all issues pertaining to patents and any disputes can be resolved in accordance with its provisions.

Q.5 Please suggest a dispute resolution mechanism for determination of royalty distribution on FRAND (Fair Reasonable and Non-Discriminatory) basis.

Dolby's response: Adequate provisions have been provided under the Patents Act, 1970 to deal with disputes pertaining to the determination of FRAND terms and conditions, and the Indian Courts as well as the Controller of Patents are competent to adjudicate such issues. Any interference in this process is not warranted. Determination of FRAND terms for a license agreement is essentially a commercial exercise between the parties, based on market forces and commercial exigencies. Historically, FRAND/RAND terms have been agreed upon between parties by way of bilateral negotiations, and SSOs/SDOs / antitrust / competition agencies have refused to act as price setters. The fixation of FRAND royalty rates by the Government would be counter-productive and is thus not recommended. In fact, this could result in stultification of the entire standardization process. Globally, other than a handful of companies that infringe SEPs without paying royalties, the majority of FRAND determinations take place through mutual negotiations between the parties. These kinks or isolated instances in the system are exceptions and should be treated as such because they do not reflect the efficiency of the FRAND licensing ecosystem. Further, the determination that a court makes in a FRAND/RAND case is akin to any other adjudicatory process of deciding between rival proposals.

Indian Courts have well-established alternative dispute mechanisms which are widely practiced in all types of disputes. With particular reference to SEP litigations in India, Courts have proactively suggested to parties to try and negotiate a license in good faith first rather than litigating. The Delhi High Court in particular has well-established mediation procedures and facilities to support this. However, to improve the quality of mediations in SEP litigations, parties can introduce economic experts who are well conversant with SEP knowledge, including familiarity with industry practices and international jurisprudence. Such experts could be made a part of mediation proceedings and their expertise in the field of economics and appreciation of the specific circumstances of the matter in dispute could help to ensure balanced negotiations during mediation and an efficient resolution.

Conclusion:

Thank you for your kind consideration of Dolby's comments on this subject. Please do not hesitate to contact us to discuss these comments, clarify anything, or respond to any questions that you may have.

ON BEHALF OF DOLBY LABORATORIES, INC.
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Nishant Sharma
Lead Counsel (India) – IP & Litigation
Dolby Technology India Pvt. Ltd.
Regus, Level 5, SB Tower
1A/1, Sec 16A, Film City
Noida – 201301, UP
T +91-120-4804928
M +91-9891400139
Nishant.Sharma@Dolby.com | www.dolby.com