

## Response to TRAI Consultation Q.20 on SEPS/FRAND Licensing

The current approach to licencing on fair, reasonable, and non-discriminatory (FRAND) terms often fails to ensure the promised benefits of standard setting. Owners of standard-essential patents (SEPs) subject to FRAND commitments can use the threat of obtaining injunctions in jurisdictions around the world—including India—to coerce non-FRAND terms from licensees. This risk is amplified in the absence of a pre-litigation mechanism to determine the true essentiality of a patent. Over declaration of non-essential patents as essential is an internationally recognized issue that further negates the benefits of standard setting. These risks threaten the widespread adoption and vitality of standards.

### **The Ready Availability of SEP Injunctions Undermines the FRAND Commitment and Threatens Incentives to Invest in Products That Use Standards.**

A standard is an agreed upon solution to a common problem shared by a number of stakeholders. The widespread adoption of a standard effectively eliminates potentially alternative solutions to the problem and thus the users are “locked in” to using the standard. With a single solution and no feasible alternatives, SEP holders with patents essential to the standard gain significant market power to dictate royalty rates for licensing the SEPs in the standard. The FRAND commitment is designed to balance this accrual of market power. By committing to license on FRAND terms, the SEP holder has indicated their willingness to license their intellectual property. Thus, when a SEP holder seeks an injunction to pressure a licensee into accepting the SEP holders’ licensing terms, such actions are contrary to their claimed willingness to license their SEPs and amount to “hold up”. TRAI and Indian authorities need to consider the impact of SEP abuse emanating from a complete lack of transparency and taking the form of threats of injunctions to coerce potential licensees into accepting the licensors' terms regardless of how unreasonable the license rates are as such behaviour negatively impacts the competitive landscape, increases prices for consumers and can even impact investment in manufacturing. Such potential outcomes are contrary to the Government’s policy priorities, including Make in India and Atmanirbhar Bharat.

Indian courts have concluded that the contractual restriction of FRAND-committed SEPs has meaning such that their remedies should be different than patents that are not associated with standards. As the High Court of Delhi has observed, “this Court in *Intex v. Ericsson* . . . has recognized that Standard Essential Patent cases are different as a Standard Essential Patent holder does not have the freedom to claim an injunction against an infringer, without prior negotiations under FRAND terms.”<sup>1</sup> Further, the High Court of Delhi observed in its *Intex* decision that in SEP litigation, an assessment of infringement is not sufficient to award interim relief: “The Court must also assess prima facie, whether the implementer is an unwilling licensee and/or whether the royalty sought by the plaintiff is on FRAND terms i.e. whether globally or locally similar implementers are paying royalty in accordance with the terms suggested by the patentee.”<sup>2</sup> As the *Intex* court observed, considering the conduct of the parties’ negotiations is consistent with the approach of courts in other jurisdictions, including the Court of Justice of the European Union’s decision in *Huawei v. ZTE*.<sup>3</sup>

Despite committing to license on FRAND terms, some SEP holders seek to leverage the threat of injunctions to pressure potential licensees to agree to non-FRAND terms.<sup>4</sup> This problem has long

<sup>1</sup> *Nokia Technologies OY v Guandong OPPO Mobile Telecommunications & Ors* ¶ 60, 2023: DHC:4368-DB.

<sup>2</sup> *Telefonaktiebolaget LM Ericsson v. Intex Technologies* ¶ 118, No. 2023:DHC:2243-DB.

<sup>3</sup> *Id.* ¶¶ 77-82.

<sup>4</sup> A. Doug Melamed et al., *How Antitrust Law Can Make FRAND Commitments More Effective*, 127 Y.L.J. 2110, 2114



been recognised by competition authorities around the world. In 2014, the European Commission explained, after taking action in two competition investigations against SEP holders, that “it is anti-competitive to use injunctions in relation to SEPs” when a “SEP holder has committed to license the SEP on FRAND terms and the licensee is willing to take a licence on such terms” because the “seeking of injunctions can distort licensing negotiations and lead to licensing terms with a negative impact on consumer choice and prices.”<sup>5</sup> The U.S. Federal Trade Commission recognised in 2013 that “seeking and threatening injunctions against willing licensees of FRAND-encumbered SEPs undermines the integrity and efficiency of the standard-setting process and decreases the incentives to participate in the process and implement published standards.”<sup>6</sup>

While the terms of most licences are confidential, litigated cases highlight how the threat of hold up allows SEP licensors to obtain non-FRAND royalties. Two recent decisions from the UK show how SEP monetisers attempted to pressure smaller entities to obtain above-FRAND royalties. In *InterDigital v. Lenovo*, InterDigital advocated that Lenovo should pay its so-called “program rates” and justified that they were FRAND based on the fact that certain parties had agreed to pay them, but the court dismissed the rates as “paid only by the smallest and least sophisticated licensees.”<sup>7</sup> In *Optis v. Apple*, the court also rejected Optis’ proffered licences, explaining that they were the result of Optis asserting “significant pressure” through a “take it or leave it (and we will sue for infringement)” strategy.<sup>8</sup>

SEP monetisers contend that there is no empirical support demonstrating the existence of hold up, but what can be observed from litigation tells a very different story. These facts call into question the assumptions of many courts that the key threat in SEP licencing is misconduct by licensees. That mistaken assumption might have informed the Delhi High Court’s recent decision in *Telefonaktiebolaget LM Ericsson v. Intex Technologies*, where the court focused on the concern that if injunctions are limited, “then infringers would have little reason ever to agree to, or negotiate in good faith, a licence with a Standard Essential Patent owner.”<sup>9</sup> Likewise, the TRAI Consultation suggests that the failure of parties to agree on FRAND terms rests with licensees where “patent owners . . . have offered FRAND licenses but are unable to reach agreement with potential licensees.”<sup>10</sup> Instead multiple court decisions from different jurisdictions involving SEPs in standards from a range of technologies demonstrate that SEP monetisers attempt to obtain excessive royalties that are well above a FRAND rate. The decisions also highlight the problem of over-declaration of non-essential patents as essential patents to demand higher royalties. For instance, in the previously mentioned Optis litigation, the UK Court determined a royalty rate of \$56 M which is in stark contrast to the Optis demanded royalty rate of \$ 7B, an amount that is 125 times the court determined FRAND rate.

Claims by SEP monetisers that they have “established” FRAND rates widely and uniformly paid by licensees should be treated with scepticism. This claim appears to have been critical to the

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(2018).

<sup>5</sup> European Commission, Antitrust decisions on standard essential patents (SEPs) – Motorola Mobility and Samsung Electronics – Frequently Asked Questions (Apr. 24, 2014), <https://tinyurl.com/yz8nmym8>.

<sup>6</sup> Analysis of Proposed Consent Order To Aid Public Comment, *Matter of Motorola Mobility LLC*, File No. 121-0120 (Jan. 3, 2013), <https://tinyurl.com/bdcme6up>.

<sup>7</sup> *InterDigital Tech. Corp. v. Lenovo Group Ltd.* [2023] EWHC 539 (Pat) ¶ 516 (Mar. 16, 2023).

<sup>8</sup> *Optis Cellular Tech. LLC v. Apple Inc.*, [2023] EWHC 1095 (Ch) ¶¶ 398(iii)(b)(iv), 470(ii)(b) (May 10, 2023).

<sup>9</sup> ¶ 89, No. 2023:DHC:2243-DB.

<sup>10</sup> Consultation Paper on Encouraging R&D in Telecom, Broadcasting, and IT (ICT) Sectors § 2.7.10.



*Intex* court’s decision to determine that Ericsson was entitled to an injunction.<sup>11</sup> But it is unclear how thoroughly the court examined that evidence. As noted above, the *InterDigital v. Lenovo* decision demonstrates the need to carefully vet claims about acceptance of FRAND rates, with the court dismissing InterDigital’s so-called “program rates” as being non-FRAND and only paid by unsophisticated parties. In fact, the evidence showed that 97.7% of units licensed by InterDigital over the relevant period were supplied under licenses that did not use the “program rates.”<sup>12</sup> Indeed, it has long been well recognised that announced, *ex ante* royalty rates for SEPs are unreliable indicators of what FRAND terms will actually be once a standard is finalized and actual agreements are negotiated at arms’ length. A 2020 article summarizing announced 5G royalty rates cautioned that “it is very important to emphasize that ‘announced’ (or ‘program’ or ‘rack’ or ‘declared’ or ‘headline’) royalty rates may be (and usually are) quite different than the ‘actual’ royalty rate resulting from the outcome of a bi-lateral negotiation.”<sup>13</sup>

Regulators and courts should not simply assume that it is licensees who are impeding reaching agreements on FRAND terms. On the contrary, aggressive SEP licensors commonly pursue above-FRAND royalties and do so relying on licences they have struck with unwary and unsophisticated parties that are not actually representative of the true FRAND rates for their SEPs and/or by seeking to license an over inflated patent portfolio including non-essential patents bundled with some essential patents. As Indian manufacturers are becoming global players and are slowly but surely developing experience and expertise in SEP licensing negotiations, they are particularly vulnerable to be taken advantage of by SEP monetizers.

### **“Innovators” vs. “Implementers” and Overestimating the Importance of SEPs.**

Despite the clear dysfunction in SEP licencing, efforts to reform SEP licencing often are impaired by two false narratives about potential harms to innovation that some SEP monetizers use to justify their seeking injunctions. The TRAI should not succumb to accepting these arguments.

**First**, many aggressive SEP licensors promote a false narrative that SEP licensors are the only “innovators” and SEP licensees as mere “implementers.” SEP monetisers contend that if they are not sufficiently rewarded for their overall investments in research and development by outsized royalties then work on standards will grind to a halt. Based on this premise, SEP monetisers advocate for permissive legal standards so they can maximise leverage against licensees.

But this rhetoric does not match reality. A recent study of 2020 R&D expenditures in the smartphone industry estimated that downstream firms accounted for 95% of the \$38 billion in R&D expenditures related to smartphones, while upstream SEP monetizers only accounted for 5%.<sup>14</sup> This fact is also borne by another study finding that in 2022, several so-called

<sup>11</sup> *Telefonaktiebolaget LM Ericsson v. Intex Technologies* ¶ 150, No. 2023:DHC:2243-DB (“However, this Court finds merit in the appeal filed by Ericsson as the fact that the telecom industry has overwhelmingly accepted Ericsson’s Standard Essential Patents cannot be disregarded. In fact, more than one hundred licences have been executed by Ericsson for the same technology globally and similar implementers are paying royalty in accordance with the terms suggested by Ericsson.”).

<sup>12</sup> *InterDigital Tech. Corp. v. Lenovo Group Ltd.* [2023] EWHC 539 (Pat) ¶ 579 (Mar. 16, 2023).

<sup>13</sup> Eric Stasik & David L. Cohen, *Royalty Rates And Licensing Strategies For Essential Patents On 5G Telecommunication Standards: What To Expect* at 177, les Nouvelles (Sept. 2020), available at <https://ssrn.com/abstract=3658472>.

<sup>14</sup> R. De Coninck et al., *SEP Royalties, Investment Incentives and Total Welfare* 3 (2022), <https://tinyurl.com/3akzrz4>.

“implementers” were recognized as having some of the largest R&D budgets in the world, while none of the most vocal SEP monetizers were in the top ten.<sup>15</sup>

There are many reasons why companies participate in standards development beyond obtaining royalty income, including influencing standards development to support their needs and market demand and ensuring the widespread success and adoption of the standards they support, thereby creating new sales opportunities and new markets. Indeed, the number of successful royalty-free standards are a testament to the incentives to develop standards without the promise of royalty payments. Bluetooth, for example, is used the world over and in tens of billions of devices, if not more, thanks to the availability of royalty-free licences.<sup>16</sup>

**Second**, aggressive SEP monetizers often exaggerate the importance of SEPs as innovations. The TRAI Consultation appears to do the same when it claims that “[t]echnologies required to establish standards are more important.”<sup>17</sup> But that is not correct for multiple reasons.

A significant number of patents that are declared to be “essential” are not actually necessary to practice a standard. Standards-development organizations (SDOs) do not evaluate the claims of patent holders as to whether patents that they declare essential are actually essential.<sup>18</sup> There are a variety of reasons that a patent or patent application that has been declared essential to a standard may not actually be essential. These include that the standard evolves in a manner that moves away from the claims of the patent. Or during patent prosecution, the claims of a patent may need to be amended in a way that moves away from what is in the standard. Moreover, patent holders are incentivised to declare their patents essential for a variety of reasons, including compliance with disclosure obligations imposed by SDOs (which may require disclosure before the standard is fixed) and to increase the size of their portfolios for licensing purposes. Statistics demonstrate that only a small percentage of claimed-essential patents are actually essential. For example, as few as 8% of patents declared as essential to the 5G standard may actually be essential.<sup>19</sup>

In relation to the Indian market, the issue of over declaration is amplified on account of the accepted difference between the patentability of inventions related to algorithms, mathematical and/or business methods in the US/EU/UK and India. Some essential patents based on inventions other than computer programs, which may be patented in other jurisdictions, may not be valid patents in view of Section 3(k) of the (Indian) Patents Act, 1970. This has been recognized by the Delhi High Court in the case of *OpenTV Inc v. The Controller of Patents and Designs and Another*<sup>1</sup>.

### **Action Is Needed to Limit SEP Injunctions and Hold Up Power in India.**

The recent decision of the Delhi High Court in *Telefonaktiebolaget LM Ericsson v. Intex Technologies* endorsed a troubling policy that Indian courts “can and should” issue a SEP injunction even before determining whether a licensor has offered FRAND terms.<sup>20</sup> For the reasons explained above, such a policy enables SEP holders to exert improper leverage that undermines the possibility of good faith discussions.

<sup>15</sup> Alex Irwin-Hunt, *Top 100 Innovation Leaders*, fDi Intelligence, June 19, 2023, <https://tinyurl.com/57n8yrrz>.

<sup>16</sup> Bluetooth Special Interest Group, Bluetooth Patent/Copyright License Agreement (rev. 8 July 2016), <https://www.bluetooth.com/about-us/governing-documents/>.

<sup>17</sup> Consultation Paper on Encouraging R&D in Telecom, Broadcasting, and IT (ICT) Sectors § 2.7.10.

<sup>18</sup> *Telefonaktiebolaget LM Ericsson v. Intex Technologies* ¶ 92, No. 2023:DHC:2243-DB (“Since the SSOs do not check which patents are actually essential and the declarants do not provide any proof of essentiality, there is a possibility of a lot of blanket declarations being made which can be misleading.”)

<sup>19</sup> Justus Baron et al., European Commission, *Empirical Assessment of Potential Challenges in SEP Licenses 24* (2023) (5G essentiality rate as low as 10%); see also John Hayes et al., Charles Rivers Assocs., *A Critical Review of 5G SEP Studies* 6 (Nov. 8, 2022) (5G essentiality of 8–33%, depending on study) [https://media.crai.com/wp-content/uploads/2022/11/09132755/Critical-Reviewof-5G-SEP-Studies\\_Nov-2022.pdf](https://media.crai.com/wp-content/uploads/2022/11/09132755/Critical-Reviewof-5G-SEP-Studies_Nov-2022.pdf).

<sup>20</sup> *Telefonaktiebolaget LM Ericsson v. Intex Technologies* ¶ 85, No. 2023:DHC:2243-DB



Indian courts should consider the experience in the United States and its application of equitable factors in assessing whether to grant injunctions. Under that standard, where monetary remedies are available, an injunction on a FRAND-committed SEP is exceedingly unlikely to issue. The Delhi High Court cited a decision of the U.S. Court of Appeals for the Federal Circuit on this issue but focused narrowly on a single sentence without acknowledging the full import of the decision.<sup>21</sup> As the Federal Circuit explained in that case—where it affirmed that the lower court properly denied a SEP injunction—“FRAND commitments, which have yielded many license agreements . . . strongly suggest that money damages are adequate to fully compensate. . . for any infringement” and where a SEP has been widely licenced, the SEP holder will have difficulty establishing irreparable harm from infringement.<sup>22</sup> That approach makes sense—a SEP holder has agreed to accept FRAND royalties for the use of its SEPs and if those royalties can be obtained as damages in court, there is no justification for providing the SEP holder with the coercive power of an injunction.

In addition, India should continue to rely on the expertise of expert competition regulators in addressing SEP and FRAND licencing. Unfortunately, a recent decision of the Delhi High Court for now (subject to challenge before the Supreme Court) limits that possibility by concluding that the “Patents Act must prevail over the Competition Act on the issue of exercise of rights by a patentee under the Patents Act,” thereby depriving the Competition Commission of authority to investigate SEP abuses by licensors.<sup>23</sup> But SEP abuse violates competition law because it is an exercise of market power obtained by excluding competing alternatives from the standard and has nothing to do with the claims themselves.<sup>24</sup> Indeed, competition and patent law coexist in most jurisdictions and competition regulators regularly extend their jurisdiction to issues ancillary to patent law to ensure robust competition involving patents.<sup>25</sup> If the decision in *Telefonaktiebolaget LM Ericsson v. Competition Commission of India* is not reversed by the Supreme Court, the expertise of the Competition Commission will go lacking in addressing competition issues with

<sup>21</sup> *Id.* ¶ 83 (citing *Apple Inc. v. Motorola Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014)).

<sup>22</sup> *Apple Inc. v. Motorola Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014).

<sup>23</sup> *Telefonaktiebolaget LM Ericsson v. Competition Commission of India* ¶ 55, LPA 247/2016 (July 13, 2023).

<sup>24</sup> *See, e.g.*, Singapore Competition & Consumer Commission, Guidelines on the Treatment of Intellectual Property Rights § 4.11 (“Where an owner of an SEP has a dominant position in a market, its refusal to license its SEP on FRAND terms to any applicant for a licence (irrespective of its position in the value chain) may give rise to competition concerns under section 47 of the Act. In addition, it should be noted that seeking an injunction based on an alleged infringement of a SEP may give rise to competition concerns under section 47 of the Act if the SEP holder has a dominant position in a market, has given a voluntary commitment to license its SEP on FRAND terms and where the party against whom the SEP holder seeks to injunct is willing to enter into a licence agreement on such FRAND terms.”), <https://www.cccs.gov.sg/-/media/custom/ccs/files/legislation/ccs-guidelines/revision-guidelines-jan-2022/9-cccs-guidelines-on-the-treatment-of-ip.pdf?la=en&hash=4B788CFD35E23E6E6D680F898C3A339FD3B43E0A>.

<sup>25</sup> *E.g.*, Canada Competition Bureau, Intellectual Property Enforcement Guidelines, Aug. 11, 2023, <https://ised-isde.canada.ca/site/competition-bureau-canada/en/how-we-foster-competition/education-and-outreach/intellectual-property-enforcement-guidelines>; Commerce Commission of New Zealand, Guidelines on the Application of Competition Law to Intellectual Property Rights (Apr. 2023), [https://comcom.govt.nz/\\_\\_data/assets/pdf\\_file/0017/312308/Intellectual-property-guidelines.pdf](https://comcom.govt.nz/__data/assets/pdf_file/0017/312308/Intellectual-property-guidelines.pdf); U.S. Department of Justice & Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property (Jan. 12, 2017), <https://www.justice.gov/atr/IPguidelines/download>; European Commission, Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements ¶¶ 132, 195 (June 1, 2023), [https://competition-policy.ec.europa.eu/system/files/2023-07/2023\\_revised\\_horizontal\\_guidelines\\_en.pdf](https://competition-policy.ec.europa.eu/system/files/2023-07/2023_revised_horizontal_guidelines_en.pdf).



FRAND. If that occurs, the next best solution would be for the Patents Act provisions on the Controller of Patents' authority be expanded to specifically encompass investigating and eliminating anticompetitive practices in FRAND licensing.

### **Response to TRAI Consultation Q.17 on the Patent Approval Process**

We appreciate the Indian Patent Office's efforts to reduce application pendency. The recent recruitment of examiners has resulted in a significant increase in the issuance rate of First Examination Reports and hearings. To further reduce pendency and reduce duplicative efforts in examination, the Indian Patent Office should establish Patent Prosecution Highway (PPH) partnerships with other jurisdictions, such as the US, EP, and China, which also would encourage applicants to file for patent protection more heavily in India.