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October 15, 2017

Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhawan,
Jawahar Lal Nehru Marg,
New Delhi-110002
Sent Via Email (to arvind@trai.gov.in and bharatgupta.trai@gmail.com)

Re: Comments on Telecom Regulatory Authority of India Consultation Paper No: 12/2017

Microsoft appreciates the opportunity to provide comments in response to connection with the referenced Consultation Paper. Microsoft welcomes this initiative as India is a significant and important emerging economy that both develops and uses innovative technology.

Our comments focus on Questions 5 and 10 as they relate to standardization. Further below, and in light of the anticipated broad applicability of standards related to 5G and the "Internet of Things" that will impact a wide range of industry sectors, we would like to encourage the Government of India to provide guidance that will, among other things, clarify the effect of commitments by patent holders to provide licenses to standards implementers on fair, reasonable and non-discriminatory ("FRAND") terms and conditions so that all parties have a better understanding of what is appropriate in this context.

Before providing our comments in response to these questions and a framework for possible government guidance, we have described the competition law issues associated with standard-essential patents ("SEPs") in connection with technical standards collaboratively-developed at a standard-setting organization and the related importance of the FRAND framework. We also have highlighted some key differences between the application of competition law to SEPs as distinct from differentiating, proprietary patents (even if the latter are viewed as highly valuable or desirable in the marketplace).

A. Standard Essential Patents Generally

We would like to express our general support for the establishment of a reasonable framework or guidelines to address a number of important issues, including those relating to SEPs that are essential to the implementation of a collaboratively-established industry standard. We believe that such a framework would be very useful in helping those who are setting and implementing standards better understand the effect of a commitment to license these SEPs on FRAND terms and conditions. It also will help clarify the anti-competitive conduct that can occur when a SEP holder attempts to improperly leverage its FRAND-encumbered SEPs to seek unreasonable licensing terms and/or injunctive relief against implementers of the standard.

The licensing of FRAND-encumbered SEPs (as opposed to patents more generally) raises unique considerations. When competing companies come together at a standard setting organization ("SSO") to agree on an industry standard can result in implementers being "locked into" the use

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of SEPs if they want to implement the standard. This collective activity, and the need for implementers to use SEPs in order to implement the standard, can result in the SEP holders gaining a dominant position based on its SEPs. These SEP holders are then able to insist on unreasonable licensing terms, sometimes seeking injunctive relief to unfairly pressure the implementer to accept such terms or risk being precluded from the marketplace altogether. It is the collective conduct at an SSO, and the resulting "lock-in" effect, that puts FRAND-encumbered SEPs in a different category than other patents in terms of the patent holder's ability to fully leverage its statutory patent rights. We believe that conduct that is inconsistent with a FRAND commitment can encompass both a breach of contract and the duty of good faith and fair dealing, and a violation of competition law. FRAND commitments are designed specifically to mitigate a SEP owner's dominant position, the threat of patent hold-up, and the harm that hold-up does to both consumers and to competition generally.

The U.S. Department of Justice ("DOJ") has noted that the "threat of exclusion from a market is a powerful weapon that can enable a patent owner to hold up implementers of a standard."[1] In addition, SEP owners can foreclose competition in downstream product markets by refusing to license those SEPs to competitors or potential competitors.[2] They also can artificially raise rivals' costs through the imposition of discriminatory royalties.[3] SEP holders also can unfairly seek other unreasonable terms such as refusing access to the SEPs unless the implementer agrees to cross-license non-SEPs, insisting that the implementer forgo the right to challenge validity or infringement of the patents, etc. Consumers can be harmed if companies implementing the standard pass on increased royalties in the form of a higher price.[4]

As noted by the U.S. Court of Appeals for the Federal Circuit in *Ericsson, Inc. v. D-Link Sys., Inc.*,[5] "[m]ost notably, once a standard becomes widely adopted, SEP holders obtain substantial leverage over new product developers, who have little choice but to incorporate SEP

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[1] Renata Hesse, Acting Assistant Att'y Gen., U.S. Dep't of Justice, Letter to Michael A. Lindsay, Esq., at 9 (Feb. 2, 2015), *available at* http://www.justice.gov/atr/response-institute-electrical-and-electronics-engineers-incorporated; *see also* Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*, at 234 (2011), *available at* http://www.ftc.gov/os/2011/03/110307patentreport.pdf; Fed. Trade Comm'n & U.S. Dep't of Justice, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, at 2 (2007), *available at* https://www.ftc.gov/reports/antitrust-enforcement-intellectual-property-rights-promoting-innovation-competition-report .

[2] *See, e.g.*, U.S. Dep't of Justice, *Statement of the Department of Justice's Antitrust Division on Its Decision to Close Its Investigations of Google Inc.'s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp. and Research In Motion Ltd.* (February 13, 2012), *available at* http://www.justice.gov/opa/pr/statement-department-justice-s-antitrust-division-its-decision-close-its-investigations.

[3] *Id.*

[4] *See* Renata Hesse, Acting Ass't Attorney Gen., Antitrust Div., U.S. Dep't of Justice, Remarks as Prepared for the ITU-T Patent Roundtable:"Six 'Small' Proposals Before Lunch" (Oct. 10, 2012), *available at* http://www.justice.gov/atr/speech/six-small-proposals-ssos-lunch; *In re Robert Bosch GmbH*, Commission Statement, Fed. Trade Comm'n, No. 121-0081 (Nov. 26, 2012), *available at* https://www.ftc.gov/sites/default/files/documents/cases/2013/04/121126boschcommissionstatement.pdf.

[5] 773 F.3d 1201, 1209 (Fed. Cir. 2014).

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technologies into their products. Using that standard-development leverage, the SEP holders are in a position to demand more for a license than the patented technology, had it not been adopted by the SSO, would be worth. The tactic of withholding a license unless and until a manufacturer agrees to pay an unduly high royalty rate for a SEP is referred to as 'hold-up.'"[6]

Even the mere threat of an injunction can cause a prospective licensee to pay royalties above a FRAND rate or agree to an unfair license.[7] As noted above, these increased royalties can then be passed along to consumers in the form of higher prices. This is why companies should not be permitted to seek injunctive relief based on FRAND-encumbered SEPs, especially when the parties disagree as to whether the SEP holder has offered truly FRAND terms (or if the parties have related disputes, such as whether the asserted SEPs are valid, infringed, etc.).

Such conduct can violate competition laws. On April 13, 2016, the U.S. District Court for the District of Delaware (Judge Richard G. Andrews) denied a motion by InterDigital, Inc. ("IDC") to dismiss the complaint filed by Microsoft that alleged, among other things, that IDC's actions to "hold up" Microsoft based on IDC's FRAND-encumbered SEPs in connection with the ETSI 3G and 4G standards violated U.S. antitrust laws.[8] As noted by the District Court:

> "Microsoft alleges that, throughout this standard-setting process, IDC has exploited this power by refusing to honor its FRAND licensing obligations, transferring SEPs to related entities to 'double-dip' royalty demands, tying U.S. patent licenses to foreign patent licenses, tying SEP licenses to non-essential patent licenses, and requiring royalties on worldwide sales. (*Id.* ¶¶ 6, 56-69). Additionally, Microsoft alleges that IDC has 'pursued baseless infringement actions and baseless demands for injunctive relief and exclusion orders designed to increase Microsoft's costs and

[6] *Id.* at 1209.

[7] *See, e.g.*, FTC Testimony, at 5; *see also Microsoft Corp. v. Motorola, Inc.*, No. C10–1823, 2013 WL 2111217, at *85, 99-100 (W.D. Wash. Apr. 25, 2013) (Motorola demanded royalties of $6-8 per console from Microsoft and threatened to exclude Microsoft's products from the U.S. market. The court concluded that the appropriate RAND rate was 3.471 cents per unit for one standard and 0.555 cents per unit for another, so RAND was approximately $1.8 million in royalties a year as opposed to approximately $4 billion a year – the amount demanded by Motorola.), *aff'd* 795 F.3d 1044 (9th Cir. 2015); *Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998, 1002 (N.D. Cal. 2013) (LSI demanded a royalty that was higher than the price of Realtek's product); *Realtek Semiconductor Corp. v. LSI Corp.*, No. C-12-3451, 2014 U.S. Dist. Lexis 81673, at *23 (N.D. Cal. June 16, 2014) (determining a RAND royalty of 0.19% of the selling price of the product); *Innovatio IP Ventures, LLC Patent Litigation*, MDL No. 2303, 2013 WL 5593609, at *9 (N.D. Ill. Oct. 3, 2013) ("[i]n light of all of the testimony, and particularly the evidence about Broadcom's real-world concerns about patent hold-up, the court concludes that patent hold-up is a substantial problem that RAND is designed to prevent").

[8] Decision available at: https://cases.justia.com/federal/district-courts/delaware/dedce/1:2015cv00723/57656/27/0.pdf?ts=1460626234.

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> thereby coerce Microsoft to capitulate to InterDigital's unreasonable, non-FRAND demands.' (*Id.* ¶¶ 6, 70-79).
>
> …
>
> The Court finds the reasoning in *Hynix* persuasive. Having concluded that IDC's deceptive conduct before ETSI suffices to make out a § 2 monopolization claim (with injury tied to that deception), the Court now concludes that IDC's litigation conduct is 'causally connected' to that behavior and therefore properly included in an 'anticompetitive scheme' allegation.' *Id.* at 1098. <u>IDC's suits to enforce its purported SEPs are part of the way in which IDC accomplishes its alleged anticompetitive scheme.</u> The entire scheme "is ineffective without the threat of litigation.' *Id.*" (Emphasis added.)

As noted by the European Commission in explaining why DG Competition determined that Motorola Mobility violated European Competition law based on its assertion of its FRAND-encumbered SEPs:

> "SEPs can, however, confer significant market power on their holders. Once a standard has been agreed and industry players have invested heavily in standard-compliant products, the market is *de facto* locked into both the standard and the relevant SEPs. This gives companies the potential to behave in anti-competitive ways, for example by 'holding up' users after the adoption of the standard by excluding competitors from the market, extracting excessive royalty fees, setting cross-licence terms which the licensee would not otherwise agree to, or forcing the licensee to give up their invalidity or non-infringement claims against SEPs…. If the SEP holder has a dominant position and has given a commitment to licence on FRAND terms, then it expects to be remunerated for its SEPs through licensing revenue rather than by using these patents to seek to exclude others. <u>Therefore, seeking an injunction before national courts on the basis of SEPs against a licensee willing to pay for the SEPs was found to constitute abuse of a dominant position.</u>
>
> …In this particular case, the seeking and enforcement of an injunction caused Apple to renounce its legitimate rights to challenge the validity and infringement of Motorola's SEPs. There is a strong public interest in fostering challenges of patent validity and infringement. Royalty payments for SEPs which are either

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> invalid or not used may unduly increase production costs, which in turn may lead to higher prices for consumers."[9]

The European Court of Justice reinforced this analysis in its decision in *Huawei v. ZTE* (see http://curia.europa.eu/juris/document/document.jsf?docid=165911&doclang=EN). The Court agreed that seeking injunctive relief based on FRAND-encumbered SEPs can violate European competition law if the prospective licensee is "willing" to take a license under valid SEPs that it is infringing, and it describes a process pursuant to which both parties must act in good faith to negotiate a FRAND license. As noted by an official with the Directorate General for Competition in Europe:

> "The [European Court of Justice] judgement, therefore, confirms that when there is indeed a licensee willing to conclude a license on FRAND terms, seeking an injunction based on a SEP is a weapon that should be off the table. This is only natural, since in giving the commitment to license on FRAND terms, the SEP holder has, in order for its technology to become part of the standard, explicitly and voluntarily chosen to limit the way that it exercised the intellectual property right in question – ie it has chosen to give access to it in return for reasonable remuneration rather than using it to exclude. It should, therefore, follow that the SEP holder should then not be able to use injunctions in order to extract unjustified terms or royalties from a willing licensee…" [10]

Similarly, the U.S. Government proposed the following text to the ITU-T Telecommunication Standardization Advisory Group for consideration at its June, 2014 meeting to address the issue of possible SEP "hold up":

> "For any Patent(s) subject to a RAND undertaking, the Patent Holder, or its successors in interest, shall neither seek nor seek to enforce injunctive/exclusionary relief against a potential licensee willing to accept a license on RAND terms. One way in which a potential licensee would be considered willing to accept a license on RAND terms is if the potential licensee commits without unreasonable delay to be bound by an independent judicial or mutually agreed upon arbitral authority's determination of RAND terms. Such an adjudication would permit each party to assert any

[9] European Commission, Competition Policy Brief-Standard-essential patents (Issue 8, June 2014) (emphasis added); available at http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf.

[10] Nicholas Banasevic, Head of Unit, Antitrust: IT, Internet and Consumer Electronics, DG Competition, European Commission, "The Implications of the Court of Justice's *Huawei/ZTE* Judgement", Journal of European Competition Law & Practice, 2015, Vol. 6, No. 7 (emphasis added).

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> related claims and defenses, including whether the asserted patents were valid and infringed."[11]

Other countries also are adopting similar legal frameworks for applying competition law to FRAND-encumbered SEPs:

- The Japanese Fair Trade Commission finalized related guidance in its *Guidelines for the Use of Intellectual Property under the Antimonopoly Law* in January, 2016 (see http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.files/IPGL_Frand.pdf).
  - "Refusal to license or bringing an action for injunction against a party who is willing to take a license by a FRAND-encumbered Standard Essential Patent holder, or refusal to license or bringing an action for injunction against a party who is willing to take a license by a FRAND-encumbered Standard Essential Patent holder after the withdrawal of the FRAND Declaration for that Standard Essential Patent" may constitute an unfair trade practice.
- The Korean Fair Trade Commission revised its *Review Guidelines on Unfair Exercise of Intellectual Property Rights* at the end of March, 2016 (see http://eng.ftc.go.kr/bbs.do?command=getList&type_cd=52&pageId=0305). These Guidelines provide in part:
  - "However when an injunction is filed limitlessly, patent hold up which refers to asituation where an SEP owner requires the payment of excessive royalty from willing licensees or filing an injunction to impose unfair conditions when licensing all with an intention to exclude competitors or obstruct the competitors' business activities can occur. Thereby an act of filing an injunction against willing licensees by an SEP holder who promised to license its SEP on FRAND terms can be determined as a behavior that restricts competition in the relevant market as it exceeds the reasonable extent of exercise of patent right."
- The Canadian Competition Bureau posted its revised *Intellectual Property Enforcement Guidelines* on March 31, 2016 (see http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04031.html). These Guidelines provide:
  - "Another way that patent hold-up can arise in the context of standard setting is when a patentee makes a licensing commitment before its technology is adopted in a standard and then later seeks injunction orders against firms that are willing to license the technology on terms and conditions meeting the commitment. By seeking an injunction against firms that are 'locked-in' to the standard and that face prohibitive costs to switch to alternative technologies, the patentee can 'hold up' potential licensees and demand higher

[11] The U.S. Government position can be found at: http://www.nist.gov/standardsgov/upload/T13-TSAG-C-0043-A1-r1-E.pdf.

> royalties than if it did not seek the injunction. The use of injunctions can be particularly problematic when the patentee's patented technologies comprise only a small part of the standard, but can nonetheless block a prospective licensee's ability to manufacture and sell standard-compliant products. Given the significant risk to its business, a prospective licensee that is threatened by an injunction may be compelled to pay a royalty rate greater than the patentee's *ex ante* commitment. Similar to the other cases involving patent hold-up described above, the Bureau's concern with the patentee's conduct is that it could increase the cost of accessing the standard for firms that wish to develop products that incorporate the standard and thereby reduce their incentive to innovate or otherwise produce products that use the standard. The patentee's conduct may result in foreclosure of companies making standard-compliant products. There is also concern that the increased cost of access will result in increased prices to consumers of standard-compliant products or that the conduct excludes alternative technologies that would have been considered for the standard."

Accordingly, we suggest that arguments that FRAND disputes are appropriately treated only as contract disputes between the parties (and thus, the competition laws should not apply) are contrary to antitrust law as it has applied in the courts and by agencies, and are without merit.

i. The Distinction Between Technical Standards Set by SSOs and "*de facto*" Standards

It is critical not to conflate collaboratively-developed technical standards with proprietary technologies comprising differentiating patents that others have labelled as commercially essential or "de facto" standards. Unlike differentiating patents with market power achieved in competition with available substitutes, true SEPs achieve dominance through collective agreements that, as a practical matter, eliminate these substitutes. However, the fact that third parties may label a patented invention, or a proprietary technology including it, as a "de facto standard" because it is technologically superior or because consumers value it in the marketplace does not change the fact it remains a proprietary invention. Any market power that may arise from such patents is lawfully acquired and the owner is not compelled to licence to anyone.

Moreover, even if a non-SEP has a measure of market power, there is almost always a technical substitute for the patent. At a minimum, there is always a strong incentive among competitors to invent a technical substitute if access is denied or is difficult. Consequently, it is exceedingly rare that a non-SEP in fact has a dominant position in a market such that its owner can price the patent without reference to competitors, or the threat of potential entry and price competition, if royalties are set at supra-competitive rates. The opposite is true for SEPs, which by definition are essential to implementation of the standard, and cannot be worked around.

B. <u>Consultation Paper No: 12/2017 - Questions 5 and 10</u>

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Question 5 of the Consultation Paper asks about possible dispute resolution mechanisms for determining what is a FRAND royalty (and possibly other FRAND terms). Question 10 seeks feedback on any other relevant issues that need to be addressed to encourage local telecom manufacturing in India.

We suggest that the Government consider appropriate mechanisms to provide further guidance regarding the licensing of FRAND-encumbered SEPs and the resolution of related disputes, taking into consideration internationally-recognized contract law and competition law principles.

The formation of guidelines can increase predictability and legal security in the standard-setting context both for those participating in the development of standards and for those implementing them, while providing some flexibility to tackle the diversity of situations which may arise in connection with patents and standards. In particular, guidelines can offer all stakeholders a better understanding of the nature and scope of the common SSO obligation to license SEPs on FRAND terms and conditions. This should help reduce confusion and minimize related disputes.

Guidance may be especially beneficial in the following areas:

- Competition issues in the context of FRAND-encumbered SEPs
- Contract law considerations resulting from FRAND licensing commitments
- FRAND negotiations
- FRAND disputes and determinations
- SSO processes and policies

Each of these is discussed further below.

<u>Competition Issues</u>

We believe that Section 4 of India's Competition Act provides an appropriate framework for addressing anti-competitive conduct based on FRAND-encumbered SEPs. Related guidelines can help curb anticompetitive conduct that can occur when a SEP holder seeks to improperly leverage its SEPs to try to obtain a non-FRAND royalty (or other unreasonable licensing terms) or injunctive relief against implementers of the standard.

Competition regulators in other countries have noted that the seeking of injunctive relief against a licensee who is willing to take a truly FRAND license (which may need to be adjudicated in the event of a dispute) can violate competition law because the threat of injunctive relief puts immediate and unfair pressure on the licensee to accept unreasonable licensing terms to avoid the possibility of such a devastating outcome. We believe that competition regulators can rely on Section 4, sub-paragraphs (2) (b)-(e) of the India Competition Act to question anti-competitive conduct by holders of FRAND-encumbered SEPs. As in South Korea, Canada, Japan and other countries, further guidance could be published by the Competition Commission of India as the main regulator of competition law.

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As noted above in our introductory remarks, the situation where competing companies come together at a SSO to agree on an industry standard can result in implementers being "locked into" the use of SEPs if they want to implement the standard. This collective activity and the need for implementers to infringe SEPs to implement the standard can result in the SEP holders being able to insist on unreasonable licensing terms, sometimes seeking injunctive relief to unfairly pressure the implementer to accept such terms. It is the collective conduct at a SSO that puts FRAND-encumbered SEPs in a different category than other patents in terms of the patent holder's ability to fully leverage its statutory patent rights. Compliance with FRAND licensing commitments is widely recognized as a key tool to minimize this risk of "patent hold-up". Even the mere threat of an injunction can cause a prospective licensee to pay royalties above a FRAND rate and accept other unreasonable terms and conditions.

Accordingly, we suggest that FRAND disputes and the use of injunctive relief based on a FRAND-encumbered SEP can be assessed and addressed under both contract law and competition law. At a minimum, a SEP holder who has made a FRAND commitment should not be permitted under competition law to seek injunctive relief against a willing licensee, which includes prospective licensees who are willing to abide by the outcome of one or more court adjudications to address disputed issues between the parties.

Contract Law Considerations

Similarly, we do not believe that India's Patent Law needs to be amended to address the SEPs issues. As noted by many courts and competition regulators, the FRAND commitment acts as a constraint on certain rights generally provided to patent holders under patent law or other legal theories.[12] In agreeing to license its SEPs to all implementers of the standard under reasonable and non-discriminatory terms and conditions, SEP holders are agreeing to limitations on their rights as a patent holder in exchange for the inclusion of their patented technology in the standard.

FRAND Negotiations

We note that the parties can always jointly and voluntarily agree to a broad portfolio cross-license between the parties. Where the parties have voluntarily agreed to negotiate for a license to a portfolio that include SEPs and non-SEPs or to a broad cross-license, additional flexibility in crafting specific terms should be available. Such conditions are unreasonable, however, if the

[12] The U.S. Court of Appeals for the Ninth Circuit agreed with the U.S. Federal Trade Commission that a FRAND commitment can contractually modify a patent holder's right to access courts and seek injunctive relief. *See Microsoft v. Motorola*, 795 F.3d 1044 (9th Cir. 2015) ("Concluding that the (F)RAND commitments in question "preclude[d] seeking an injunction or exclusion order against a willing licensee of its SEPs," the [Federal Trade] Commission reasoned that taking action against Google and Motorola was "simply requir[ing] those making promises to keep them." *Id.* (quoting Analysis of Proposed Consent Order to Aid Public Comment, Motorola Mobility & Google Inc., FTC File No. 121-0120 (Jan. 3, 2013), *available at* https://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaanalysis.pdf) (alterations in original)".).

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SEP holder makes them a condition when the implementer asks for a SEPs-only FRAND license. In that context, a licensee can question whether an SEP is infringed and enforceable (in addition to questioning whether it is valid).

FRAND Determinations and Disputes

Courts are the appropriate authority to make determinations as to whether proposed licensing terms are FRAND. Courts usually rely on expert testimony to help it assess complex cases such as those involving FRAND disputes for SEPs.

If the Government of India decides to establish a separate body to determine FRAND terms or a related methodology, we suggest that such a body not have exclusive jurisdiction in this regard. It should be considered as an alternative dispute resolution mechanism that is available to parties if both parties agree to utilize it to determine the related issues or provide related guidance.

For SEPs subject to a FRAND obligation, a reasonable royalty calculation should be based on the intrinsic value of the invention prior to its inclusion in the standard – *i.e.*, the incremental value attributable to the patented invention itself rather than, for example, the value of the standard as a whole or the price of the end product that implements the standard. In the very rare case where the entire value of a product is properly attributable solely to the patented feature and nothing else, the price of a downstream end product may be relevant to the determination of a FRAND royalty. Typically, however, only a small portion of the value of a downstream product is attributable to a single feature. In such cases, the price of the smallest saleable patent practicing unit may be useful in providing a reasonable check on the upper bound for the royalty base. However, while the price at which the smallest salable unit or downstream product is sold can – in appropriate cases – provide a rough check, a FRAND royalty may in no case exceed (and typically would be only a fraction of) the pre-standard value of (or profitability attributable to) the patented technology itself.

Please note the following authorities that support this analysis:

- "[A] RAND commitment should be interpreted to limit a patent holder to a reasonable royalty on the economic value of its patented technology itself, apart from the value associated with incorporation of the patented technology into the standard." (*Microsoft Corp. v. Motorola, Inc.*, Findings of Fact And Conclusions of Law, April 25, 2013, at ¶74.) (United States District Court, Western District of Washington) (emphasis added); *affirmed* by the U.S. Court of Appeals for the Ninth Circuit on July 30, 2015 (see http://cdn.ca9.uscourts.gov/datastore/opinions/2015/07/30/14-35393.pdf) ("The development of standards thereby creates an opportunity for companies to engage in anti-competitive behavior…. Using that standard-development leverage, the SEP holders are in a position to demand more for a license than the patented technology, had it not been adopted by the SSO, would be worth.")

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- "The purpose of the FRAND requirements … is to confine the patentee's royalty demand to the value conferred by the patent itself as distinct from the additional value – the hold-up value – conferred by the patent's being designated as standard-essential." (*Apple v. Motorola*, Opinion and Order, June 22, 2012, at p. 18.) (United States District Court, Northern District of Illinois) (emphasis added).

- "Although the standard-setting process has many potential benefits for consumers, there are dangers. After a standard is established, for example, every manufacturer of compliant products must use the technology stated in the standard. If one particular company owns a patent covering that technology, however, the standard will effectively force all others to buy that company's technology if they want to practice the standard. This requirement allows the company to charge inflated prices that reflect not only the intrinsic value of its technology, but also the inflated value attributable to its technology's designation as the industry standard." *In re Innovation IP Ventures, LLC Patent Litigation*, MDL Docket No. 2303, Case No. 11 C 9308 (December 27, 2013, United States District Court, Northern District of Illinois) (emphasis added).

- "Many SSOs require that a firm make a licensing commitment, such as a FRAND commitment, in order for its patented technology to be included in a standard. SSOs have this policy because the incorporation of patented technology into a standard induces market reliance on that patent and increases its value. After manufacturers implement a standard, they can become 'locked-in' to the standard and face substantial switching costs if they must abandon initial designs and substitute different technologies. This allows SEP holders to demand terms that reflect not only the 'value conferred by the patent itself,' but also 'the additional value – the hold-up value – conferred by the patent's being designated as standard-essential. The FRAND commitment is a promise intended to mitigate the potential for patent hold-up. In other words, it restrains the exercise of market power gained by a firm when its patent is included in a standard and the standard is widely adopted in the market." (FTC's Analysis of Proposed Consent Order to Aid Public Comment relation to the Consent Order entered with Google and Motorola) (emphasis added) (see https://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaanalysis.pdf).

- "When a patented technology is incorporated in a standard, adoption of the standard eliminates alternatives to the patented technology. Although a patent confers a lawful monopoly over the claimed invention, *Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 456, 60 S. Ct. 618, 84 L. Ed. 852, 1940 Dec. Comm'r Pat. 758 (1940); Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1018 (7th Cir. 2002)*, its value is limited when alternative technologies exist. *See Northern Pac. Ry. Co. v. United States, 356 U.S. 1, 10 n.8, 78 S. Ct. 514, 2 L. Ed. 2d 545 (1958)* ('Often the patent is limited to a unique form or improvement [**36] of the product and the economic power resulting from the patent privileges is slight.'); *see also Ill. Tool Works Inc. v. Indep. Ink, Inc., 547 U.S. 28, 44, 126 S. Ct. 1281, 1292, 164 L. Ed. 2d 26 (2006)* ('[A] patent does not necessarily confer market power.'). That value becomes significantly enhanced, however, after the patent is incorporated in a standard. Rambus, No. 9302, 2006 FTC LEXIS 60, *[slip op.]* at 35. Firms may become locked in to a standard requiring the use of a competitor's patented technology. The patent holder's IPRs, if unconstrained, may permit it to demand supracompetitive royalties. It is in such circumstances that measures such as FRAND commitments become important safeguards against monopoly power. See Daniel G. Swanson & William J. Baumol, *Reasonable and Nondiscriminatory (RAND) Royalties, Standards Selection, and Control of Market Power, 73 Antitrust L.J. 1, 5, 10-11 (2005)."* *(Broadcom v. Qualcomm*, 501 F.3d 297, 313-14 (3d Cir. 2007) (emphasis added).

- "As with all patents, the royalty rate for SEPs must be apportioned to the value of the patented invention. Garretson, 111 U.S. at 121; see also Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co., 225 U.S. 604, 617 (1912) ("[Plaintiff] was only entitled to recover such part of the commingled profits as was attributable to the use of its invention."). When dealing with SEPs, there are two special apportionment issues that arise. First, the patented feature must be apportioned from all of the unpatented features reflected in the standard. Second, the patentee's royalty must be premised on the value of the patented feature, not any value added by the standard's adoption of the patented technology. These steps are necessary to ensure that the royalty award is based on the incremental value that the patented invention adds to the product, not any value added by the standardization of that technology." (*Ericsson v. D-Link*, Fed. Cir. 2014) (emphasis added).

- "FRAND commitments are designed to ensure that essential IPR protected technology incorporated in a standard is accessible to the users of that standard on fair, reasonable and non-discriminatory terms and conditions. In particular, FRAND commitments can prevent IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable fees (in other words excessive fees) after the industry has been locked-in to the standard or by charging discriminatory royalty fees." *European Commission: Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, para. 287.* "Compliance with Article 101 by the standard-setting organisation does not require the standard- setting organisation to verify whether licensing terms of participants fulfil the FRAND commitment. Participants will have to assess for themselves whether the licensing terms and in particular the fees they charge fulfil the FRAND commitment. Therefore, when deciding whether to commit to FRAND for a particular IPR, participants will need to anticipate the implications of the FRAND commitment, notably on their ability to freely set the level of their fees." *Id. at para. 288.* "In case of a dispute, the assessment of whether fees charged for access to IPR in the standard-setting context are unfair or unreasonable should be based on whether the fees bear a reasonable relationship to the economic value of the IPR. In general, there are various methods available to make this assessment. In principle, cost-based methods are not well adapted to this context because of the difficulty in assessing the costs attributable to the development of a particular patent or groups of patents. Instead, it may be possible to compare the

> licensing fees charged by the company in question for the relevant patents in a competitive environment before the industry has been locked into the standard (ex ante) with those charged after the industry has been locked in (ex post). This assumes that the comparison can be made in a consistent and reliable manner." *Id. at para. 289.* (Emphasis added, footnotes omitted.)

In principle it is best if FRAND royalties are negotiated and agreed upon by the parties without undue influence. From that perspective, it would be inappropriate for guidelines to prescribe or promote a particular royalty rate for SEPs.

That said, it is generally recognized that the FRAND commitment has an impact on the amount of royalties the SEP owner can demand as well as the reasonableness of other licensing terms. Accordingly, it would be helpful for the Government to recognize some key principles that should be applied when the reasonableness of royalty rates are assessed. As many courts and competition authorities have noted, SEP holders are entitled to the value of their patented invention apart from its inclusion in the standard - - and not a value that accrues as a result of standardization, implementers being "locked into" using the SEP. This value also is not based on a "return on investment" yardstick, but rather the value of the patented invention itself.

As noted above, both parties – the SEP holder and the prospective licensee who is implementing the standard - should be able to have any disputes between the parties (such as whether the proposed licensing terms are FRAND) be adjudicated based on contract law. If there is such a dispute, then it should be addressed by a neutral third party (such as a court) before the SEP holder is permitted to seek injunctive relief. In doing so, a court may consider "comparable" licenses to the extent that such licenses are truly comparable in terms of the scope of the license and also the circumstances under which the license was agreed to. However, in order to be "comparable", the licenses generally must be similar in scope and not negotiated under a threat of litigation.[13]

We do not think that it would be appropriate or beneficial to any party if a government or an administrative body seeks to impose systematic caps on royalties. However, the cumulative royalties for all the SEPs to a particular standard can be one factor to take into account when evaluating whether a royalty rate for a subset of SEPs is consistent with FRAND. More importantly, one key principle for the determination of FRAND royalty rates for SEPs that reflects competition law concerns is that "the patentee's royalty must be premised on the value of the patented feature, not any value added by the standard's adoption of the patented

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[13] *See Microsoft v. Motorola*, 795 F.3d 1044 (9th Cir. 2015) ("…Motorola's license with VTech [was] not probative of a RAND rate for Motorola's 802.11 and H.264 patents because those portfolios were license as part of a broader agreement …. In Motorola's RIM agreement, the 802.11 and H.264 SEPs were packaged with several other patents…. Finally, the RIM agreement was … like the VTech agreement, entered into to resolve an ongoing infringement dispute between the parties, further diminishing its trustworthiness as an indicator of a free-standing RAND rate. Lastly, the district court also reasonable concluded that Motorola's three license agreements with Symbol Technologies were not relevant. Two of the agreements were formed under threat of litigation….").

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technology."[14] This means that a SEP holder may not capture the "value added by the standardization of [its] technology" and licensing negotiations should focus first on apportioning the intrinsic technological value of the patent from its hold-up value as part of a standard prior to the incorporation of the invention in the standard.[15]

One process for determining a reasonable royalty on that value is to approximate a "hypothetical negotiation" between the SEP owner and licensee, but only after carefully modifying the negotiation to reflect the standard-setting context. This approach attempts to ascertain the royalty the parties would have agreed to had they successfully negotiated a FRAND license. A strength of this approach is that it allows the introduction of evidence that would normally factor into licensing negotiations, such as comparable prior licenses. A weakness of hypothetical negotiation could be its potential to overemphasize the unique commercial positions of the potential licensee and SEP owner, without adequate reference to these parties' negotiation within the standard-setting environment. This weakness, if left uncorrected, could allow for one-off pricing in every instance and may not adequately address non-discriminatory pricing. This appears to be one of the reasons that the U.S. Federal Trade Commission ("FTC") in its 2011 IP Report recommended that courts use the hypothetical negotiation framework for SEPs but, importantly, "cap the royalty at the incremental value of the patented technology over alternatives available at the time the standard was chosen."[16] Indeed, 100% of that value is necessarily the cap (as any greater amount captures the value of standardization), and typically a royalty would be only some fraction of that value.

Courts and parties have applied several indicia of value to estimate a reasonable royalty within the modified hypothetical negotiation to accurately reflect the intrinsic value of a SEP. Courts have borrowed several factors from the traditional patent damages analysis to apply to SEPs.[17]

It is commonly understood that the easiest way to price any product, service, or patent is to apply its existing market price. Off the shelf pricing is well known and accepted. Products with genuine market prices sell, while those priced wrongly above market sit on the shelves. With patents, market prices are typically established through licensing. As noted above, analyzing prior licenses (if they exist and are truly comparable), thus, can be a reliable shortcut to establishing the proper royalty terms when those licenses represent market-based transactions comparable to setting a FRAND price.[18] And, licenses for the specific patent at issue that

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[14] *Ericsson, Inc. v. D-Link Sys., Inc*., 773 F.3d 1201, 1232 (Fed. Cir. 2014); *see also Microsoft Corp. v. Motorola, Inc*., No. C10-1823JLR, 2013 WL 2111217, at *18-19 (W.D. Wash. Apr. 25, 2013), *aff'd*, 795 F.3d 1024 (9th Cir. 2015); *Samsung Elec. Co. v. Apple Japan Godo Kaisha*, No. 2013 (Ne) 10043 (JP IP High Court May 16, 2014).

[15] *See Ericsson*, 773 F.3d at 1233; *Microsoft Corp.*, 2013 WL 2111217, at *18-19; *Samsung Elec. Co.*, No. 2013 (Ne) 10043 (JP IP High Court May 16, 2014).

[16] Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*, at 234 (2011), *available at* http://www.ftc.gov/os/2011/03/110307patentreport.pdf.

[17] *See, e.g.*, *Microsoft*, 2013 WL 2111217, at *18-20; *Ericsson*, 773 F.3d at 1230-31 (discussing certain factors set out in *Georgia–Pacific Corp. V. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970)).

[18] *See ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 872 (Fed. Cir. 2010); *Lucent Techs., Inc. v. Gateway, Inc*., 580 F.3d 1301, 1327 (Fed. Cir. 2009); *Monsanto Co. v. McFarling*, 488 F.3d 973, 979 (Fed. Cir. 2007).

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predate the standard's adoption may be persuasive, because those licenses may reflect the value of those patents before their incorporation into the standard.[19]

Certain adjustments must be made to the value of the prior licenses to account for any potentially meaningful differences, such as the scope and the specific context of the prior licensing negotiations. For example, because the threat of an injunction during litigation may have distorted pricing of a prior license, those licenses entered into after pending or imminent litigation often are not reliable benchmarks, even if those licenses are for the same patents as the SEPs at issue.[20]

All licensing terms must be FRAND, including those that are not specifically price-related. Examples of license agreements that can result in harm to competition and innovation include when an SEP holder conditions access to its SEPs on the licensee's agreement to cross-license the licensee's non-SEPs to the SEP holder. In such circumstances, it can violate the SEP holder's FRAND licensing obligation by leveraging their dominance to force access to the proprietary, differentiating technology owned by others. Other similar examples include requiring the implementer to accept discriminatory royalties and terms in licenses for SEPs, tying access to SEPs to prospective licensees' agreement to mandatory non-disclosure terms while refusing to disclose license terms provided to competitors (to hide discriminatory pricing), and agreements to transfer SEPs to another entity in order to avoid the FRAND obligation.

SSO Processes and Policies

India also may want to provide guidance to India-based SSOs regarding good practices for articulating their IPR policies. Such policies not only set the obligations applying to participants to the standard-setting process so as to ensure adequate access to their essential patents committed to the standard, they also provide the actual processes, procedures, forms etc. to implement these obligations. As these processes are often unique to each SSO, it is therefore common for a SSO to develop its own IPR policy so as to tailor it to its specific needs.

That said, an Indian Standard Setting Organization may consider other SSOs' IPR policies as an example when preparing of its own IPR policy. The IPR policies of the ITU, ETSI, IEEE, W3C and the BlueTooth SIG, for example,[21] are generally considered robust and reliable to ensure a standardization system in which innovations can be contributed and to enable the implementations of standards without undue constraints.

[19] *See Ericsson*, 773 F.3d at 1234.

[20] See footnote 12 earlier in these comments.

[21] The Common Patent Policy (included with the related Guidelines) of the ITU, ISO and IEC can be found here: http://www.itu.int/oth/T0404000001/en. The ETSI IPR Policy can be found here: http://www.etsi.org/about/how-we-work/intellectual-property-rights-iprs. The IEEE Patent Policy can be found here: http://standards.ieee.org/develop/policies/bylaws/sect6-7.html. The W3C Patent Policy can be found here: https://www.w3.org/Consortium/Patent-Policy-20040205/. The BlueTooth SIG Patent Policy can be found here: www.**bluetooth**.org/DocMan/handlers/DownloadDoc.ashx?doc_id=67 .

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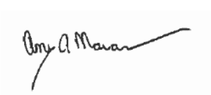
These policies are under constant evolution. They are updated from time to time to reflect the evolution of the case law or to address new issues which emerge. For example, these IPR policies have been updated in the previous years to ensure that the FRAND commitment made by a SEP holder is binding on a future transferee of the SEP. More recently, some SSOs have sought to clarify the impact of a FRAND commitment made to a SSO on the SEP owner's ability to seek injunctive relief or about the factors which should be taken into account when assessing whether the SEP holder's licensing terms are reasonable.[22]

Guidelines on the working and operation of Standard Setting Organizations by the Government of India could facilitate the establishment of good standardization practices in India. These guidelines should set basic high-level requirements for standardization in India in line with international best practices regarding the process by which standards are developed, such as openness, consensus, transparency and other due process considerations.[23]

They could also provide examples of processes and procedures which are likely to meet these requirements. These exemplary procedures could be used as a template by some SSOs in India. They would also make it possible for certain SSOs with specific needs to deviate from these examples and implement their own procedures, provided they meet the basic high-level requirements mentioned above.

We commend the Department for taking the initiative to study these important issues and preparing the Paper, and we appreciate having the opportunity to provide comments. We would be pleased to discuss our comments or otherwise respond to any comment or questions you may have.

Sincerely,



Amy A. Marasco
General Manager, Standards Strategy and Policy

[22] The IEEE is one example of this. The IEEE's revised policy can be found here: http://standards.ieee.org/develop/policies/bylaws/sect6-7.html and the related Business Review Letter from the U.S. Department of Justice can be found here: http://www.justice.gov/atr/response-institute-electrical-and-electronics-engineers-incorporated.

[23] For example, the American National Standards Association (ANSI) has established a set of Essential Requirements that govern the development of American National Standards. The ANSI Essential Requirements document can be found at http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/American%20National%20Standards/Procedures,%20Guides,%20and%20Forms/2016_ANSI_Essential_Requirements.pdf