Comments of ACT | The App Association to the Common Market for Eastern and Southern Africa (COMESA) Competition Commission

DRAFT COMESA COMPETITION AND CONSUMER PROTECTION REGULATIONS (AS AMENDED IN NOVEMBER 2023)

1 June 2024

ACT | The App Association writes to provide input to the Common Market for Eastern and Southern Africa (COMESA) Competition Commission (CCC) in response to its proposed draft of new competition and consumer protection regulations.[1] To achieve the goal of COMESA's proposed new regulation against abuse of market dominance, ***the CCC must publish an active position against anticompetitive standard-essential patent (SEP) licensing tactics that have historically plagued and diminished standards-based innovation.***

I. Statement of Interest and Background

ACT | The App Association represents thousands of small business application developers and connected device companies, located both within CCC and around the globe. These companies drive a global app economy worth more than US $1.8 trillion globally and are responsible for millions of jobs.[2] App Association members leverage the connectivity of smart devices to create innovative solutions that introduce new efficiencies across consumer and enterprise use cases and rely on a predictable and fair approach to platform regulation to grow their businesses and create new jobs; therefore, inquiries into online intermediation platforms are directly relevant to us, and we urge for the careful consideration of our views by CCC and other policymakers and enforcers.

Generally, the App Association encourages CCC to avoid developing industry- or sector-specific guidance or enforcement. There would be substantial risks and unintended consequences associated with disparate treatment among industries if policymakers were to carve out exemptions or specifically target certain sectors of the economy. A flexible, industry-agnostic approach to competition policy and enforcement is far superior in addressing unique and challenging use cases, promotes a harmonized and predictable legal and business environment, and will be more able to keep pace with changes to the marketplace brought on by technological advancements that cannot be anticipated. The app economy, and the concept of a "digital platform" and "digital market," is constantly changing as new services and products are introduced to the public. Differences in terminology between how phrases are used in commerce and how phrases are used in static industry-specific guidance will inevitably diverge, leading to an inconsistent application of antitrust law.

---

[1] https://comesacompetition.org/wp-content/uploads/2024/01/CCC-Draft-Proposed-Amendments-the-Regulations-shared_stakeholders.pdf.

[2] https://actonline.org/global-appcon22-competition-and-privacy/.

While considering the implementation of the proposed new regulation to address competition and antitrust concerns, we highlight a significant abuse of dominance threat that has plagued the global innovation landscape and can be addressed at a national level: SEP licensing abuse.

This abuse is borne from technology standardization, an alternative and industry-led system to building technologies from scratch. The goal of establishing technical standards is to provide an efficient and interoperable base for technology developers to create new inventions across multiple market sectors. When a patent holder contributes their technology to a technical standard, they understand and agree that they are using their patent to enable reasonable access to the standard and provide standard setting organizations (SSOs) with a commitment that they will license their SEP(s) on fair, reasonable, and non-discriminatory (FRAND) terms in order to gain access to a wider pool of licensees. Therefore, by contributing to the standardization process, a SEP holder understands and agrees to not unduly exclude competitors from a standard past requiring a FRAND license. The App Association provides further background and context on the unique nature of SEPs, and how a balanced approach to SEP licensing in government policy is critical to SME innovation, in the attached App Association position paper, ***Standards, Patents, and Competition Policy to Drive Small Business Innovation*** (included as ***Appendix 1***).

Numerous intellectual property rights policies of foreign jurisdictions can threaten COMESA's leadership and participation in international standard setting and the growth of small and medium-sized enterprises (SMEs) that rely on the ability to readily license standard-essential patents in order to build patentable inventions of their own.

A trend of court decisions abroad, starting in the European Union (EU),[3] have distorted the meaning of the FRAND commitment on a global scale, creating an imbalance that heavily favors SEP holders by, for example, routinely enabling prohibitive orders (injunctions) for FRAND-committed SEPs. These decisions have enabled (and emboldened) SEP holders to systematically abuse their dominant market position as a gatekeeper to the use of the standard to attain supra-FRAND terms (a practice known as "hold-up"[4]).

As another prominent example, some foreign courts have concluded that they can force a standards user to agree to a global SEP portfolio on FRAND terms set by the court or SEP holder on pain of a national injunction if the standards user does not agree to the license. In such decisions, the global SEP licenses at issue often include patents issued outside the court's jurisdiction for which validity and essentiality have not been assessed. The precedent set by such decisions has done two things to the landscape of international standards: (1) allowed jurisdictions to exercise extrajudicial authority on patents outside their purview;[5] and (2) encouraged certain SEP holders to forum shop to a more favorable jurisdiction to handle the outcome of their disputes when they are unable to force implementing standards users into unreasonable licensing terms, despite their FRAND obligation. While the position paper referenced above provides detailed information on SEP-related intellectual property right (IPR)

---

[3] *See* Sisvel v Haier, Federal Court of Justice, judgment dated 5 May 2020, Case No. KZR 36/17; *see* Koninklijke Philips N.V. v. Wiko SAS, Court of Appeal of The Hague, judgement dated 2 July 2019, Case No. C/09/511922/HA ZA 16-623.

[4] Lemley, Mark A. and Shapiro, Carl, Patent Holdup and Royalty Stacking. 85 Texas Law Review 1991 (2007).

[5] Bonadio, Enrico, Mohnot, Rishabh, Standard Essential Patents, Global Licensing Approach and the Principle of Territoriality (September 6, 2022), https://patentblog.kluweriplaw.com/2022/09/06/standard-essential-patents-global-licensing-approach-and-the-principle-of-territoriality/.

policies, guidance, and enforcement actions from jurisdictions around the world, we note significant jurisdictions to watch here:

1. **Germany**

German courts have historically been a favorable venue for patent holders to enforce their patents. Courts in Germany have been known to award injunctive relief to patent holders based on the court's determination of infringement before the validity of the patent has properly been assessed by the German Federal Patent Court. Germany's practice to award injunctions so readily has created international conflicts where their decisions extend to patents issued in another jurisdiction.

For example, in *Microsoft v. Motorola,*[6] a U.S. district court issued an anti-suit injunction to prevent Motorola from pursuing injunctive relief against Microsoft in Germany after Microsoft filed a breach of contract claim case against Motorola in the United States and agreed to pay a court-determined FRAND royalty for Motorola's portfolio. As noted in Appendix 1, Motorola sought an injunction in Germany again in 2014 for Apple's alleged infringement of SEPs, but the European Commission found this action to be an abuse of the SEP holder's dominant position in the market, stating that the ability to seek injunctive relief against a willing licensee of a FRAND-encumbered SEP could limit products from the market and lead licensees to accept anticompetitive licensing terms that they would have not accepted absent the use or threat of an injunction.[7]

In the following years, German courts have continued their practice of awarding injunctions to SEP holders against licensees without first considering the validity of the patents, and on the basis that the licensee did not sufficiently express its willingness to take a license from the SEP holder.[8] The burden that German courts have imposed on licensees to show their "willingness" to accept a SEP holder's offered license on seemingly FRAND terms distorts an important holding from the Court of Justice of the European Union (CJEU) in *Huawei Technologies Co. v. ZTE Deutschland GmbH,* which provided steps that SEP holders must take in order to enforce an injunction against an alleged infringer.[9] German legislators have gone so far as to amend the German Patent Act to only exclude "under the special circumstances of a singular case and considering the principle of good faith, its enforcement would result in disproportionate hardship on the infringer or third parties beyond what is justified by the exclusionary right."[10]

Germany's approach to SEP injunctions has caused immense disruptions to supply chains across several industries and has resulted in various companies ceasing operation in the country because of the inability to reliably use standards (due to an imbalanced approach to SEP injunctions), fraying the international norm for limited inunctions on FRAND-committed SEPs and undermining international standards.

---

[6] 696 F.3d 872 (9th Cir. 2012).
[7] *See* https://ec.europa.eu/commission/presscorner/detail/en/IP_14_490.
[8] *See* Nokia v Daimler, District Court (Landgericht) of Mannheim, judgment dated 18 August 2020, Case-No. 2 O 34/19; *see* Sisvel v Haier, Federal Court of Justice, judgment dated 5 May 2020, Case No. KZR 36/17.
[9] *Huawei Technologies Co. v. ZTE Deutschland GmbH* (CJEU 2015) (The court provided steps that a SEP licensor must take to enforce an injunction against an infringer: 1) The SEP holder must notify a party of infringement before bringing an action; 2) If the party is a willing licensee, the SEP holder must provide a written licensing offer in coordination with the FRAND commitment; 3) If the licensee continues infringement or does not provide a proper response (ex. counteroffer on FRAND terms), the SEP holder may seek an injunction).
[10] Section 139 (1) of the German Patent Act.

2. China

China is a venue that is heavily utilized for SEP litigation. China's internal governance, as it relates to SEPs, follows (1) the Contract Law of the People's Republic of China; (2) the Patent Law of the People's Republic of China; (3) the Anti-Monopoly Law of the People's Republic of China (governed by the State Administration for Market Regulation [SAMR]); and (4) the Standardization Law of the People's Republic of China. These laws are further interpreted by the courts, but more significantly, the Supreme People's Court of China may issue judicial interpretations, which have the same legal force as statutes and are binding on all Chinese courts.

China presents large concerns to the global SEP landscape. Chinese courts have decided that they can determine global FRAND terms and royalty rates,[11] stemming from previous holdings that the courts could determine royalty rates and terms in Chinese-held SEP licenses.[12] In the 2021 case *Oppo v. Sharp* the Supreme People's Court of China ruled that all Chinese courts could engage in global rate setting. In this case, in response to a failed licensing negotiation, Japanese-based company Sharp filed infringement lawsuits in various countries, including Japan and Germany, against Oppo, a Chinese company, for using Sharp's SEPs. Thereafter, Oppo filed a lawsuit in Shenzhen Intermediate Court in China, arguing that Sharp violated FRAND licensing obligations and that the court should determine global licensing rates for Sharp's SEP portfolio. The court ruled in favor of Oppo, setting a global royalty rate for the SEP portfolio and the Supreme People's Court of China affirmed, making the decision binding on all Chinese courts.

In coordination with setting global FRAND terms, Chinese courts have also used anti-suit injunctions (ASIs). ASIs have been historically exercised in international litigation as an instrument prohibiting a party in litigation from pursuing foreign parallel proceedings. While China is not the only jurisdiction setting global FRAND terms and ordering ASIs, the country's practices have shown to be amongst the highest demonstrated harms and seem to be part of a greater effort to dictate global licensing terms on global FRAND-encumbered SEPs.[13]

In fact, the European Union filed a dispute complaint at the World Trade Organization (WTO) against China on February 22, 2022, over Chinese courts' use of ASIs.[14] For further insights, we urge review of the App Association's position paper on the role of the WTO, and ASIs, in SEP licensing disputes, included as Appendix 2 to this comment.

---

[11] Huawei v. Samsung, (2016) Yue 03 Min Chu No. 816). In the Guangdong High People's Court, Huawei sought an injunction against Samsung for selling handsets that implemented the 3G communication standard, for which Huawei held the SEP for. This action was related to a cross-licensing agreement between the companies, and in determining if an injunction was proper, the court examined the FRAND commitment and determined that Huawei did not violate FRAND principles while Samsung (a non-Chinese company) did.

[12] Huawei v. InterDigital, (2013) YueGaoFa MinSanZhongZi No. 306. Huawei initiated an action for the Guangdong High People's Court to determine the license royalties for InterDigital's SEPs in accordance with FRAND principles. The court ultimately determined royalty rates to be paid by Huawei to InterDigital for Chinese SEPs in China.

[13] OFF. OF THE U.S. TRADE REP. 2021 SPECIAL 301 REPORT 47 (2021).
(In the 2021 Special 301 Report, USTR discussed ASIs, noting that "[r]ight holders have...expressed strong concerns about the emerging practice in Chinese courts of issuing [ASIs] in [SEP] disputes, reportedly without notice or opportunity to participate in the injunction proceedings for all parties).

[14] *See* https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds611_e.htm.

3. India

India's technology-based industry is growing alongside its reliance on technical standards. Case law on SEPs developing in the Delhi High Court show a harmful trend that may make India the next venue for SEP holders to use to seek injunctive relief. In *Intex Technologies Ltd. v. Telefonaktiebolaget LM Ericsson*,[15] the Delhi High Court held that SEP holders are not prohibited from seeking an injunction from the court at an interim or final stage. The court also cited the U.K. Supreme Court case *Unwired Planet v. Huawei*[16] to justify that it may be FRAND for an SEP holder to license a global SEP portfolio, noting *prima facie* showing that one patent infringed is sufficient to award injunctive relief for an entire patent portfolio. The ability for SEP holders to receive a preliminary injunction before a final assessment of their patent's validity, infringement, and compliance with FRAND terms contributes to patent hold-up.[17] While this decision provides harmful precedent for the Indian SEP landscape, the court did recognize that SEP holders must adhere to their FRAND commitments to SSOs. The court clarified that FRAND meant licensing to all willing standards users and making proper disclosures during an SEP licensing negotiation.

While the *Intex* case was being litigated, the Competition Commission of India (CCI) investigated Ericsson's abuse of its dominant position in India after multiple complaints, including one from Intex Technologies Ltd. (Intex). While the CCI investigation was discontinued due to the Delhi High Court decision that Indian patent law preempts competition law on patent-related issues,[18] the CCI's investigation revealed anti-competitive SEP licensing practices that the App Association has recognized globally for years. Evidence revealed in the CCI investigations included that Ericsson engaged in discriminatory practices across similarly situated licensees and required licensees to enter into non-disclosure agreements (NDAs) prior to being provided any detail of the SEP licensing terms or their potential infringement, and other clearly unreasonable tactics.[19] One complainant, Micromax, stated that upon receiving licensing terms, acceptance was demanded within 25 days or the SEP holder would interpret that the license was refused. Other complainants stated that the royalty rates they were offered were based on the value of the end product rather than the actual price of the technology that was being licensed; the CCI found that the offered royalty rates had "no linkage" to the patented product.[20]

The App Association is currently engaged in efforts to support an equitable SEP licensing landscape in India for our members. As part of this effort, referred in ***Appendix 3*** to these comments, we have developed a paper called ***"A Call to Action: Guiding a Fair Standard-Essential Patent Licensing Process for a Thriving Indian Economy,"*** recommending a pro-competitive standards and SEP framework for India.

---

[15] *Intex Technologies (India) Ltd. V. Telefonaktiebolaget L M Ericsson [2023 SCC OnLine Del 1845].*
[16] See *Unwired Planet International Ltd v. Huawei Technologies Co. Ltd* (SCUK 2020).
[17] *See* Love, Brian J. and Lefouili, Yassine and Helmers, Christian, Do Standard-Essential Patent Owners Behave Opportunistically? Evidence from U.S. District Court Dockets (November 8, 2020), https://ssrn.com/abstract=3727085.
[18] *Telefonaktiebolaget LM Ericsson (PUBL) v. Competition Commission of India & ANR., 2023 SCC OnLine Del 4078, decided on 13-07-2023.*
[19] *Intex Technologies (India) Ltd. V. Telefonaktiebolaget L M Ericsson (Publ),* No final Order, Case No 76/2016.
[20] *Micromax Informatics Limited v Telefonakteibolaget LM Ericsson (Publ),* Order dt 12 November 2013, Case No 50/2013.

In recent years, some courts have acknowledged that the licensing parties are in the best position to determine what the meaning of FRAND is as it relates to specific negotiated license.[21] Due to the unique goal of standardization to promote competition, awarding injunctions—unless in exceptional circumstances—stifles ongoing and future innovation. Therefore, in the SEP context, unless a court or other adjudicating venue finds exceptional circumstances where FRAND compensation cannot be addressed, a SEP holder should not be able to receive an injunction or *de facto* exclusion.

Many jurisdictions already have, or are contemplating, stronger policies that will incent innovation for entities, including SMEs that operate with minimal resources. Among the jurisdictions that have provided or are contemplating sound policies and regulations are Japan,[22] New Zealand,[23] the United Kingdom,[24] and the European Union (EU).[25] The EU has most recently developed a proposed regulation on SEPs (the EU SEP Regulation).[26] This regulation seeks to provide the EU SEP landscape with transparent and reliable solutions to their long history of SEP licensing disputes. The EU SEP Regulation aims to strike a balance between the interests of patent holders and implementing standards users by incorporating three important components of a balanced SEP licensing regulation: a) identifying certain principles related to the FRAND licensing of SEPs; b) removing disproportionate barriers to innovation for SMEs; and c) appointing the European Union Intellectual Property Office (EUIPO) to facilitate required yet non-binding mechanisms under independent expert guidance for SEP licensing disputes. The EU SEP Regulation recognizes that wide implementation determines the success of a standard.[27] This means that the patent rights must be balanced with the ability for a standard to cause interoperability for its users. The EU SEP Regulation, therefore, signifies a positive step for the EU SEP landscape. For convenience, we have attached our views on the EU SEP Regulation as ***Appendix 4*** to these comments.

Jurisdictions that are new venues for SEP disputes are also looking to jurisdictions with more developed and experienced SEP landscapes, including the European Union, United Kingdom, and the United States to further improve their laws and policies around the issue. Jurisdictions

---

[21] Interdigital Technology Co. v. Lenovo Group Ltd., p. 16, [2023] EWHC 539 (Pat); *see* Core Principles and Approaches for Licensing of Standard Essential Patents, CEN Workshop Agreement (June 2019), https://www.cencenelec.eu/media/CEN-CENELEC/CWAs/ICT/cwa95000.pdf.
[22] *Good Faith Negotiation Guidelines For Standard Essential Patent Licenses*, Ministry of Economy, Trade, and Industry, March 31, 2022, available at: https://www.meti.go.jp/policy/economy/chizai/sep_license/good-faith-negotiation-guidelines-for-SEPlicenses-en.pdf.
[23] *Guidelines on the Application of Competition Law to Intellectual Property Rights*, Commerce Commission New Zealand, April 2023, available at: https://comcom.govt.nz/__data/assets/pdf_file/0017/312308/Intellectual-property-guidelines.pdf; *see* https://comcom.govt.nz/__data/assets/pdf_file/0012/314310/ACT-The-App-Association-Submission-on-draft-guidelines-on-the-application-of-competition-law-to-intellectual-property-rights-10-February-2023.pdf.
[24] *Guidance on the application of the Chapter I prohibition in the Competition Act 1998 to horizontal agreements*, Competition and Markets Authority, August 2023, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1178791/Horizontal_Guidance_FINAL.pdf; *see* https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1178339/The_App_Association__1_.pdf.
[25] *See* https://eur-lex.europa.eu/eli/reg/2023/1066/oj; see Proposal for a regulation - COM(2023)232, European Commission, 27 April 2023, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/feedback_en?p_id=32054345; *see* https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434403_en.
[26] *Supra* note 6.
[27] *See* COM (2023)232, Recital 3 at https://single-market-economy.ec.europa.eu/system/files/2023-04/COM_2023_232_1_EN_ACT_part1_v13.pdf.

with less disintegration in their SEP-related laws and policies are likely be a greater influence on jurisdictions with an underdeveloped landscape for standards development and standard setting.

We urge COMESA to consider the impact of SEP licensing abuse on their innovation ecosystem and a protect their market participants by developing strong principles that clarify the market's definition of the FRAND commitment. We believe that a balanced and pro-innovation policy stance from COMESA that presents a unified approach to mitigating harmful SEP licensing abuses is key to facilitating FRAND licensing disputes.

SEP licensing has a long history that has unveiled foundational principles that underlie the FRAND commitment to ensure a system that is competitive and beneficial to consumers. These principles have been identified in the CEN/CENELEC Workshop Agreement, *Core Principles and Approaches for Licensing of Standard Essential Patents* (CWA 95000), developed by a broad cross-section of companies operating in different industries.[28] The CWA 95000 was established in response to growing problems of abuse of both standardization and SEP licensing now affecting a range of sectors and market segments. Therefore, we believe that the CWA 95000 is best positioned to inform the Agencies on how to establish an equitable SEP licensing ecosystem for both experienced and inexperienced SEP negotiators that promotes the goals and interests of industry, standardization and, ultimately, consumers.[29] COMESA should consider including the following principles reflected in the CWA 95000 in a unified SEP position:

1. **The FRAND Commitment Means All Can License –** A holder of a FRAND-committed SEP must license that SEP to all companies, organizations, and individuals who use or wish to use the standard on FRAND terms.

2. **Prohibitive Orders on FRAND-Committed SEPs Should Only Be Allowed in Rare Circumstances –** Prohibitive orders (i.e., injunctions) should not be sought by SEP holders or allowed for FRAND-committed SEPs except in rare circumstances where monetary remedies are not available.

3. **FRAND Royalties –** A reasonable rate for a valid, infringed, and enforceable FRAND-committed SEP should be based on the value of the actual patented invention itself, which is separate from purported value due to its inclusion in the standard, hypothetical uses downstream from the smallest saleable patent practicing unit, or other factors unrelated to invention's value.

4. **FRAND-Committed SEPs Should Respect Patent Territoriality** – Patents are creatures of domestic law, and national courts should respect the jurisdiction of foreign patent laws to avoid overreach with respect to SEP remedies. Absent agreement by both parties, no court should impose global licensing terms on pain of a national injunction.

5. **The FRAND Commitment Prohibits Harmful Tying Practices –** While some licensees may wish to get broader licenses, a SEP holder that has made a FRAND commitment cannot require licensees to take or grant licenses to other patents not essential to the standard, invalid, unenforceable, and/or not infringed.

[28] *See* https://www.cencenelec.eu/media/CEN-CENELEC/CWAs/ICT/cwa95000.pdf.
[29] *Id.*

6. **The FRAND Commitment Follows the Transfer of a SEP –** As many jurisdictions have recognized, if a FRAND-committed SEP is transferred, the FRAND commitments follow the SEP in that and all subsequent transfers.

II. Conclusion

As outlined above, to achieve the goal of COMESA's proposed new regulation against abuse of market dominance, ***the CCC must publish an active position against anticompetitive standard-essential patent (SEP) licensing tactics that have historically plagued and diminished standards-based innovation.*** The App Association appreciates the opportunity to provide its views and urges for careful consideration of our members' interests. We are committed to working with COMESA as well as policymakers and regulators around the globe to bring the benefits of the dynamic app economy to all consumers and businesses through the development of balanced consumer protection and competition policies.

Sincerely,

Brian Scarpelli
Senior Global Policy Counsel

Priya Nair
Intellectual Property Policy Counsel

ACT | The App Association
1401 K St NW (Ste 501)
Washington, DC 20005

Standards, Patents, and Competition Policy to Drive Small Business Innovation

ACT | The App Association represents more than 5,000 small and medium-sized app development companies in the United States, Europe, and around the world. The association is committed to preserving and promoting innovation while encouraging a healthy and robust standards ecosystem, as well as a balanced intellectual property system, to accelerate the growth of technology markets.

This paper was developed by the App Association to convey its overarching views on standards, intellectual property, and competition (and how these areas interrelate) to policymakers as well as stakeholders throughout the standard-essential patent (SEP) licensing ecosystem. Below, the App Association provides its general views on SEP licensing; summarizes key FRAND licensing-related enforcement actions and policymaker guidance from across important jurisdictions and notes common themes that are contributing to a global consensus on SEP policies; and makes specific recommendations on reasonable approaches to SEP royalty level calculations.

The App Association presents these views in large part to advance the public dialogue on laws and policies that affect SEP licensing. We are committed to partnership with all policymakers and other stakeholders to advance innovation and competition.

General Views of ACT | The App Association on Standard-Essential Patents Licensing

The App Association strongly supports efforts to provide clarity about the SEP licensing ecosystem for all stakeholders. The rise of the internet of things (IoT) is poised to expose new markets and verticals to SEP licensing, and we strongly urge policymakers to build upon existing, global-consensus guidance providing clarity on what fair, reasonable, and non-discriminatory (FRAND) commitments made on SEPs mean, and the effects of FRAND abuse on competition and innovation.

From Europe to Asia to North America, a variety of market regulators have provided significant guidance regarding SEPs and FRAND licensing commitments. Further, leading standards development organizations (SDOs) have, after much effort, successfully revised their intellectual property rights (IPR) policies to clarify technology contributors' FRAND commitments in ways that are consistent with such guidance. These government policies, as well as the patent policies developed by SDOs, will affect the way citizens work, live, and play for decades to come.

We believe that guidance on the anti-competitive implications of breaches of FRAND commitments can increase competition by reducing IP abuse and deterring unnecessary and burdensome litigation, supporting ingenuity in the market. Specifically, the App Association believes clarifications on the meaning of FRAND commitments are beneficial to both SEP holders and standard implementers as well as the consumers of technology. The negative effects of abusive licensing of SEPs can be particularly harmful to the App Association's members, which include thousands of small and medium-sized enterprises (SMEs) that both hold SEPs and implement standards in their products. These SMEs often do not have the resources to deal with larger enterprises holding numerous SEPs. As a result, they face potential financially debilitating litigation with no predictable outcome or are forced to accept excessive royalty demands made by the SEP holders. In the worst case, the SME may be forced to change their product, or abandon their business plan altogether, if they cannot afford the litigation or the supra-FRAND SEP licenses. Patent licensing abuses pose a major threat to any industry that relies on standards in its innovation cycle.

The convergence of computing and communication technologies will continue as a diverse array of industries come together to build IoT. IoT's seamless interconnectivity will be made possible by technological standards like Wi-Fi, LTE/5G, and Bluetooth, which bring an expanding value to consumers by promoting interoperability while enabling healthy competition between innovators.

Unfortunately, as some FRAND-committed SEP owners are reneging on their commitment to license in a fair, reasonable, and non-discriminatory manner. These practices are anticompetitive and jeopardize the potential of nascent markets like IoT.

These issues are important to the small business technology developer community the App Association represents as well as emerging industries around the globe, which prompted the App Association to launch the All Things FRAND initiative (http://www.allthingsfrand.com/).

SDOs vary widely according to their membership, the industries they cover, and the procedures for establishing standards.[i] Each SDO needs the ability to tailor its intellectual property policy to its particular needs and membership. We do not believe that governments should prescribe detailed requirements for all SDOs. However, basic principles underlie the FRAND commitment which ensure standard-setting is pro-competitive and SEP licensing terms are indeed FRAND. SDO IPR policies that provide for SEP owners to make FRAND commitments should include all of the following principles to prevent patent "hold up" and anti-competitive conduct.[ii] These principles are also endorsed by industry practitioners as set out in *CWA 95000* "Core Principles and Approaches for the licensing of standard essential patents".[iii]

- **Fair and Reasonable to All** – A holder of an SEP subject to a FRAND commitment must license such SEP on fair, reasonable, and non-discriminatory terms to all companies, organizations, and individuals who implement or wish to implement the standard.
- **Injunctions Available Only in Limited Circumstances** – Injunctions and other exclusionary remedies should not be sought by SEP holders or allowed except in limited circumstances. The implementer or licensee is always entitled to assert claims and defenses.
- **FRAND Promise Extends if Transferred** – If a FRAND-encumbered SEP is transferred, the FRAND commitments follow the SEP in that and all subsequent transfers.
- **No Forced Licensing** – While some licensees may wish to get broader licenses, the patent holder should not require implementers to take or grant licenses to a FRAND-encumbered SEP that is not essential to the standard, unenforceable, or not infringed, or invalid.
- **FRAND Royalties** – A reasonable rate for a valid, infringed, and enforceable FRAND-encumbered SEP should be based on several factors, including the value of the actual patented invention apart from its inclusion in the standard, the anticipated overall royalty-rate for all SEPs relevant to a particular standard, and the innovative impact of an SEP to the specific standard. A reasonable rate must not be assessed in a vacuum.

We also note that for a number of SDOs, IPR policies require SDO participants to disclose patents or patent applications that are, may be, or may become, essential to a standard under development. Reasonable disclosure policies can help SDO participants evaluate whether technologies being considered for standardization are covered by patents. Disclosure policies should not, however, require participants to search their patent portfolios. These requirements can be overly burdensome and expensive, effectively deterring participation in an SDO. In addition, FRAND policies that are “participation” or “contribution” based, where the FRAND commitment attaches based on a patent holder’s participation in and/or contribution to a technical standard can accomplish many, if not all, of the goals of a disclosure-based FRAND regime.

The Global Consensus on SEPs and FRAND Licensing Behavior

We strongly encourage an acknowledgment of the inherent link between standard setting, competition and innovation, and the role of competition law in ensuring a balanced and fair SEP licensing ecosystem. Standard setting naturally gives rise to competition issues.

Consistent with a growing number of enforcement actions by competition regulators and courts across key jurisdictions, a refusal to license, or bringing an injunction against, a party who is willing to take a license based on FRAND terms should be considered exclusionary conduct under antitrust laws. Further, a prospective licensee's challenge to the validity, essentiality, or infringement of the SEP(s) should not be grounds for labeling a licensee as unwilling, as long as that licensee undertakes negotiations in good faith in light of standard business practices.

Clear, coordinated rules for SEP licensing will allow for informed participation and enable participants to make knowledgeable decisions about the implementation of the standard. For many years, market regulators have taken numerous steps to provide this clarity in the SEP context. FRAND licensing-related enforcement actions and guidance have developed across key jurisdictions, and are detailed in an appendix to this position paper.

Although different jurisdictions' guidance varies in detail, they do exhibit common licensing principles for FRAND-committed SEPs. In particular, one commonly shared guidance indicates that the following conduct can be a breach of the FRAND commitment, or even an abuse of competition law: refusing to license SEPs to standard implementers; coercing the licensee to accept a license of a non-SEP as a condition for the licensing of a SEP; requesting discriminatory terms for an SEP license; imposing an unreasonable level of royalties or other non-FRAND conditions; seeking or using injunctive relief against willing licensees that are able to pay a reasonable royalty; or imposing licensing conditions that unreasonably restrict the licensee's exercise of related patents it owns. This guidance does not, however, prescribe specific royalty rates for SEPs because of the highly fact-specific nature of SEP licensing.

Reasonable Royalty Level Calculation Methodologies and Factors

As representatives of small business innovators that rely on FRAND access to SEPs, we seek to avoid two well-established, and deleterious effects - royalty stacking, when the cumulative demands for SEP licenses cascade to make accepting them economically unviable; and patent holdup, where a SEP holder demands supra-FRAND royalties or (other unreasonable requirements) from potential user of the standard, preventing licensing.[iv]

As we have noted, guidance on the general meaning of FRAND commitments can be beneficial. The App Association recommends that guidelines fill in the details left unaddressed by existing legal framework. This guidance would provide SDOs, courts, SEP holders, and implementers with more clarity on how the law will be applied. We note that the guidelines offered by key market regulators do not establish royalty rates specific to FRAND commitments. Instead, they establish general principles to determine whether a proposed royalty or other licensing term is reasonable.

There is no need to prescribe royalty methodologies or establish an independent expert body to determine the details of FRAND licensing terms. Together, guidance can help courts understand the difference between legitimate exercises of patent rights in the standardization context and contractual breaches of FRAND commitments, including instances where the breaches constitute abuses of unearned market power and harm to competition.

Regarding the “royalty base,” we urge policymaker guidance to avoid exclusive mandates regarding calculation of a royalty base, even though the “smallest saleable unit” (SSU) approach and others have emerged as a reliable basis for calculation.[v] We believe it may be helpful to support the SSU pricing methodology as one—but not the only—approach to determining a reasonable royalty base.

When addressing royalty calculations, the App Association recommends that a reasonable rate for a valid, infringed, and enforceable FRAND-encumbered SEP should be based on a variety of holistic factors, including the value of the actual patented invention, apart from its inclusion in the standard. This value cannot be assessed in a vacuum that ignores the portion of a product, e.g. a component of a larger device or even a sub-component of a component, in which the SEP is substantially practiced, or royalty rates from other SEPs to implement the standard. Such factors may include those noted (royalty rates of patent pools or other licenses, relative values of SEPs under negotiation to other SEPs, cumulative royalty rates, total numbers of SEPs, patent portfolio strength, and negotiation histories), as well as other factors used in precedent-setting case law.

Conclusion

The App Association recommends the advancement of guidance by policymakers consistent with the above. Such guidance will guide standardization activities; ensure SEP licensing on FRAND terms; prevent, and effectively resolve, disputes over the meaning of FRAND; and encourage the enforcement of FRAND commitments. The future of standardization, and the ability of small business innovators to drive new IoT developments across consumer and enterprise use cases, is at stake.

APPENDIX: Summary of key SEP-related policies, guidance, and enforcement actions

Canada

- In March 2017, the Canadian Competition Bureau finalized revisions to IP enforcement guidelines that for the first time define breaches of FRAND commitments as a competition issue. [vi] The IP guidelines note that (i) bundling of SEPs and non-SEPs can cause competitive harm; (ii) there are only limited circumstances under which SEP holders can obtain injunctive relief; (iii) while contract law may be sufficient to resolve contractual breaches of FRAND, competitive effects from some breaches may need to be addressed under competition law; and (iv) the Bureau is not a rate regulator and would likely only find a competition problem based solely on a supra-FRAND royalty if the SEP owner had set a maximum rate during standards development and then breached it. The Bureau acknowledges in its guidelines that rapid developments continue in competition enforcement policy, so the Bureau will regularly revisit its guidance in light of relevant developments.

China

- On February 9, 2015, China's National Development and Reform Commission (NDRC) issued an administrative penalty decision against Qualcomm, Inc. The NDRC determined that several aspects of Qualcomm's licensing of telephony SEPs constituted an abuse of a dominant position.[vii] The specific practices deemed to be unlawful were: (i) charging royalties for expired SEPs, (ii) conditioning SEP licenses on licensees' agreement to take licenses to other Qualcomm patents that were not SEPs (non-SEPs), (iii) requiring SEP licensees to grant back royalty-free licenses to their non-SEPs, (iv) imposing a "relatively high royalty" calculated on a device-level royalty base, and (v) requiring baseband chip purchasers to agree to licenses with unreasonable conditions such as the ones listed above and not to challenge Qualcomm's licenses.

- China's State Administration for Industry and Commerce issued a Regulation on Prohibiting Abuse of Intellectual Property Rights to Eliminate or Restrict Competition on April 7, 2015.[viii] The regulation prevented SEP holders with a dominant market position from engaging in conduct that eliminates or restricts competition by refusing to license implementers, tying SEPs to non-SEPs, or imposing other unreasonable conditions in violation of the FRAND commitment.

European Union

- The European Commission's guidelines regarding horizontal co-operation agreements, published in 2011, discuss the anticompetitive threat of patent "hold up" in the SDO context and the importance of the effective use of FRAND commitments in combating that threat.[ix] "While a standard is being developed, alternative technologies can compete for inclusion in the standard. Once one technology has been chosen and the standard has been set, competing technologies and companies may face a barrier to entry and may potentially be excluded from the market." (Par. 266). This characteristic of standard-setting presents the potential of enabling "companies to behave in anti-competitive ways, for example by 'holding-up' users after the adoption of the standard either by refusing to license the necessary IPR or by extracting excess rents by way of excessive royalty fees thereby preventing effective access to the standard." (Par. 269). To avoid this anticompetitive outcome, the guidelines stress that SDOs should adopt IPR policies that "require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms ('FRAND commitment')." (Par. 285). The Commission points out that "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." (Par. 287). In case of a dispute involving a FRAND commitment, "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." (Par. 289). Because FRAND commitments are voluntary, however, IPR holders should be permitted "to exclude specified technology from the standard-setting process and thereby from the commitment to offer to license, providing that exclusion takes place at an early stage in the development of the standard." (Par. 285).

- In the European Commission's market testing in December 2009 of a set of proposed commitments offered by Rambus to license its SEPs on reasonable terms, some respondents expressed the concern that Rambus would seek to "extract royalties based not on the price of the individual chips or controllers, but on the value of the end-product (such as PCs, mobile phones and other devices integrating DRAMs), even if the licensed technologies only represent a small percentage of such end-products." In response, the Commission made clear that the "royalty shall be determined on the basis of the price of the individually sold chip and not of the end-product. If they are incorporated into other products, the individual chip price remains determinative".[x]

- On April 29, 2014, the European Commission issued a decision in which it determined that "Motorola Mobility's seeking and enforcement of an injunction against Apple before a German court on the basis of a smartphone SEP constitutes an abuse of a dominant position prohibited by EU antitrust rules."[xi] The Commission explained that FRAND commitments are "designed to ensure effective access to a standard for all market players and to prevent ‘hold-up’ by a single SEP holder.” The Commission determined that seeking an injunction against a willing licensee of a FRAND-encumbered SEP “could risk excluding products from the market” and “lead to anticompetitive licensing terms that the licensee of the SEP would not have accepted absent the seeking of the injunction. Such an anticompetitive outcome would be detrimental to innovation and could harm consumers.” On the same day, the Commission issued a press release on the case that provided further guidance, including the points that (i) the licensee can challenge the validity, essentiality, or infringement of SEPs and still be considered a “willing” licensee; and (ii) the specific rate of a reasonable royalty should be determined by courts or arbitrators.

- On April 29, 2014, the European Commission formally accepted commitments from Samsung not to seek injunctions on FRAND-encumbered SEPs for smartphones and tablets against licensees that agree to an approved licensing framework.[xii] This framework gave licensees the choice of having a reasonable royalty rate and other FRAND terms determined by a court or, if both agree, by an arbitrator. The Commission also iterated the same principles that it stated in connection with the Motorola case described above.

- On November 29, 2017, the European Commission issued a highly anticipated Communication on licensing practices for SEPs. The EC issued the Communication to provide a “balanced, smooth and predictable framework for SEPs” that will contribute to “the development of the Internet of Things and harnessing Europe’s lead role in this context.”[xiii] Notably, in the SEP Communication, the Commission:

  - Recognized the significant contributions of SMEs to innovative IoT solutions and the critical role of standards in empowering SMEs to compete with industry giants.

  - Reinforced the license to all obligation of FRAND-committed SEP holders. The EC’s 2011 Horizontal Guidelines clearly established SEP holders’ requirement to offer licenses to “all third parties” on FRAND terms. It is well known that SEP holders increase their market power when their patent is incorporated into a standard, and as a result of their FRAND commitment, they cannot refuse a license to any willing third party. In the Communication, the EC reiterates that the Court of Justice of the European Union (CJEU) confirmed in the *Huawei v. ZTE* decision of 2015 that an effort “to grant licenses on FRAND terms creates legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licenses on such terms.”

  - Refused to endorse the “access for all” rationale with regard to SEP license availability that would allow SEP holders to arbitrarily refuse to license to some parties, even if their potential licensees were willing to negotiate on FRAND terms.

    - Rejected the dangerous “use-based pricing” model that would have allowed SEP holders to inflate license fees based on the value created by other innovators, or factors unrelated to the patent.

- In January 2018, the European Commission fined Qualcomm €997 million ($1.2 billion) for abusing its position in the LTE standard-compliant chip market base.[xiv]

Japan

- In early 2016, the Japan Fair Trade Commission updated its Guidelines for the Use of Intellectual Property under the Antimonopoly Act.[xv] This stated that a refusal to license to, or bringing an injunction against, a party who is willing to take a license based on FRAND terms, can be considered exclusionary conduct under Japan’s Antimonopoly Act. The Guidelines indicate that a “willing” licensee will be judged on a case-by-case basis, based on the conduct of both negotiating parties. Examples include whether the licensor notified the prospective licensee of a specific patent that has been infringed and how it was infringed; whether the licensor made a licensing offer based on reasonable conditions; whether the prospective licensee made a prompt and reasonable counteroffer; and whether the parties otherwise acted in good faith. The JFTC clarified that a prospective licensee’s challenge to the validity, essentiality, or infringement of the SEP(s) would not be grounds for labeling it an unwilling licensee, as long as it undertakes the negotiations in good faith in light of standard business practices.

Malaysia

- On April 5, 2019, the Malaysian Competition Commission (MyCC) issued its *Guidelines on Intellectual Property Rights and Competition Law* (MyCC Guidelines),[xvi] intended to provide guidance on MyCC’s approach in respect of competition issues arising from matters relating to intellectual property. Under the MyCC Guidelines, the MyCC recognizes that the exclusivity granted by IP rights incentivizes enterprises to be more innovative and to improve the quality of their products and services. This will in turn benefit consumers as they have wider choices at more competitive prices. MyCC recognizes that IP rights of exclusivity, however, are not without restraints, and provide that where the conduct of IP owners is such that rival enterprises would encounter difficulties selling substitute products and technology in the market, or IP owners in a dominant position are able to dictate unfair terms and conditions on other market players or consumers, the ability to exercise such rights will be restricted by competition law. The MyCC Guidelines notably discuss how predatory behavior including refusals to license SEPs, refusals to allow access to SEPs on fair, reasonable and non-discriminatory (FRAND) terms, and royalty stacking will violate Malaysian competition law.

Republic of Korea

- In December 2014, the Korean Fair Trade Commission (KFTC) revised its Guidelines on the Unreasonable Exercise of Intellectual Property Rights to address breaches of FRAND commitments as a competition law matter.[xvii] According to the KFTC, the following licensing practices by SEP holders may be deemed to be abusive:

    - Coercing the licensee to accept a license of a non-SEP as a condition for licensing a SEP;

    - Not disclosing patents applied for or registered to increase the possibility of one's technology being standardized or to avoid prior consultations on license conditions;

    - Unreasonably refusing to license the SEP;

    - Not licensing the SEP on FRAND terms so the patentee can strengthen its monopoly power or exclude competitors in the relevant market;

    - Requesting discriminatory terms for a SEP license, or imposing an unreasonable level of royalties;

    - Imposing licensing conditions that unreasonably restrict the licensee's exercise of related patents held by the licensee;

    - Seeking injunctive relief unless (i) the potential licensee refuses to enter into a license agreement on FRAND terms objectively confirmed in proceedings in a court or an arbitration forum, or (ii) a willing licensee is unable to pay damages due to imminent bankruptcy, etc.; or

    - Unreasonably imposing licensing conditions that require a cross-license of non-SEPs held by the licensee. (See Section III.3.A, B & D(5)).

  The KFTC also indicated that a FRAND commitment obligates SEP holders to negotiate in good faith with willing licensees and listed various factors to help the agency make that determination.

- In December 2016, the KFTC issued a decision imposing sanctions against Qualcomm Inc. in the amount of 1.03 trillion Korean Won (approximately €762 million) for alleged violations of Korean competition laws.[xviii] After conducting a comprehensive investigation that spanned for more than a year and issuing its examination report to Qualcomm on November 13, 2015, the KFTC found that Qualcomm, an SEP holder, breached its FRAND commitments when engaging in licensing agreements with certain companies. The Seoul High Court subsequently denied a stay of the Corrective Order.

United States

- In 2011, the U.S. Federal Trade Commission (FTC) issued a report entitled *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (2011), in which the FTC addresses the issue of a reasonable royalty for FRAND-encumbered SEPs and recommends that "[c]ourts should cap the royalty at the incremental value of the patented technology over alternatives available at the time the standard was chosen."[xix] The FTC explains that setting the royalty for a FRAND-encumbered SEP "based on the *ex-ante* value of the patented technology at the time the standard is chosen is necessary for consumers to benefit from competition among technologies to be incorporated into the standard – competition that the standard setting process itself otherwise displaces." The FTC also addresses the question of the appropriate royalty base in patent cases and recommends that "[c]ourts should identify as the appropriate base that which the parties would have chosen in the hypothetical negotiation as best suited for accurately valuing the invention. This may often be the smallest priceable component containing the invention." According to the FTC, "the practical difficulty of identifying a royalty rate that accurately reflects the invention's contribution to a much larger, complex product counsels toward choosing the smallest priceable component that incorporates the invention."

- The U.S. Department of Justice (DOJ) and Federal Trade Commission issued a report in 2007 entitled *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, which discusses various way to minimize patent holdup, including SEP disclosure policies, FRAND undertakings, and *ex ante* disclosure of licensing terms.[xx]

- The U.S. Federal Trade Commission issued a Decision and Order in 2013 accompanying its challenge to an injunction sought by Google's Motorola Mobility Division, which sets forth in detail procedures that a declared SEP holder must undertake before it may seek an injunction or other exclusionary relief based on an SEP and makes clear that a potential licensee may challenge infringement, validity, and enforcement of a declared SEP before being ordered to pay a royalty.[xxi]

- In August 2013, the U.S. Trade Representative (USTR), acting on behalf of the President of the United States, overturned a U.S. International Trade Commission ruling that would have issued (i) an exclusion order (similar to an injunction) prohibiting importation of Apple products into the United States that purportedly infringed Samsung SEPs; and (ii) a cease and desist order that would have prevented Apple from engaging in certain activities, such as the sale of these products in the United States.[xxii] The USTR decision included substantial discussion of the policy reasons for disallowing the exclusion order.

- In January 2013, the U.S. Department of Justice and U.S. Patent and Trademark Office issued the Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, which recognizes the harms of patent hold up and explains that FRAND commitments are designed as a solution to that problem that benefits both standard implementers and SEP holders.[xxiii] The policy statement reasons that FRAND commitments may be incompatible with injunctive relief: "A decision maker could conclude that the holder of a F/RAND-encumbered, standards-essential patent had attempted to use an exclusion order [a form of injunctive relief] to pressure an implementer of a standard to accept more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment—in essence concluding that the patent holder had sought to reclaim some of its enhanced market power over firms that relied on the assurance that F/RAND-encumbered patents included in the standard would be available on reasonable licensing terms under the SDO's policy." However, such relief may be appropriate in some circumstances, "such as where the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder's commitment to license on F/RAND term" or "is not subject to the jurisdiction of a court that could award damages."

- In 2017, the FTC brought an enforcement action in the U.S. District Court for the Northern District of California against Qualcomm, asserting that Qualcomm violated competition law in its mobile phone chip licensing practices.[xxiv] This enforcement action is significant in seeking to provide clarity about what constitutes FRAND behavior. The FTC alleged Qualcomm's behavior was due, in part, to its dominant position in the chip manufacturing market. Qualcomm is the leading company in Code Division Multiple Access (CDMA) and premium LTE chips, which are essential components to nearly every cell phone. According to the FTC, Qualcomm either refused licenses, or threatened device manufacturers with the withholding of access, to those necessary chips unless licensees agreed to pay disproportionate royalty fees. The FTC described this as an anticompetitive "no license-no chips" policy, which allowed Qualcomm to obtain royalties significantly higher than those suggested within their FRAND obligation. In 2018, this case survived a motion to dismiss by Qualcomm and has produced a ruling that held that a FRAND commitment represents an obligation to license to any willing licensee (consistent with the "non-discriminatory" component of FRAND) continues to be litigated in the U.S. federal court system.

  Further, in 2019, U.S. District Court judge Lucy Koh found that Qualcomm's licensing practices, including in the context of SEPs, clearly violate U.S. antitrust law. The court found that Qualcomm has continued its anticompetitive conduct despite rulings by competition authorities around the world demanding it end these practices and, therefore, ordered five remedies:

  - Based on their dominant position, Qualcomm can no longer tie their supply of chips to a customer's patent license and has to negotiate (and for existing arrangements, renegotiate) licensing terms with its customers without using its "no license, no chips" policy.
  - Qualcomm must make its SEPs available on fair, reasonable, and non-discriminatory (FRAND) terms, even to competitors.
  - Qualcomm can no longer employ exclusive dealing agreements (agreements only to purchase from Qualcomm) for supplying chips.
  - Qualcomm can no longer interfere with its customers in communicating with a government agency about a potential law enforcement or regulatory matter.
  - Qualcomm must submit to compliance and monitoring for seven (7) years and must annually report to the FTC about its compliance with the above remedies.

[i] U.S. Fed. Trade Comm'n & U.S. Dep't of Justice, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, at 33-34, footnote 5 (2007), *available at* https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-propertyrights-promoting-innovation-and-competition-report.s.department-justice-and-federal-tradecommission/p040101promotinginnovationandcompetitionrpt0704.pdf.

[ii] "Principles for Standard Essential Patents" About AllThingsFRAND.com (explaining the FRAND commitment requirements.) http://www.allthingsfrand.com/about/about-allthingsfrand.com/

[iii] "Core Principles and Approaches for Licensing of Standard Essential Patents" (industry-led agreement on principles pertaining to standard essential patent licensing). ftp://ftp.cencenelec.eu/EN/News/WS/2019/CWA_SEP/CWA95000.pdf

[iv] http://bit.ly/1QTIDYv.

[v] *E.g.*, *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1227 (Fed. Cir. 2014).

[vi] http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04031.html.

[vii] National Development and Reform Commission, [2015] Administrative Penalty Decision No. 1, February 9, 2015, http://jjs.ndrc.gov.cn/fjgld/201503/t20150302_666170.html.

[viii] http://bit.ly/2zrGDcX.

[ix] Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreement, Par. 285 (Jan. 14, 2011).

[x] http://ec.europa.eu/competition/antitrust/cases/dec_docs/38636/38636_1203_1.pdf

[xi] http://europa.eu/rapid/press-release_IP-14-490_en.htm\

[xii] http://europa.eu/rapid/press-release_IP-14-490_en.htm

[xiii] https://ec.europa.eu/docsroom/documents/26583/attachments/1/translations/en/renditions/native

[xiv] https://www.reuters.com/article/us-eu-qualcomm/eu-fines-qualcomm-1-2-billion-over-apple-chip-deals-idUSKBN1FC2WP

[xv] *See* Guidelines for the Use of Intellectual Property under the Antimonopoly Act, Part 3, Section 1(i)(e) (January 21, 2016); *available at* http://www.jftc.go.jp/en/pressreleases/yearly-2016/January/160121.files/IPGL_Frand_attachment.pdf.

[xvi] https://www.mycc.gov.my/sites/default/files/WJW013224%20Teks%20%282%29.pdf.
[xvii] http://bit.ly/2jdxbUa.

[xviii] http://bit.ly/2hoADuI.

[xix] https://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf

[xx] https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf

[xxi] https://www.ftc.gov/sites/default/files/documents/public_statements/statement-commission-regarding-consent-agreement-google/motorola/130103brillgooglemotorola-sep-stmt.pdf

[xxii] https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF

[xxiii] https://www.justice.gov/sites/default/files/atr/legacy/2014/09/18/290994.pdf

[xxiv] *FTC v. Qualcomm*, Case No. 17-cv-220 (N.D. Cal.).

Considerations for USTR on the European Union's Request for a WTO Consultation with the PRC Government

Executive Summary

In order to assess the European Union's ("*EU's*") case against the People's Republic of China ("*China*") at the WTO over the recent practice by Chinese courts issuing anti-suit injunctions ("*ASIs*") in the licensing disputes concerning standard essential patents ("*SEPs*"), the following should be considered:

- Chinese courts have modeled their practice of granting ASIs after the well-established U.S. practice and legal framework for ASIs.
- Some European courts either explicitly set global rates for non-European patents or force handset manufacturers and others who seek to implement technologies subject to fair, reasonable, and non-discriminatory ("*FRAND*") commitments to take global license agreements to SEP-portfolios under the threat of injunctions, thus approving global rates for non-European patents – in many cases without any assessment whether the requested rates and terms are FRAND. They do so, even thoughthese European courts undisputedly do not have jurisdiction to assess the essentiality,validity, or value of these non-European patents.
- These European courts have done so even in licensing disputes that have very little connection to any European member state, but much stronger connections to other areas of the world.[1] Chinese courts granting ASIs can be viewed as a response to this overreaching practice of European courts to attempt to anchor proceedings in Europe and adjudicate licensing disputes that have a much stronger connection to China than they have to Europe.
- Courts in the U.S. also have issued ASIs, for example to prevent disruptions from patent infringement cases filed in Europe to their ability to adjudicate FRAND litigation to which both parties had consented.
- This case may therefore ultimately decide whether such opportunistic behavior of dictating SEP licensing terms under the threat of injunctions, which is detrimental for U.S. companies, U.S. consumers, and ultimately U.S. interests more broadly, is tolerated or even encouragedat the international level.

A. *Anti-suit injunctions in the context of SEP-licensing disputes*

- ASIs are a procedural instrument that is well known in other jurisdictions and a common instrument of common law. Courts in the United States and the United Kingdom for example, have a long history and established practice of granting ASIs – in many areas of the law but also in disputes concerning SEPs.

[1] *See e.g.*, the dispute between Sharp, a Japanese patent-holder, and Oppo, a Chinese handset manufacturer towhich the EU's complaint refers.

- Prominent examples of ASIs granted by U.S. courts that enjoined SEP-holders from enforcing their patent rights in member states of the European Union are the decisions of *Motorola v. Microsoft*, *Samsung v. Huawei* and *TCL v. Ericsson* by different U.S. district courts.[2]

- ASIs are considered an essential tool of common law to prevent a party (not a foreign court) from pursuing *vexatious* or *oppressive* (foreign) litigation calculated to interfere with a pending action.

- ASIs should be judged on the facts of the individual cases in which they are issued without blanket condemnation for their use in a particular country. This principle was recently recognized by a court of a member state of the European Union.[3] This case law of an EU member state, however, is case law the EU's very own complaint seems to ignore, claiming that ASIs would per se violate TRIPS.

I. *Emerging* Anti-suit practice by Chinese Courts modeled after U.S. practice

- In 2020, Chinese courts adopted the well-established procedural practice of ASIs (under e.g. U.S. and UK law) following the decision *Huawei v Conversant* by China's Supreme People's Court ("SPC").

- Following this precedent, Chinese courts have issued ASIs in a small number of licensing disputes between handset manufacturers and SEP-holders. These disputes all concerned the licensing of SEPs for cellular standards, such as 3G- and 4G-standards in which the negotiating parties could not agree upon the terms of a license. In all of these cases, the handsetmanufacturer was of the opinion that the respective SEP-holder had refused a license on fair reasonable and non-discriminatory (FRAND)[4] terms, and had thus breached its contractual FRAND-undertaking. Just like in the U.S. case of *Motorola v. Microsoft*, the respective handset manufacturer thus initiated national court proceedings to have the court adjudicate (F)RAND terms of such license (in the following "rate-setting proceedings").

- Some of these ASIs were reportedly granted without notice or opportunity to participate in the injunction proceedings for all parties. This appears to be a general procedural possibility under Chinese civil procedural law similar to that in many member states of the European Union. German procedural law, for example, allows German civil courts to grant ex-parte preliminary injunctions without any possibility for the defendant to participate in the injunction proceedings before the preliminary injunction is granted. And German courts regularly make use of this approach in all areas of the law. Thus, it appears this procedural posture is well-known under Chinese as well as European procedural law – although both are very different than U.S. standards of due process.

[2] *Microsoft Corp v Motorola Inc*, 871 F. Supp. 2d 1089 (W.D. Washington 2012); *Huawei Technologies Co Ltdv Samsung Elecs Co Ltd*, Case No 3:16-cv-02787 (N.D. California 2018); *TCL Comm Tech Holdings Ltd v Telefonaktiebolaget LM Ericsso*n, Case No 8:14-cv-00341 (C.D. California 2017).

[3] *Ericsson v. Apple*, KG ZA 21-914, ¶¶ 4.44 (District Court of The Hague, December 16, 2021) with regard to so-called "performance ASIs" for cases in which a party has already a priori restricted its fundamental right to enforce its patent in court, e.g. under a covenant not to sue.

[4] Policies of some SSOs require an undertaking to grant licenses on fair, reasonable and non-discriminatory terms, and some policies omit the criteria of "fair". For the purpose of this paper, the terms "FRAND" and "RAND" are used interchangeably.

- Chinese courts have not issued ASIs in every SEP-licensing dispute worldwide, let alone every SEP-licensing dispute that involves a Chinese entity. Rather, the EU's request for consultation lists only four additional cases in the timespan of one and a half years since the SPC's decision of *Huawei v. Conversant*.[5] Not all of these cases include a Chinese handset manufacturer as the party seeking an ASI and a rate-adjudication from a Chinese court. Rather, the most recent decision by the Wuhan Intermediate People's Court in China concerned a dispute between Samsung and Ericsson.

- In all of the five cases listed in the EU's complaint, the ASI granted by a Chinese court sought to allow the pending rate-setting proceedings before the respective Chinese court to be conducted without external impairment by foreign patent infringement proceedings. Thus, the foreign patent infringement proceedings had to be halted for the Chinese court to conclude the pending rate-setting proceedings, similar to the case of *Motorola v. Microsoft*, in which the U.S. District Court for the Western District Court of Washington had found that "a judicially-determined RAND license encompassing all of Motorola's H.264 essential patents would necessarily dispose of Motorola's request for an injunction in Germany" as the "issues before it in this litigation were dispositive" of the German patent infringement action, and enjoined Motorola from enforcing the injunction.[6]

- Therefore, a number of law professors argued in their amicus brief in the U.S. part of the dispute between Samsung and Ericsson that saw the Wuhan Intermediate People's Court in China grant an ASI, that "[a]n English-language translation of the ASI decision indicates not only that the Chinese Court generally analyzed Samsung's ASI request in a manner similar to that of U.S. courts, but also that the ASI would have satisfied the standards that U.S. courts use when issuing ASIs."[7]

II. *Injunctions and the EU's legal framework of Huawei v. ZTE*

- Some European courts will grant injunctions based on the infringement of even just one national SEP, and in turn, either set global rates for worldwide license agreements for entire SEP-portfolios or approve those terms unilaterally set by the SEP-holder, in many cases without any assessment whether they are truly FRAND. Applying this approach, they are forcing handset manufacturers and all other innovators who seek to implement technologies subject to F/RAND commitments (in the following "*license seekers*" or "*defendants*") to accept worldwide license agreements and global rates under the threat of injunctions.

---

[5] *Huawei Technology Co. LTD v. Conversant Wireless Licensing*, Civil Ruling in Cases No. 732, No. 733, and No. 734 (Supreme People's Court of the People's Republic of China, August 28, 2020).

[6] *Microsoft v. Motorola*, 854 F.Supp.2d 993 (United States District Court for the Western District of Washington, February 27, 2012), affirmed by *Microsoft v. Motorola*, 696 F.3d 872 (United States Court ofAppeals for the Ninth Circuit 2012).

[7] Corrected Brief of International Intellectual Property Law Professors as Amici Curiae In Support of Neither Party, *Ericsson Inc. v. Samsung Elecs. Co., Ltd.*, No. 21-1565 (5th Cir. Mar. 16, 2021).

1. *The UK practice of setting global licenses under the threat of injunctions*

- In the United Kingdom, the Supreme Court's decision in *Unwired Planet v. Huawei* approved issuing what the lower court termed a "FRAND injunction", where a defendant is enjoined based on the finding of infringement for one SEP unless it agrees to a court-determined license for a global SEP-portfolio.[8]

- Consistent with the European Union's criticism of Chinese anti-suit injunctions, in its Article 63.3 request for information of July 2021 and the recent request for consultations, the *Unwired Planet* regime means that UK courts are setting global rates for non-UK patents.

- The UK courts paid lip service to considering the patent merits by providing that after entering the global license, a licensee can seek to invalidate licensed patents in courts around the world. At the same time, UK courts acknowledge that it would be "madness" for the licensor to have to negotiate patent licenses country by country,[9] which then obviously holds true for invalidating portfolio patents country by country as well.

- Based on the *Unwired Planet* decision, the UK has become a more favorable venue for SEP-holders because by obtaining an infringement finding on a single SEP, they can put a defendant to the choice of an injunction or a court-determined global license.

2. *The German practice of forcing global licenses under the threat of injunctions*

- In Germany, courts have also granted injunctions excluding license seekers from the market based on finding one single national SEP to be infringed. Many of these injunctions are even granted without any prior assessment whether the terms requested by the SEP-holder are in fact FRAND.

- In fact, the German Federal Supreme Court argued in its two decisions of *Sisvel v. Haier I and II*[10] that "in a complex situation, as is typically the case in the licensing of standard essential patents, it is as a rule not obvious what contractual terms in the specific case meet the requirements of an appropriate balance of interests (…)."[11] Thus, in particular, German courts have restricted or in fact circumvented the limited safe harbor that the European Court of Justice ("ECJ") sought to establish in its decision of *Huawei v. ZTE.* Judge Meier-Beck, the presiding judge at the respective senate of the German Federal Supreme Court at the time of the two decisions, was pretty outspoken about the court's intention in an interview claiming that "courts are badly-placed to determine the right price for a FRAND licence", labelling the ECJ decision of *Huawei v. ZTE* as "cryptic" and "a reason that all the experts would have stopped thinking about an appropriate solution to the current problem."[12]

---

[8] *Unwired Planet International Ltd et. al v Huawei Technologies (UK) Co Ltd et al.*, [2020] UKSC 37 (Supreme Court of the United Kingdom, August 26, 2020).

[9] *Id.* at ¶ 25.

[10] The decisions are officially named *FRAND-objection I and II* but will be referred to as *Sisvel v. Haier I and II* herein.

[11] *Sisvel v. Haier II*, KZR 36/17, ¶¶ 70 (German Federal Supreme Court, November 24, 2020).

[12] https://www.juve-patent.com/news-and-stories/people-and-business/peter-meier-beck-from-a-german-perspective-anti-suit-injunctions-should-not-exist/.

- German courts therefore base the decision of an injunction first of all on a "willingness test" following the decisions of *Sisvel v. Haier I and II* stating that an injunction would be already justified whenever a license seeker – according to the court's understanding – has not participated in the negotiations in a purposeful manner, and has thus proven unwilling to license the SEP-holder's portfolio. In these cases, an injunction is granted by German courts without an assessment of the requested terms and whether they are truly FRAND.

- To avoid such an injunction, license seekers are generally required to seek a worldwide license with global rates also for non-German SEPs.[13] Thus, German courts ultimately approve global licensing terms unilaterally set by the SEP-holder, in most cases without any assessment of those global licensing terms at all, and without any assessment of the essentiality, validity or value of the portfolio-patents, let alone the non-German patents. License seekers who want toavoid such injunctions are ultimately forced to accept worldwide licenses with global rates under the threat of market exclusion.

- German courts have even sought to protect their regime by limiting foreign courts issuing ASIs. Last year, the Regional Court of Munich issued an "anti-antisuit" injunction prohibiting Continental from petitioning a U.S. court for an ASI on the grounds that a foreign ASI tortiously interferes with German patent rights.[14] In other cases reflecting this trend, Germancourts even granted pre-emptive anti-antisuit injunctions to deter defendants from even considering a motion for an ASI, even though they acknowledged that such motion could be admissible under the respective foreign law, such as U.S. law.[15]

- Moreover, several German courts even linked seeking an ASI to the concept of the "willing licensee," and thus, to the success of the FRAND defense. They held that the application for an antisuit injunction must be considered as definite evidence that the defendant was not a "willing licensee," and as a consequence, the FRAND defense must be dismissed due to the defendant's motion for an antisuit injunction alone and without any further review. German courts have upheld that result, even though they acknowledged that ASIs might be a foreseen legal instrument in many foreign jurisdictions, such as under U.S. law.[16]

III. *The interplay between Europe's practice for injunctive relief and Chinese ASIs*

- Thus, SEP-holders resort to patent infringement proceedings in the UK, or member states of the European Union, such as Germany, to force license seekers into license agreements underterms unilaterally dictated by SEP-holders, rather than negotiated in good faith. In many cases,innovators have to budge and accept such licenses given the pending threat of market exclusion.

---

[13] *Sisvel v. Haier II*, KZR 35/17, ¶¶ 110 – 123 (German Federal Supreme Court, November 24, 2020) finding "defendants' contractual offer – formulated independently of the text last proposed by the plaintiff – does not provide for the defendants' parent companies or the Haier Group as licensees, but only the defendants themselves" ultimately to be a further proof of defendant's unwillingness.

[14] *Nokia v. Continental*, 21 O 9333/19 (Regional Court of Munich, October 2, 2019).

[15] *InterDigital v. Xiaomi*, 7 O 14276/20 (Regional Court of Munich, February 25, 2021).

[16] *GE Video Compression et al. v. Xiaomi*, I-2 U 25/21, I-2 U 27/21 (Higher Regional Court of Düsseldorf, February 7, 2022); *InterDigital v. Xiaomi*, 7 O 14276/20 (Regional Court of Munich, February 25, 2021).

- SEP-holders resort to this tactic also to exert as much pressure as possible where license seekers were "first to file" and have sought judicial adjudication of a FRAND rate in other jurisdictions once negotiations failed (a determination that many European member states, like Germany, do not provide).[17]

- The practice to issue ASIs in certain limited cases is thus, ultimately, a response to this overreaching jurisprudence of European courts, and is one that U.S. district courts also have used under a carefully balanced legal test, e.g. in *Motorola v. Microsoft*. Given the swiftness of European patent infringement proceedings granting injunctions, those European patent infringement proceedings would otherwise frustrate foreign rate-setting proceedings, even if they are filed at a much later point in time. This dynamic is still very much the case also after the ECJ decision in *Huawei v. ZTE*, given how national courts have applied that guidance.

- Similarly, the District Court of The Hague recently ruled that ASIs can be legitimate in certain circumstances even under European law finding no conflict between ASIs and international law, such as TRIPS, per se.[18] This would be the case according to the Dutch court to protect pending proceedings from being frustrated by additional litigation in particular cases. Chinese courts have therefore ultimately picked up and adopted this "response" that U.S. courts had already developed previously,[19] and that even a court in the European Union itself found to be legitimate in certain, narrow circumstances.

B. *Potential impact and implications of the case*

- The disposition of an EU case on these issues would have implications for other WTO members, for several reasons. If the EU prevails in its claims, it is unlikely that any action China would to comply would apply only to domestic proceedings involving only EU companies.

- If China loses, this case will also have significant implications for other WTO members with similar practices to China. While an adverse WTO panel report would only bind the parties to the dispute, the findings would have a significant informative impact on subsequent panels looking at similar issues.

- EU success in its WTO claim would also strengthen the approach of European courts of setting or approving global rates for worldwide licenses unilaterally determined by SEP-holders also for non-European patents under the threat of injunctions.

---

17 *E.g.* in the dispute between InterDigital and Xiaomi, in which Xiaomi had initiated rate-setting proceedings on June 9, 2020, while InterDigital brought different infringement actions around the world, e.g. in Germany in 2021 (https://www.juve-patent.com/news-and-stories/cases/post-asi-battle-interdigital-sues-xiaomi-for-patent-infringement-in-munich/).

18 *Ericsson v. Apple*, KG ZA 21-914, ¶¶ 4.44 (District Court of The Hague, December 16, 2021) with regard to so-called "performance ASIs" for cases in which a party has already a priori restricted its fundamental right to enforce its patent in court, e.g. under a covenant not to sue.

19 *Yu/Contreras/Yu*, Transplanting Anti-suit Injunctions (available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3937716).

- Ultimately, any such decision will be viewed as an "international" approval to pressure innovators who seek to implement technologies subject to F/RAND commitments to conclude license agreements under the threat of market exclusion. This is an approach that is detrimental to U.S. innovators, and thus harms U.S. economic interests, U.S. companies and U.S. consumers.[20]

- This case could ultimately shape not only international rules for ASIs, but more importantly rule whether such opportunistic behavior is tolerated or even encouraged at the international level.

[20] The draft revised statement on remedies for the infringement of standards-essential patent (or SEPs) by the USPTO, NIST and the U.S. DOJ (https://www.justice.gov/atr/page/file/1453471/download) states: "Opportunistic conduct by SEP-holders to obtain, through the threat of exclusion, higher compensation for SEPs than they would have been able to negotiate prior to standardization, can deter investment in and delay introduction of standardized products, raise prices, and ultimately harm consumers and small businesses."

Appendix 3

A Call To Action: Guiding A Fair Standard Essential Patent Licensing Process For A Thriving Indian Economy

Brian Scarpelli[1]

Priya Nair[2]

[1] Senior Global Policy Counsel, ACT | The App Association

[2] Intellectual Property Policy Counsel, ACT | The App Association

Table of Contents

FOREWORD

Technical standards help to drive the modern global economy. New standards directed to the so called "Internet of Things" (IoT), the "5G" suite of standards, and other next generation standardised technologies have become essential to enabling interoperability across a variety of critical industries worldwide.

Standard development organizations (SDOs) are responsible for the institution of standardised technologies through an open and consensus-based process where industry participants and other stakeholders collaborate to develop agreed upon technical specifications. While there are hundreds of significant SDOs, there also are few prominent Indian SDOs such as the Telecommunications Standards Development Society, India (TSDSI) and the Bureau of Indian Standards (BIS).

In the technical standards development process, SDOs can develop specifications that include technologies that are the subject of issued patents (or pending patent applications) either held by a stakeholder that contributed to the specification or by a third-party. These patents are necessary to implement a standard and are therefore referred to as "standard essential patents" (SEPs). Any SDO stakeholder contributing to the development of the standard is termed as "contributor" and usually will owns SEPs covering the specific technologies contributed to the Standard during the Standard development process. Likewise, any SDO stakeholder that is manufacturing products that implements the technologies adopted by the Standard is therefore, termed as an "implementer" or "standard user". Moreover, many SDO stakeholders both contribute their patented technologies during the development of a standard and implement the final standard into their own commercialised products. Such SDO stakeholder are both "contributors" and "implementers".

India is one of the world's largest growing economies in the world, and a driver of technology innovation across important sectors. Reliant on critical innovation and competition, India's economy is greatly influenced by the ability for its citizens to gain access to internationally agreed upon technical standards through equitable and predictable SEP licensing practices. As one is aware that patents reward innovation and also grants to the Patentee, the right to stop others from practicing the patented technology. The effect of patent rights is tremendous when the patent is a SEP because it allows the patentee to dominate and control the market and its players who are constrained/compelled to practice the Standard Essential Technologies which if covered by SEPs would render the implementer infringing the SEPs. A SEP holder, in an attempt to create monopoly in the market, may not always act in the best interest of the consumers and other market players and may act anti-competitively and may even abuse its dominant position in the industry by virtue of having rights over a technology that is standard and essential. The challenge is to strike a balance between the protection and other benefits granted by a SEP patent and interest of the consumers and other market players.

Once a standard is adopted by the industry/market, the 'lock-in' effect of such standards results in SEP holders acquiring tremendous market power and control thereupon. A SEP holder, in theory, can then charge extremely high royalties or license rates to some market players and prohibit their entry into the market. In the event, a licensee takes license from one SEP holder at a high rate, the said licensee may have to take licenses from other SEP holders at a similarly high rate. Multiple such high license rates add up and lead to drastic increase in the product price offered by the licensee. This is known as 'stacking'. Further, the licensor, by virtue of a SEP, can 'hold-up' licensee and compel them to obtain licenses at rates much higher than what they would pay if there were allowed to commercialize alternatives to the SEP.

To mitigate potential anticompetitive harms, such as patent 'hold-up' or 'stacking', and preserve competition, SDOs commonly adopt IPR or patent policies mandating the licencing of SEPs on specified fair, reasonable and non-discriminatory (FRAND) terms, and in exchange, the SEP holder enjoys royalties from a wider pool of market participants who require a licence from the SEP holder in order to access the relevant technical standard. The FRAND commitment – provided it is upheld – adequately addresses the interests of all SDO participants. As the Indian economy expands, the need for the Indian legislators, regulators and SDOs to approach the apparent discourse between SEPs and FRAND will grow. While many SDOs fail to provide clear and coherent definitions of FRAND within their policies, SEP licencing has a long history that has unveiled foundational principles underlying the FRAND commitment to ensure the system that is competitive and beneficial to businesses and consumers.

In recent years, there have been many debates, disputes, court cases and, more recently, regulatory investigations involving disagreements around obligations that arise from the voluntary FRAND commitment (or "FRAND obligations"). The balance between rights of the

SEP holders and rights of implementers or market requirements are of increasing importance as standardised technologies, including wireless communication technologies, move into unconventional industries such as automotive, industrial, energy, finance, transportation, warehousing, infrastructure, IOT and security.

This paper recommends that the best course of action for the Indian legislators, regulators and SDOs to facilitate a pro-competitive FRAND-compliant SEP licensing ecosystem is to shape new law and policy through a comprehensive and holistic approach. To support its recommendations, this paper conducts an analysis of technical standards, case law, and important regulations and policies that influence the Indian and International SEP landscape as a justification for why this framework will alleviate current and prevent future SEP licensing abuse in India. Ultimately, this paper will provide an evidence-backed proposal for necessary policy changes in India that will create a competitive and innovative economy and demonstrate India's global leadership in pro-innovation policies.

SECTION 1: SCOPE OF THE DOCUMENT AND AREAS ADDRESSED BY THE PAPER

This paper aspires to be a guiding tool which can be used by any stakeholder in the cosmos of standardisation in India to mark the boundaries of licensing negotiations and further assist courts, arbitrators, and possible regulators in outlining their own rules – which may have the effect of a mandate.

OBJECTIVES OF THIS PAPER

The Indian telecom network is the second largest in the world with tele-density (which is also known as telecom penetration) increasing from 18.23 per cent in FY16 to 84.51 per cent in FY24.[3] India also has the second highest number of internet subscribers globally. With global industries directing the development and evolution of standards towards the internet of things (IoT), 5G, and 6G and future generation of standards, there is a rightful anticipation of synchronised incorporation by various other industries of these types of standardised technologies and the interoperability that they will provide. Indian SDOs must ensure that their patent policies provide a clear definition of the meaning of FRAND and guidance on the anticompetitive implication of breaches of FRAND commitments in order to drive industry growth and incentivize innovation at the same time.

The debate and jurisprudence around SEPs and FRAND licensing terms in India is a fairly new discourse, and there is a need for uniformity in terms of practices among market participants for a standardised technology. This is the primary focus of this paper – to provide a holistic representation of conducts that are beneficial to standard implementers, standard contributors and to the industry at large, in the Indian context, and also provide possible solutions to some problems faced by the standards ecosystem by way of recommendations to –

i. SEP holders and standard implementers – in the form of best practice guidelines between licensor and a willing licensee and;
ii. Regulatory and adjudicating bodies – in the form of policy suggestions which could help in delineation of unacceptable conduct and swift adjudication of disputes.

This paper includes the following parts:

[3] *Indian Telecommunication Industry Report*, India Brand Equity Foundation (*August,2022*) https://www.ibef.org/industry/telecommunications.

Section 1.	*This section defines the scope of this document and the areas addressed herein.*
Section 2.	*This provides a brief overview of issues faced by the stakeholders in the SEP ecosystem.*
Section 3.	*This provides market background and summary of relevant competition law competition law considerations important for understanding and applying FRAND obligation.*
Section 4.	*This provides a summary of core principles of FRAND licensing practices.*
Section 5.	*This provides practical summary of best practices of SEP licensing which help in facilitating FRAND process and in conducting Bi-Lateral negotiations.*
Section 6.	*This provides a glimpse of global and Indian jurisprudence, key findings and guiding principles emerging from landmark judgements in India and abroad.*
Section 7.	*This lays out policy recommendation to stakeholders such as legislators, regulators and SDOs.*
Section 8.	*This is a conclusion to the paper containing a hopeful message for the implementation of some of the recommendations.*

SECTION 2: INTRODUCTION – BRIEF OVERVIEW OF INDUSTRY ISSUES

The Indian economy along with its diversity of sectors, such as appliances and consumer electronics, is projected to grow over two folds, from USD 9.84 billion in 2021 to USD 21.18 billion, between 2021 to the year 2025[4]. This would make it by far the fastest growing sector in the country. Compatibility and interoperability are one of the key features which is helping in this growth and this element of industry and manufacturing focus brings us to technical standards.

A. STANDARDS, STANDARD DEVELOPING ORGANISATION, SEP, AND FRAND

[4] *Manufacturing Sector in India Industry Report*, India Brand Equity Foundation (*August, 2022*) https://www.ibef.org/industry/manufacturing-sector-india.

‘Standards’ are defined in various public literature as a ‘*document approved by a recognized body, that provides, for common and repeated use, rules guidelines or characteristics for products or related processes and production methods….*’ A standard developing organisation (commonly referred to as an ‘SDO’) is a recognised body which undertakes the development, promulgation, and implementation of standards.[5] One of the most important functions performed by SDOs is that of a regulatory role – often requiring SEP holders to voluntarily commit to granting licenses on fair, reasonable, and non-discriminatory (‘FRAND’) terms to parties wishing to implement a standard into their product (‘standard implementer’). The FRAND construct sustains competition, increases innovation, and supports consumer welfare across numerous industries without taking the benefits of SEP away from the Patentee.

B. GLOBALLY RECOGNISED STANDARD DEVELOPERS

Different industries have established their own SDOs globally and they facilitate the coordination between firms or companies in the industry and other stakeholders.[6] Some examples of international SDOs are:

- *IEEE* – They are the world’s largest technical organisation, and they publish nearly a third of the world’s technical literature in electrical engineering, computer science, and electronics.
- *European Telecommunications Standards Institute* (ETSI) – They are a recognised international standards body in Europe dealing with telecommunications, broadcasting, and other electronic communications networks and services.
- *European Committee for Standardisation* (CEN) and the *European Committee for Electrotechnical Standardisation* (CENELEC) – These two associations bring together national standardisation bodies of 34 countries across Europe. CENELEC is focused on the electrotechnical field, while CEN is focused on a wide range of fields and sectors such as air and space, chemicals, construction, consumer products, defence and security, energy, the environment, health and safety etc.
- *International Organization for Standardization (ISO)* – This organisation is an independent, non-governmental international organization with a membership of 170 national standards bodies. Through its members, ISO brings together experts to share

[5] Lakshita Handa & Naina Jindal (2020). “Standard Essential Patents: A Tale of Two Countries” *5.1 NLUO SLJ (2020) 66.*

[6] Dewatripont, M., & Legros, P. (2013). “ESSENTIAL” PATENTS, FRAND ROYALTIES AND TECHNOLOGICAL STANDARDS. *The Journal of Industrial Economics*, *61*(4), 913–937. http://www.jstor.org/stable/43305465.

knowledge and develop voluntary, consensus-based, market relevant international standards.

- *International Telecommunication Union (ITU)* – ITU is the United Nations specialised agency for information and communication technologies. ITU develops the technical standards that ensure networks and technologies seamless interconnect and the network devices are interoperable.

A few Indian SDOs are:

- *Telecommunications Standards Development Society, India* (TSDSI) – They develop standards for India-specific telecom, information, communications needs.
- *Bureau of Indian Standards* (BIS) – They are the national standards body of India focusing on the harmonious development of the activities of standardisation, conformity assessment and quality assurance of goods, articles, processes, systems, and services.

C. BASIC UNDERSTANDING OF SEP LICENSING ECOSYSTEM

a. The Parties

Having understood the meaning of a standard, standard setting organizations, standard essential technologies and standard essential patents, the interest of SEP owners and needs of implementers, and the SEP licensing mandates from the SDOs, it is important to understand the intricacies of SEP licensing and the challenges faced by both sides. As in any typical licensing transaction, the licensing negotiation for a SEP consists of two parties – the licensor and the licensee. The party who is the holder or acting on behalf of the holder of a SEP, which is under a FRAND (**F**air, **R**easonable and **N**on-**d**iscriminatory) obligation mandated by the SDO, is known as the licensor. The party seeking to implement a particular standardised technology by means of obtaining a license for the SEP is a potential licensee of the SEP. In context of FRAND-encumbered SEPs, it takes two 'willing' parties to negotiate a license. To be a 'willing' party is an obligation on both parties, and their respective conducts during the negotiation process is a critical indicator of said *willingness*.

b. NDAs in SEP Licensing Negotiation

The parties, while negotiating a license pertaining to a SEP or a pool/collection of SEPs, enter into a Non-Disclosure Agreement (NDA) so that the confidential commercial information relevant to the potential licensing transaction can be disclosed by the licensor to the potential licensee. Such confidential commercial information is often very critical for potential licensee to evaluate whether the offer by the licensor is FRAND compliant and to prepare a FRAND compliant counteroffer.

c. **SEP Valuation Methodologies and FRAND computational Methodologies**

Patent evaluation methods are complex and when the patents are SEPs and FRAND encumbered, the evaluation methodologies are even more complicated. The complications are premised on simple fact that the perception of phrases like– FAIR, REASONABLE and NON-DISCRIMINATORY is subjective and can differ from person to person. While the SEP owners may consider the value of their SEPs to be very high, the implementers may find the very same SEPs to be invalid or weak on merits of patentability. This difference in perception may lead to conflicts or disputes on what should be fair, reasonable and non-discriminatory (FRAND) licensing fee/ royalty for the SEPs deserved by the SEP owners and payable by the implementers. In the European Union Horizontal Guidelines 2023,[7] under the section of FRAND commitments, it is stated that, '*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*'.[8] In order to be as close as possible to Fair, Reasonable and Non-Discriminatory (FRAND), several methodologies are used to arrive at a licensing fee in the SEP ecosystem. However, such methodologies have often become the subject of disputes between parties in court or even by antitrust investigations initiated by a complainant to the regulators. Over the years, a few different approaches to SEP valuation have come about through case law jurisprudence, however, no one method of valuation is binding uniformly on all SEP licensors and potential licensees. Some such popular methodologies are (i) top-down approach, (ii) bottom-up approach, (iii) comparable licensing approach, (iv) smallest sellable patent practicing unit approach. Parties have the freedom to mutually and voluntarily decide on a methodology to value a SEP and thereby reach agreeable licensing terms.

d. **Refusals to License**

A SEP holder, when left unchecked, can refuse to license the SEP to a potential licensee even though the potential licensee is a "willing" licensee and engaging the licensor in good faith. Refusal to license is detrimental to the market as it creates un-even playing field for the market entrants. If left unchecked, refusal to license SEP converts the SEP holder into a "gatekeeper" of the market as the SEP holder can allow certain companies/market players as per its whims

[7] European Commission "*Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements*" (2023/C 259/01)
[8] *Ibid*. Guidelines (n 1) para 460.

and fancies and not allow other companies/market players contributing to unfair competition and abuse of dominance.

e. **SEP Portfolios and Portfolio Licensing**

A standard contributor usually files multiple patent applications before and after submitting a technical solution to the SDO during development of the standard. The said patent applications are filed in multiple prominent jurisdiction to secure the contributor's rights in key markets. All such patent applications/patents declared as essential to a standard by the SEP owner form a "SEP portfolio", however, the phrase "declared" is of significance here since not all patents in a SEP pool may actually be essential and a significant number is only declared SEP by the SEP owner with sole purpose of inflating the numbers for securing a profitable licensing deal.

f. **Disputes**

During licensing negotiations, a potential licensee after evaluating the SEP portfolio can raise concerns over validity and essentiality of selective SEPs in the portfolio. Additionally, concerns may also be raised on offers shared by both parties, jurisdiction and the like. In such a scenario, a dispute is likely to arise on crucial issues such as merits of the patent portfolio, essentiality of concerned SEPs, which SEPs to be licensed, whether offers made are FRAND and the like. The parties may approach appropriate adjudicating bodies, such as competition authorities, courts, etc., for resolving such disputes and even for setting FRAND rates, in case no agreement can be reached on the same by the parties.

g. **Injunctions**

It is a trivial fact that patents confer negative rights to patent owners to stop act of making, using, offering for sale, selling or importing patented products. In India, the Indian Patents Act, 1970, protects a patent holder's right under Section 108(1) read with Section 48 by granting injunction and other reliefs upon finding of infringement. An injunction order from the Court requires the accused (potential licensee) to stop all infringing activities listed under Section 48 of the Indian Patents Act, 1970. Such activities generally include act of making, using, offering for sale, selling or importing for those purposes that product in India.

In the context of SEPs, the law around injunctions is crucial since it allows SEP owners to arm twist the prospective licensees who under the threat of an injunction (interim or permanent) and consequential business halt often agree to un-FRANDLY licensing terms offered by the SEP owners.

h. **Patent Pools and Licensing Through Patent Pools**

There is also a trend in the SEP ecosystem to pool several SEP patents pertaining to the same technology, however, owned by different entities or different SEP owners and offer a license to implementers of the entire pool together. Licensing through patent pools saves the effort on the part of the individual SEP holders to negotiate license with multiple potential licensees. Licensing through patent pools also saves the effort on the part of implementers as they can obtain a single license from several licensees instead of negotiating multiple licenses with multiple licensees. Examples of some such popular pools are Avanci 4G Vehicle, Via Licensing, Wi-Fi 6 pool offered by Avanci, Via Licensing Alliance, Sisvel S.p.A., respectively.

D. DISUNITY IN SEP LICENSING

Probably the most important point of dispute when it comes to SEPs are the overseeing of voluntary commitments made by the SEP holder to the SDO during the standard-setting process.[9] Some SEP holders engage in anti-competitive practices that abuse the SEP licensing process by exploiting ambiguities within the meaning of FRAND or otherwise reneging on their FRAND commitment. This has led some potential implementers to believe that FRAND is a fetter when they are faced with the risk of various forms of potential abuse from a SEP holder when trying to negotiate licensing terms for the SEP. On the flip side, SEP holders often feel unsatisfied with FRAND counteroffers received from the implementers as the same may not always reflect the amount of effort went into developing the patented technology. Some issues faced by market participants upon the approval of a standard are:

- Patent hold-up – After an industry has been locked into a standard, implementers in the market have no choice but to seek a license from the relevant SEP holder. In such a scenario, the SEP holder automatically has a higher bargaining power and may impose unreasonable terms, including excessive royalties, for the grant of a license. Practices like these cause undue delay in the implementation of standards, resulting in financially arduous outcomes for implementers.
- Royalty stacking – This practice is often encountered when the manufacturer of a single product requires licenses for multiple standardised patents and is therefore burdened by several overpriced royalties.[10]
- Accurate determination of FRAND rates – There is often a disconnect between the implementer and the contributor as to what rate can be considered FRAND. A contributor often feels undercompensated for the effort spent in developing the patented

[9] Lerner, J., & Tirole, J. (2015). Standard-Essential Patents. *Journal of Political Economy*, *123*(3), 547–586. https://doi.org/10.1086/680995.
[10] Zelin Yang, "Damaging Royalties: An Overview of Reasonable Royalty Damages." (2014) 29 Berkeley Technology Law Journal 647.

technology which has been standardized. An implementer often feels extorted due to lack of alternatives available to it.

SECTION 3: MARKET BACKGROUND AND SUMMARY OF RELEVANT COMPETITION LAW CONSIDERATIONS IMPORTANT FOR UNDERSTANDING AND APPLYING FRAND OBLIGATION

In this section, a comprehensive summary of the Indian market regarding SEPs shall be provided by way of (i) a market background which shall cover development, considerations for the nation's interests beneficial to its growth, and a brief overview of the evolution of case law jurisprudence, (ii) an analysis of the competition aspects of SEPs in relation to India where the role of the Competition Commission of India (CCI) is described and (iii) finally, a comparative analysis of allowable conduct is charted using the factual matrix of the CCI matters.

A. MARKET BACKGROUND

The development of the telecommunications sector in the early 1990s and 2000s with the introduction of 2G and 3G technologies is possibly the most significant factor in contribution to standard setting. There became a necessity, across the sector for participants to come together in the development of standards, which would in turn benefit the sector as a whole by pushing the boundaries of advancement and incentivising technological expansion.

Today, the information and communications technology (ICT) sector enjoys robust commercialisation. Industry-led efforts into standard setting and implementation through FRAND licensing terms has positively transformed the sector into a 'networked society',[11] where there are enormous efficiencies (such as increased competition, removal of barriers to market entry, and availability of products at competitive prices) as well as consumer welfare.

a. Developments of SDOs in India

In India, with the telecom boom, there was a need for regulatory oversight to ensure the significant powers that market leaders enjoyed were not subsequently abused and end consumers were not affected by said abuse. The Department of Telecommunications (DoT), under the Ministry of Communications, is the governing authority for the telecom sector in India. Some of its functions are:

- the promotion of standardisation.

[11] A. Bharadwaj et al. (eds.), "*Multi-dimensional Approaches Towards New Technology*" 2018, Chapter 3 "*The Relevance of Standardization in a Future Competitive India and the Role of Policy Makers, Antitrust Authorities and Courts to Promote it*" at page 44. https://doi.org/10.1007/978-981-13-1232-8.

- cooperation with international telecommunications bodies and SDOs.
- policy, licensing, and coordination matters related to telecom.

All telecom service providers are required to enter into a 'Unified Access Service License Agreement' with the DoT. The DoT also runs an SDO, the Telecommunications Engineering Centre (TEC). The TEC provides support to the DoT and helps regulatory authorities such as Telecom Regulatory Authority of India (TRAI) in policy making regarding standards.

Other than TSDSI and BIS, that have been mentioned earlier, a few other Indian SDOs are:

i. Global ICT Standardization Forum for India (GISFI) – Founded in 2008, GISFI aims to create greater coherence in ICT standardisation in sectors such as energy, telemedicine, wireless robotics, and biotechnology.
ii. Automotive Research Association of India (ARAI) – It is a cooperative industrial research association established by the automotive industry with the Ministry of Industries, Government of India. Among other things, formulation of automotive standards is a function of ARAI.

b. Consideration of small and medium-sized enterprises (SMEs) interests

Small and medium-sized enterprises (SMEs) play a crucial role in creating a connected economy and driving innovations. However, their market participation may be gravely hindered due to SEP licensing demands. The following factors create asymmetric risks to SMEs and ultimately inhibit innovation:

i. Asymmetry of resources – Due to a relative lack of resources, SMEs are at a massive disadvantage against a coercive licensor. In case of SEP assertions, the disproportionate and limited amount of resources available to an SME hinders their ability to defend against the same.
ii. Asymmetry of commercial information – A lack of transparency in market practices of a SEP holder, coupled with limited capacity of SMEs to dedicate resources to fully understand the SEP environment, creates a situation where there is a low rate of market participation. For instance, the SMEs are usually unaware and unsure about whether or not the rates offered to them are non-discriminatory and whether all its competitors and similarly situated entities have received the same rates from the same SEP owner. In order to become just aware about the rates offered to other competitors (which is a fair demand), the SMEs have to spend exorbitant amount of resources in fighting a legal

battle for getting a Court determination of a FRAND rate or a Court order directing the SEP holders to disclose its other licenses to the SMEs, either directly and/ or via their legal representatives.

iii. Asymmetry of technical information – SMEs lack the wherewithal and sometimes, the necessary bandwidth, to evaluate the validity and essentiality of the asserted SEPs. This issue becomes particularly harmful when SMEs are restricted by way of secrecy agreements to share details of claims with their upstream suppliers. Also, patents are techno-legal documents to be interpreted in not common English. Likewise, a technical Standard is a highly sophisticated document which a common man cannot understand. SMEs often stand in need of assistance from a "technical experts" to understand the scope and boundaries of SEPs and of the Standards. This exercise of engaging technical experts to understand whether the SEPs are valid, indeed essential, incorporated in the Standard and infringed or not drains significant amount of resources of the SMEs leaving them cash compromised even before a license has been taken or even before a formal litigation between the parties has initiated. All such relevant information is easily available with the SEP owners and can be easily rendered open or shared during a licensing discussion. However, in practice, such relevant information is often not divulged, leaving the SMEs to spend enormous amount of resources and struggle at their own to retrieve said information.

iv. Asymmetry of market position – Due to an SME's lack of awareness and experience in determining FRAND royalty rates relative to their position in the value chain, they may be subject to predatory licensing terms whereby they are overpaying for incorporating a technology into a downstream product. This could prove to be highly counterproductive to the very tenet of encouraging SMEs.

India has a vested interest in boosting its MSME (micro, small, and medium-sized enterprises) Sector. According to the Ministry of MSMEs:

'*MSMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country*'.

It would be of overall benefit to MSMEs if the legislators could help them by way of commercial, legal, or technical support, so as to balance the asymmetries mentioned above that they currently face in the SEP environment.

B. CONDUCT

As briefly discussed above, conduct of the parties in a SEP licensing negotiation is a prime indicator showing willingness or unwillingness for entering the licensing transaction. In any instance when the SEP owner expresses reluctance in sharing relevant technical information about its portfolio even though the same is handy with it, SEP owner's unwillingness to license becomes evident. Likewise, offering terms that are overly priced and unreasonable as per industry standards or as per SEP owner's own ex-ante determinations is often considered as unwillingness of the SEP owner. On the other hand, if any prospective licensee deliberately delays the licensing negotiations by not responding to the SEP owner's communications, the unwillingness of the prospective licensee may be indicative. It is noteworthy that the time taken by the prospective licensee to present its counteroffers during the negotiations needs to be seen slightly liberally and not conservatively, since as explained above, the prospective licensees often have to undertake complex technical analysis at their end, even for responding to a bare minimum query from the SEP owners. In such a situation, the delay cannot always be attributed to the prospective licensee, especially when the SEP owner chooses not to share the technical information with the prospective licensee despite the same being handy with the SEP owner. Likewise, if the prospective licensee makes a counteroffer that is irrational or not premised on any industry accepted royalty computation methodologies and has no concrete or reasonable logic behind the computation, such conduct of the prospective licensee may be indicative of unwillingness. However, here too, various factors must be taken into account before ruling on unwillingness of the prospective licensee since licensee, who may be a MSME, may not even know the rules of the game and, simply in innocence, may play a wrong move.

Besides willingness aspect, what has also been observed over the years in several cases is an unreasonable conduct of SEP owners in the form of an abusive tactic or abuse of their dominance in the market.

Relevant facts from a few cases that took place before the Competition Commission of India (CCI) can be considered to enhance understanding of the conduct of parties during the SEP negotiations. In such cases before the CCI, various companies like Micromax, Intex, and Best

IT World ("the informants") instituted complaints against Ericsson for alleged abuse of dominant position and setting of discriminatory royalty rates for similarly situated parties as evidence that their conduct was inconsistent with FRAND obligations. While a final decision has not been made in these cases, the findings of the Competition Commission reveal common types of abusive tactics applied by SEP holders that should be considered by the Courts.

NDA – All the informants had similar complaints regarding Ericsson. They stated that upon being notified by Ericsson of potential infringement of SEPs, they required the informant parties to enter into an NDA as a necessary pre-condition for disclosing details of alleged infringement[12] or FRAND licensing terms.[13] This practice is antithetical to the transparency obligations that come under the FRAND promise.

Royalty fee – Regarding the royalty rates that Ericsson demanded in their licensing terms, the informants stated that the rates were imposed based on the value of end product and not the actual price of the technology that was being licensed. As a result, royalties for the same chipset were 10 times more in a smartphone compared to an ordinary phone, even though there was no additional value that the technology provided to a smartphone. The Commission observed that, '*The royalty rates being charged by [Ericsson] had no linkage to the patented product, contrary to what is expected from a patent owner holding licenses on FRAND terms…. Refusal of [Ericsson] to share commercial terms of FRAND licenses with licensees similarly placed to the Informant, fortified the accusations regarding discriminatory commercial terms imposed*'.[14]

Willingness – A patent holder imposing unreasonable expectations upon a potential licensee goes against the fundamentals of a licensing negotiation. Micromax alleged that Ericsson, after providing the licensing terms to Micromax, demanded acceptance within 25 days, otherwise it shall be construed as refusal to obtain license. This is clearly in defiance of SEP licensing fundamentals as it is unfair to not allow a potential licensee a reasonable amount of time to thoroughly inspect a licensing offer and provide a suitable counteroffer. Reasonableness of time depends on conduct of a potential licensor since a potential and willing licensee may face

[12] *Intex Technologies (India) Limited v. Telefonaktiebolaget LM Ericsson (Publ.) [2014 SCC OnLine CCI 8]* at para 7.
[13] *Supra* Note 12 at para 4.
[14] Para 17 of the Commission's decision in Ericsson cases at Note 12.

many hurdles to get adequate information regarding disputed patents from the patent holder and in such a scenario imposing strict and narrow timelines to execute a complete licensing agreement is simply unreasonable. If the potential licensee takes reasonable time to evaluate the black box of patent portfolio to identify what all patents are actually being implemented by them, it should not be construed that the licensee is ‘unwilling’. Similarly, if the counteroffer of the potential licensee is similar to what it is paying to similarly situated licensors, just the fact that it is far lesser than what the initial offer of the potential licensor is, also doesn’t qualify the licensee as ‘unwilling’.

In the recent judgement of *Ericsson v Intex* rendered by the Learned Division Bench (DB) of the Hon’ble Delhi High Court, the Learned DB has explained the test to determine a willing licensor. It held that if the licensor offers a supra-FRAND offer i.e. exorbitant royalty rates, it will not be considered a willing licensor.

Injunction – Seeking injunctions, when alternative remedy (usually in the form of monetary compensation) is available, may be construed as a coercive tactic that a patent holder may use to force a potential licensee to enter into an unfavourable contract. Although there can be exceptions to the above, seeking interim injunctions creates an unnecessary burden upon standard implementers, since it affects the manufacture and subsequent sale of their products.

In one of the parallel judgements in *Ericsson v Intex*, the Learned Division Bench (DB) of the Hon’ble Delhi High Court held *“that the fact that there is no prohibition in Indian law against a Standard Essential Patentee from seeking an injunction, this Court is of the view that Standard Essential Patent owners who file lawsuits can pray for interim and final injunctive relief if an infringer is deemed by a Court to be an “unwilling licensee,” often as indicated by the use of “stalling” and other opportunistic bargaining and litigation tactics.”* However, this is attributed to an issue localized to India, where that the judge-population ratio is extremely poor and expeditious disposal of patent suits cannot be expected at the cost of other suits.

In *Nokia v Oppo* judgement dated 17.11.2022, the Learned Single Judge of the Hon’ble Delhi High Court laid four-step test to determine whether an implementer is unwilling. The test was to determine (i) the asserted suit patents are in fact SEP, (ii) the technology used by the implementer infringes the SEP, (iii) the royalty rates are FRAND compliant, and (iv) implementer is unwilling to take the license at the said FRAND rate.

The Learned DB of the Hon'ble Delhi High Court also articulated the same test, although qualifying it with the expression "*prima facie* assessment". The DB has come to the finding that, at the stage of seeking interim relief, the Court must consider the relief sought from a *prima facie* perspective, which means that the Court must assess whether the patent is *prima facie* infringed.

Therefore, as the present paper states, to maintain a harmonious SEP ecosystem, there must be a parity in conduct of a potential licensee with the relief that a patent holder or licensor may seek against them. Exceptional circumstances (for example – unwillingness of a potential licensee) could be a ground for seeking injunctive remedies, but when alternate interim remedies such as furnishing securities is available, a patent holder should not seek remedy that halts a potential licensee's business, as it creates an undue burden on them to enter into any license offer that is tabled to them so as to keep their operations from stopping. It is pertinent to note that, in the US, the Courts have held that license rates decided under threat of injunction cannot be considered FRAND.[15]

SECTION 4: SUMMARY OF CORE PRINCIPLES OF FRAND LICENSING PRACTICES

After presenting a broad over view of the SEP ecosystem, this paper aims at proposing certain policy recommendations and also aims to layout core principles of FRAND licensing practice, which are as follows:

Core Principle 1: *A FRAND SEP holder must not threaten, seek, or enforce an injunction except in exceptional circumstances and only where FRAND compensation cannot be addressed via adjudication. Parties should seek to negotiate FRAND terms without any unfair 'hold-up' leverage associated with injunctions or other* de facto *market exclusion processes.*

Core principle 2: *A FRAND license should be made available to anybody that wants one to implement the relevant standard. Refusing to license to some implementers is the antithesis of the FRAND promise.*

Core Principle 3: *SEPs should be valued based on their own technological merits and scope, not based on downstream values or uses.*

[15] *Microsoft Corp. v. Motorola, Inc.*, CASE NO. C10-1823JLR (W.D. Wash. Apr. 25, 2013)

Core Principle 4: *While in some cases parties may mutually and voluntarily agree to a portfolio license, no party should withhold a FRAND license to patents that are agreed to be essential based on disagreements regarding other patents within a portfolio. For patents that are not agreed upon, no party should be forced to take a portfolio license, and if there is a dispute over some patents, a SEP holder must meet its burden of proof on the merits.*

Core Principle 5: *Neither party to a FRAND negotiation should seek to force the other party into overbroad secrecy agreements. Some information, such as patent lists, claim charts identifying relevant products, FRAND licensing terms, aspects of prior licensing history and the like are important to the evaluation of potential FRAND terms, and public availability of those materials can support the public interest in consistent application of FRAND.*

Core Principle 6: *FRAND obligations remain undisturbed despite patent transfers, and patent sales transactions should include express language to that effect. Where SEP portfolios are broken up, the total royalties charged for the broken-up parts should not exceed the royalties that would have been found to be FRAND, had the portfolio been retained by a single owner. Patent transfers should not be used to defeat a potential licensee's royalty 'offset' or similar reciprocity rights.*

SECTION 5: PRACTICAL SUMMARY OF BEST PRACTICES OF SEP LICENSING WHICH HELP FACILITATING FRAND PROCESS AND IN CONDUCTING BI-LATERAL NEGOTIATIONS

a. The Parties

This sub-section provides an illustrative, although not exhaustive, list of actions conducive to a 'willing' and appropriate negotiation process.

Willing Licensors

i. Should act in a reasonable manner – Without a 'willing licensor', there can be no 'willing licensee'. A licensor, while negotiating a SEP license, must:

- Use clear, transparent, and unambiguous language while drafting agreements, and undue delay in the negotiating process due to cryptic and unclear drafting must be held against the licensor as it is not the licensee who is at fault for seeking any such clarity.

- Not withhold any information relating to:
    a. Invalidity or non-essentiality of asserted patents.
    b. Licensee's reasonable assessment of proposed licensing terms.
- Not assert claims which it knows to be non-essential to a standard and must not coerce a licensee into obtaining a conditional license requiring them to additionally take licenses for patents non-essential to a standard.

ii. Should be prepared to negotiate licensing of any and all SEPs applicable for licensee's implementation. A licensor's offer should include all the patents that are applicable relative to a potential licensee's requirement for standard implementation, that are in control of the licensor.

- Non-SEPs: This however does not extend to non-SEPs, and a licensor must not, unless otherwise agreed to mutually, bundle SEPs and non-SEPs into a form of conditional license, even if the non-SEPs may be applicable to the licensee's product.
- SEPs that are applicable to a different standard: Conditional licensing of a SEP portfolio on a requirement for licensing of other SEPs applicable to another standard is also inappropriate behaviour on part of the licensor, unless of course such a condition is a result of a mutual agreement between both parties.
- SEPs within a standard which are subject of dispute: There may be a situation where, in a SEP portfolio that has been offered, a potential licensee disputes the essentiality/validity/infringement of certain patents within the portfolio. In such cases, it is not appropriate to either offer a conditional license requiring the potential licensee to accept and pay for the SEPs that the licensee requires along with the ones that are subject of dispute. The parties should retain the right to pursue claims and defences relating to patents that are subject of disputes, without the other patents essential to the potential licensee's implementation of a standard also being unavailable to them.

iii. Demonstrate essentiality – Any assertion by a licensor indicating an infringement by the potential licensee's product of the SEPs held by the licensor, also confers upon him the burden of proof to demonstrate that:

- the particular patents are essential to practice the standard and are actually infringed by the potential licensee's product.
- and, if challenged, are not otherwise invalid, unenforceable, or exhausted.

iv. Should disclose all information that licensee is seeking to evaluate terms – A willing licensor should be obligated to disclose the following information regarding its SEPs to a potential licensee so as to create a fair and reasonable negotiation experience:

- List of the licensor's SEPs claimed to be essential to a particular standard,
- Geographical scope of SEP portfolio,
- Total number of SEPs globally known by the licensor to be essential to a particular standard, and their *pro rata* share of that total amount,
- Date of expiration of each such patent included in the offer,
- Claim charts with mapping of relevant portions of the standard and each asserted claim that is alleged of being infringed by the potential licensee,
- Historical information and other relevant comparables for prior SEP licenses,
- Any information relating to ongoing disputes/litigation for any SEP that the licensee seeks to implement,
- Any other information reasonably needed by the licensee to evaluate FRAND royalty rate for relevant patents,[16]
- Proposed royalty fee/offer based on the component on where the invention resides and not on the device/apparatus in which the component is incorporated, Taking a royalty on the price of end equipment leads to unnecessary inflation of technology and the pricing thereof where the inventors did not contribute.

v. Valuation – A willing licensor must explain with sufficient detail:

- Proposed licensing terms,
- Valuation method used to determine FRAND royalty rate,
- Consistency of proposed rate with existing case law jurisprudence of courts and regulatory authorities.

Willing Licensees

i. Expressing willingness – Once it is established by a licensor that a license is in fact required for a potential licensee's product, it is recommended that the licensee

[16] Various stakeholders responded to TRAI's consultation paper titled "Consultation Paper on Promoting Local Telecom Equipment Manufacturing". One of them stated that licensing offers made by licensors should be clear and transparent, and in their experience licensors "hide the ball" frequently and recommends various disclosure obligations that a licensor must provide when entering into licensing negotiations based on FRAND terms.

express their willingness to enter into good-faith negotiations with the licensor to determine FRAND terms and royalty rates for the potential license. Such actions could prospectively help the potential licensee to prove their *bona fides* in case of any potential dispute/litigation.

ii. Supply chain engagement – There may be scenarios where the requirement of seeking a license by a potential licensee only arises out of a component that is purchased through the licensee's supply chain. In such a scenario, the following does not equate to the potential licensee being 'unwilling':

- If the potential licensee engages the supply chain entity, through whose component the licensing requirement emerges or tries to connect the supplier directly with the licensor to enter into FRAND negotiations.
- If the supply chain entity, through whose component the licensing requirement emerges, is a willing licensee, customers of the relevant product from the entity should be assumed to be 'willing' unless their conduct proves otherwise.

iii. Response/Counteroffer – Only after a licensor has met their disclosure obligations stated in the above sub-section and provided enough time to evaluate the same, is the potential licensee expected to respond to the offer, by either accepting the terms, or providing a counteroffer that they think to be reasonable. Unresponsiveness due to the licensor not disclosing relevant information should not be sufficient to render the potential licensee as 'unwilling', if the potential licensee has intimidated the licensor about missing information necessary for preparing a counter-offer. Additionally, giving a counteroffer which may be much lower than the offer, provided cogent reasons and explanations are given and the methodology for arriving at the counteroffer is provided, does not constitute as 'unwillingness'.

iv. Asking for information related to validity, coverage of the SEP portfolio, essentiality and infringement cannot be construed as 'unwillingness' on the part of the potential licensee.

v. Suspension of the counteroffer until the information sought, which is either listed in the disclosure obligations above or the potential licensee may provide reasonable reasons for seeking is not received, does not tantamount to an 'unwilling licensee'.

vi. Meaningful engagement – If the licensor has followed all the steps in a manner which sufficiently demonstrates their willingness, the potential licensee should strive for a meaningful engagement in licensing talks after the initial offer.[17]

b. NDAs in SEP Licensing Negotiation

The negotiation process between parties while reaching a FRAND-based licensing agreement requires the licensor to disclose certain information to the potential licensee for them to fairly evaluate terms. Although the licensing process is between private parties, the FRAND promise, and its compliance has great influence on public interest. This makes the practice of forcing a potential licensee to enter into rigorous non-disclosure agreements (NDAs) susceptible to misuse. In India, both the Telecom Regulatory Authority of India (TRAI) and Department for Promotion of Industry and Internal Trade (DPIIT) have raised concerns regarding the abuse of strict NDAs and its hindrance to the transparency obligation of FRAND.[18] The parties should agree to the following conditions regarding how to treat disclosures in good faith:

i. A licensor must be willing to provide certain information regarding its SEPs when it is seeking to initiate a licensing negotiation. All information related to disclosure obligations mentioned earlier must not be covered under a strict NDA because it is an unfairly leveraged practice towards potential licensees, and it is one of the objectives of FRAND to balance the existing information asymmetries as much as possible.

ii. A licensor must disclose existence of earlier license(s) for it to be fair for the potential licensee to know what similarly situated parties are paying.

---

[17] In *Ericsson Inc. v. D-Link Sys. Case No. 6:10-CV-473* (E.D. Tex. Aug. 6, 2013), the United States District Court for The Eastern District Of Texas Tyler Division, opined that Intel had not fulfilled its obligations as a "willing" licensee and found, *inter alia*, that "Intel itself never meaningfully engaged in licensing talks with Ericsson after Ericsson's initial offer" (*at Para 16*).

[18] TRAI in consultation paper dated 18th September 2017 titled "Consultation Paper on Promoting Local Telecom Equipment Manufacturing" states NDAs may result in differential royalties being paid among different licensees and it considers NDAs as a subject of concern [*at Chapter 2 (1)(e)(iv)*]. Find the complete paper at https://trai.gov.in/sites/default/files/CP_on_Manufacturing_18_09_17.pdf. The DPIIT too in their paper dated 1st March 2016 titled "Discussion Paper on Standard Essential Patent and their Availability on FRAND Terms" asks the question whether NDAs result in misuse of dominant position and is against FRAND terms and considers this an issue that needs a resolution and invites comments from stakeholders. [*At Chapter 11 (g)*]
Find the complete paper at:
https://ipindia.gov.in/writereaddata/Portal/News/196_1_standardEssentialPaper_01March2016_1_.pdf.

iii. A licensor must disclose existence of earlier license(s) because sometimes royalties could be paid multiple times for the same device since the SEP license already existed within a supply chain ('double dipping').

iv. The parties may enter into a narrow NDA in a scenario where information is relating to confidential business or technical information such as trade secrets,[19] or where third-party information subject to confidentiality obligations is exchanged. The NDA must not extend to information not related to a licensor's legitimate confidential interests.

v. If a potential licensee is reluctant to enter into a rigorous NDA, it does not make the party 'unwilling'.

c. Fundamentals of a FRAND License Agreement

The parties should follow these overarching fundamentals in their FRAND license agreement:

i. There must be honest and verifiable representations during negotiations.

ii. A license agreement must not restrict a licensee from initiating invalidity, non-essentiality, or non-infringement proceedings against the licensor.

iii. Only patents essential to the licensee's products must be licensed and the licensor must not force a portfolio of patents upon the licensee in a scenario when only certain SEPs in the portfolio are applicable.

iv. Parties should not impose unreasonable expectations on the other during the licensing process as fair negotiations require time and patience. Parties must not dispute over timelines unless a party is acting in bad faith.

v. Use of a formal guarantee or escrow should be unnecessary in the licensing process unless a potential licensee has disclosed potential liquidity problems.

[19] The Jindal Initiative on Research in IP and Competition (JIRICO), a research initiative of O.P Jindal Global University, in its response to TRAI's consultation paper cited in footnote above, argue that NDAs do not by themselves lead to abusive conduct and calls for a more nuanced approach towards NDAs so as to not bring down competitive and strategic advantages for all parties involved and therefore dis-incentivize innovation. (*At Page 8*) Find the complete response at https://www.trai.gov.in/sites/default/files/JIRICO_CP_PLTEM.pdf.

d. SEP Valuation Methodologies

This subsection provides for some general principles relating to SEP valuations, and although these are not obligatory, they could be applied if the parties mutually agree:

i. Smallest Saleable Patent Practicing Unit (SSPPU) – This is a top-down methodology developed and recommended by authorities and some SDOs as an approach to mitigate adverse situations like royalty stacking. This method of valuation requires that royalties be calculated based on the value added to the smallest component of claimed invention that implements the standard. This method aims to curb licensors from unfairly adding value to their SEPs based on the value of the end product. Doing so is unfair because the final marketed product usually comprises of additional technologies and features, which may not be necessarily attributable to the concerned SEP, and therefore the SEP holder should not reflect that value on his own invention. This methodology gives a fair reflection of the value of an innovation inherent in a patent claim, and not other factors such as value of standardisation or the value of the other innovations that goes into an end-user product, which could be extremely complex.

ii. Top down approach – This methodology is a simple method to compute FRAND rates owed to any SEP holder. This requires that first an aggregate royalty for all the patents covering the entire standard is determined. Such determination will take into account all the SEPs of all the contributors to the relevant standard. This would effectively give value of the entire standard. As a second step, the calculated aggregate royalty apportioned among the various SEP holders who contributed to the corresponding standard, and said apportionment depends on the number of SEPs owned by each SEP holder. Further, very often it is required that apportionment takes into consideration the number of SEPs held by each SEP holder in a particular jurisdiction since a patent is a territorial right and it is very well possible a patent in a specific jurisdiction do not map onto the standard and becomes not essential even though its corresponding foreign family members may be mapping onto the same standard.

iii. Bottom up approach – This approach evaluates the value of an individual SEP at the bottom level. It also takes into account the value of the patented technology to the product (independent of the standard) followed by determining the overall contribution of a specific patent (SEP) to the standard.

iv. Comparative Analysis – This is an ex-post valuation methodology (relies on existing licenses) that has been used in case law jurisprudence, where economic value of a technology is decided through a comparison on the basis of other royalties received by a SEP holder in situations equivalent to FRAND commitments, such as:
   - Royalties charged for the same patent in other comparable standards.
   - Royalties charged for the same patent in a non-standardised environment.
   - Royalties imposed in similar agreements that the patentee has entered with companies that are in a similar position as the licensee.

v. Proportionality – This principle states that calculation of royalties based on FRAND terms should be a valuation of an SEP holder's proportional share of all patents essential to a standardised technology.

vi. Ex-ante approach – This approach relies upon the disclosures pertaining to the contributions and/or royalty rates made by the SEP holders during the phase of standard development/finalization. Such disclosures are usually in the form of new articles, archives, public statements etc. and are relied upon to bind the SEP holders to their statements or such prior disclosures on royalty rate, especially in the event when the SEP holders demand *supra* FRAND rates from implementers. Additionally, it is commonly observed that the problems of "holdup" and "holdout" in the SEP ecosystem primarily arise when the royalties demanded during negotiations are significantly different or higher as compared to prior disclosures by the SEP holders due to the bargaining power of the SEP holder. These problems can be contained using *ex ante* approach.

It is pertinent to mention some valuation methods or practices that are inconsistent with FRAND:

i. Use-case based valuation – This principle intrinsically ties the value of a SEP with either added technologies or value of the end product, and it is not a FRANDcompatible method as it fails to reflect the true value of a standardised technology and therefore leads to unfair licensing terms.

ii. Discrimination – This practice is completely against the FRAND agreement and therefore not allowable. SEP holders are not allowed to discriminate amongst potential licensees by offering varying licensing terms and royalty rates to them, especially when potential licensees are similarly situated in the market. Discriminatory behaviour is subject to anti-trust regulations and later in the paper we shall discuss cases where such practices have been uncovered, and how jurisprudence regarding FRAND and valuation has developed thereon.

e. Refusals to License

The FRAND agreement is the one that enshrines non-discrimination and anti-collusion. The licensor must not deny license to a willing licensee based on competitive, collusive, or gate-keeping motivations. Any potential licensee is entitled to obtain a FRAND license from SEP holder.

f. SEP Portfolios and Portfolio Licensing

The licensor should follow the following terms regarding portfolio licensing:

i. All the patents that are part of a SEP portfolio should not be treated by the licensor as a single unit when negotiating licensing terms.

ii. A potential licensee should not be forced to pay royalties in excess of the relevant value of the SEP.

iii. A licensee can request to obtain a license for all patents in a portfolio, but it should not be treated as mandatory by a licensor.

iv. In case of disaggregation of SEPs, i.e. a portion of a patent portfolio is transferred from original SEP holder to a new SEP holder, the true value of the portfolio must be reflected in FRAND rates and not the original value of the entire portfolio (before disaggregation). The reduction in the value of the portfolio must correspond to the value of the transferred patents. A licensor transferring such patents should also revise licensing terms to reflect the same.

v. Parties may choose to value the portfolio pricing based on an adjustment which accounts for a potential dispute over validity of certain patents. These assumptions needed for adjustment could be estimated from general quality of the patent portfolio.

vi. Parties reaching an agreement regarding certain patents in a portfolio do not relinquish their right to pursue claims or defences as to all other patents that are alleged to be infringed.

g. Disputes

i. Alternate Dispute Resolution (ADR) – Parties may choose to have an arbitration or mediation clause or may agree on voluntary mediation prior to litigation or may be ordered by a court for mandatory arbitration/mediation. The refusal of ADR by a party does not make them 'unwilling'.

ii. Litigation – All parties have the right of access to courts and nothing in a license agreement should attempt to negate this.

iii. Competition – FRAND licensing also encompasses an aspect of competition regulations and parties may approach competitive authorities in respective jurisdictions if FRAND obligations have been violated.

h. Injunctions

Injunctions are, except in exceptional circumstances, considered to be a coercive tactic for licensors to compel a party to accept licensing terms that do not comply with a licensor's FRAND obligation. The licensor should adhere to the following guidelines relating to injunctions:

i. When monetary compensation is otherwise available, injuncting a party from use of a SEP is generally an unacceptable remedy and the licensor should not threaten to seek the same.

ii. Compensation through methods such as back royalties, interest, and costs of litigation are better aligned with FRAND fundamentals as they do not result in market exclusion, which an injunction generally does.

iii. Monetary remedy is generally adequate to compensate a party and hence there is no need to seek an injunctive remedy.

i. Standard Developing Organisations (SDOs)

Some best practices of SDOs are:

i. They should provide for guidelines regarding FRAND-compliant practices.

ii. The FRAND obligations must be clearly defined to combat recognised anticompetitive harms and future potential abuses of the SEP licensing process.

iii. SDOs must always strive to increase participation from a diverse array of market entities while developing policies and should further educate manufacturers regarding their eligibility to obtain licenses based on FRAND terms.

They must focus on creating awareness and balancing the ecosystem in the country such that FRAND is not viewed as a fetter. A special attention must be paid to the fact that coercive tactics can disrupt an otherwise conducive approach between the licensing parties at the negotiating table, which must be disparaged and discouraged, and strict guidelines must be issued to do away with them.

j. Licensing Through Patent Pools

i. A SEP holder offering licenses through a pool should not restrict a potential licensee from obtaining the same through direct negotiations.

ii. It may benefit both parties if some SEPs are licensed through pools, but a potential licensee's refusal to license through a pool is not an indicator of 'unwillingness' on their part.

iii. Licensing through patent pools shall not be used as a tactic by patent holders to behave in a manner not aligned with their FRAND obligations. Further, licensing through patent pools should be subject to the same FRAND requirements as individual SEPs.

iv. A potential licensee must disclose all relevant information relating to the pool so that any potential double-dipping (where a license may already exist in a potential licensee's supply chain) is avoided. A pool administrator/sub-licensor or agent of the licensor must work with a potential licensee to ensure transparency and reflect true values of the pool, adjusting for all existing licenses.

SECTION 6: GLOBAL AND INDIAN JURISPRUDCENCE, KEY FINDINGS AND GUIDING PRINCIPLES EMERGING FROM LANDMARK JUDGEMENTS

In this part of the paper, the core principles that form the basis for FRAND-compliant behaviour during the negotiation process shall be discussed in detail, with analysis of the evolving jurisprudence in the Indian context and comparison with global laws and background.

a. Injunctive Relief

In patent law, the holder of a successfully granted patent enjoys a monopoly for the duration of the term of the patent. During the term of the patent, the patent holder can restrict others from using the patent holder's invention and commercially exploiting the same in a manner detrimental to the interest of the patent holder. In India, the term of a patent is 20 years from the date of filing the patent application.[20] In a situation where a patent owner's rights are being violated, the owner has a right to seek injunctive remedy from the courts. Any temporary or interim injunctive remedy (restriction on movement, sales, custom seizures) that is granted is done so to protect the patent holder's valuable rights in their intellectual property until final disposal of the suit. However, sometimes granting of interim or permanent injunctive relief could be of massive prejudice to a party to an infringement suit, especially when huge commercial values and interests are present in the suit patents, including that of the customer at large. Indian courts have acknowledged this and resorted to testing, *inter alia*, the balance

[20] Section 53, the Indian Patents Act, 1970.

of convenience[21] before grant of any temporary or interim injunction, especially in patent suits in the pharmaceuticals sector and those concerning SEPs, where monetary compensation is enough to restore the position of the plaintiff i.e. the loss is not irreparable.

In the world of SEPs, the restrictive right enjoyed by a non-SEP holder is not exactly the same as SEP holder. A manufacturer of a standard-compliant product has to incorporate SEPs in order to be compliant with industry standards, and on a greater public interest – reduce the cost of products to end users. The SEP holder, by making a FRAND promise, commits to pursue fair licensing of their technologies, which is unalike the rights of market exclusion enjoyed by a non-SEP holder. A FRAND promise effectually endorses a particular standard by licensing to third parties, rather than restricting a market participant from being able to utilize a standard via injunctive remedies. Injunctive remedies can also be used as a threat to gain an unfair advantage in a licensing negotiation whereby an SEP holder can coerce a potential and willing licensee into agreeing to harsh and unfavourable terms of license. Such actions are completely inconsistent with FRAND commitments, that an SEP holder makes when standardising an invention. It is important to point out though that a FRAND promise, while steering a patent holder away from seeking injunctive relief, does not envisage surrendering their right to enforce a patent against unlicensed use.

To better analyse the effects of seeking injunctive relief in a SEP infringement matter, it is pertinent to highlight some important global case law and regulatory jurisprudence that address injunctions in a broader scope of patent hold-up issues.

v. Global Jurisprudence

eBay case

In the Unites States, the case of *eBay v. MercExchange*[22] had set the test for the grant of injunctions. In this case, eBay was sued by MercExchange for infringing on their patent and the U.S. Supreme Court opined that the following test must be applied before awarding injunctive relief to a party:

'*Four-factor test:*

[21] Balance of convenience is where the consequence of interim injunctive remedy on each party is considered so as to see whether it is greatly unfavourable to a single party or not. The injunctive remedy granted is hence 'balanced' in a way that is not overly detrimental to a party, until final disposal of suit.
[22] *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

A plaintiff in a suit for infringement must demonstrate -

(a) that it has suffered an irreparable injury;

(b) that remedies available at law are inadequate to compensate for that injury;

(c) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and

(d) that the public interest would not be disserved by a permanent injunction'.

***Apple v. Motorola*[23]**

In this case, various patents were contended for infringement by both parties, in which one patent was an SEP. In connection to said patent, Motorola sought an injunction, to which the Federal Circuit Court held that following the test laid out in *eBay (supra)*, a Plaintiff may have difficulties asserting '*irreparable harm*'. The Court went on to further state that '*Motorola's FRAND commitments, which have yielded many license agreements encompassing the '898 patent, strongly suggest that money damages are adequate to fully compensate Motorola for any infringement*'.

Huawei v. ZTE

The European Court of Justice (ECJ), in the case of *Huawei Tech v. ZTE Corp.*[24], delivered an important judgement where ECJ's position on seeking prohibitory injunction balanced with Article 102 of the TFEU[25] was clarified. Huawei was the proprietor of a SEP in the telecom sector, regarding which they were negotiating a licensing agreement with the defendants (ZTE Corp.), subsequent to which they filed a suit for infringement. For reference, one of the questions before the ECJ was whether '*the proprietor of an SEP which informs a standardisation body that it is willing to grant any third party a licence on FRAND terms abuse its dominant market position if it brings an action for an injunction against a patent infringer even though the infringer has declared that it is willing to negotiate concerning such a licence?*'

The Hon'ble Court stated that when a SDO standardises a technology covered by a patent, a prohibitory injunction can exclude a manufacturer's products from the market. A FRAND

[23] *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286.

[24] C-170/13 *Huawei Techs. Co. v. ZTE Corp.*, [2015] E.C.R. 477.

[25] Article 102 of *Treaty on the Functioning of the European Union* (TFEU) contains rules on competition applicable to undertakings whereby it prohibits the abuse of dominant position.

commitment, according to the Hon'ble Court, creates a legitimate expectation from third parties that a fair licensing agreement shall be granted and a refusal of such may constitute as an abuse of dominance. To answer this issue, the Hon'ble Court, in said matter, further stated that '*It follows that, having regard to the legitimate expectations created, the abusive nature of such a refusal may, in principle, be raised in defence to actions for a prohibitory injunction or for the recall of products. However, under Article 102 TFEU, the proprietor of the patent is obliged only to grant a licence on FRAND terms. In the case in the main proceedings, the parties are not in agreement as to what is required by FRAND terms in the circumstances of that case… In such a situation, in order to prevent an action for a prohibitory injunction or for the recall of products from being regarded as abusive, the proprietor of an SEP must comply with conditions which seek to ensure a fair balance between the interests concerned'*.

vi. Indian Jurisprudence

Overall, India's jurisprudence related to SEPs elucidates on a constantly growing awareness of the importance of SEP licensing in promoting innovation and competition, and the need for FRAND-compliant licensing terms that are fair and transparent for both patent holders and licensees. As the use of SEPs continues to grow in India and around the world, it is likely that the Hon'ble Courts and the Learned Policymakers will continue to play a critical role in shaping the legal framework for SEP licensing and SEP enforcement.

Specially in the context of injunctions, in India, the issue of "grant of interim injunctions" is decided based on a well settled principle where a three pronged test is applied i.e. the Hon'ble Court takes a prima facie view of the merits of infringement, determines the balance of convenience and assess whether irreparable harm is being caused to the plaintiff. However, the issue of permanent injunction is decided only upon assessing the merits of infringement and invalidity of the suit patent(s). Seeking of injunctive remedy is a statutory right for a patent holder.[26] However, since seeking injunctions when monetary compensation is available is not compliant with FRAND obligations, the courts have decided not to grant interim injunction in SEP cases. A few of such cases are enumerated below where the grant of interim injunctions in SEP suits was discouraged and instead other means to balance the interest of the parties were adopted. A decision on permanent injunction in a SEP suit in India is still awaited.

[26] Section 108(1) of the Indian Patents Act 1970 states that "*The reliefs which a court may grant in any suit for infringement include an injunction (subject to terms, if any, as the court thinks fit) and, at the option of the plaintiff, either damages or accounts of profits.*"

A few landmark judgements passed by the Hon'ble Delhi High Court, which over the past few years have taken the helm of SEP jurisprudence in India, are highlighted below:

- *Interdigital v. Xiaomi*[27] – This case exemplifies the global response to a growing practise by certain courts' attempting to assert jurisdiction over disputes involving foreign patents outside their purview. Historically, prominent law jurisdictions, such as the United States, have utilised anti-suit injunctions (ASIs) as a strategic legal instrument to prohibit a party in litigation from pursuing foreign parallel proceedings that obstruct the adjudication of an existing case. When jurisdictions began to overextend their authority to set global FRAND royalty rates for SEP licences, U.S courts issued ASIs in response. Thereafter, other jurisdictions, including China, adopted the use of ASIs, omitting important due process measures practised in the United States, to similarly preserve jurisdictional authority in SEP licensing matters. ASIs were met with anti-anti-suit injunctions (AASIs), leading to the decision in *InterDigital v. Xiaomi*. In this peculiar case, the Hon'ble Court granted, in a first instance, an AASI,[28] from an order passed by the Wuhan Court in China where global royalty rate setting proceedings were ongoing.

  Interestingly, on the issue of injunction, in this very case, the Hon'ble Delhi High Court stated that '*Patent infringement, in the case of SEPs has, however, a unique feature. A holder of an SEP is not entitled, of right, to seek injunction against infringement of its SEP, merely on making out a case of such infringement. The patent holder is also required to establish that it is FRAND compliant. This, essentially, means that every holder of an SEP is required, in law, to agree to the licensing of its SEP to willing licensees'*.[29] This goes to show that as SEP jurisprudence grows in India, the courts are ensuring consistency in their approaches with that of established jurisprudence internationally. The Hon'ble Courts in India are clear on the fundamentals of a FRAND commitment required from the SEP holders.

---

27 *Interdigital Technology Corp. v. Xiaomi Corp. [2021 SCC OnLine Del 2424]*.

28 This is essentially in the nature of an anti-enforcement injunction. In this case the Defendants moved the Wuhan Court to grant an anti-suit injunction against proceedings at the Delhi High Court. Aggrieved by the order, the Plaintiff sought an injunction from the enforcement of the order of the Wuhan Court.

29 *Interdigital Technology Corp v. Xiaomi Corp. [2020 SCC OnLine Del 1633]*, at para 29.

- *Intex v. Ericsson*[30] – In this recent judgement, the Learned Division Bench of the Hon'ble Delhi High Court made it easier for SEP holders to seek injunctive relief for global SEP portfolios while still identifying key obligations required of SEP holders through a FRAND commitment. The Hon'ble Court stated that there is no embargo on a SEP holder seeking an injunction from the Hon'ble Court at an interim or final stage. In making its decision, the Learned Division Bench of the Hon'ble Delhi High Court clarified another recent landmark judgement in a Learned Single Judge decision in *Nokia v. Oppo* that laid out a four-factor test, which the Learned Division Bench found to be not germane to the interim stage and more for a trial, when determining if the Hon'ble Court could require royalty payments from an alleged infringer[31].[32] In the Intex matter, the Hon'ble Court found that Ericsson made a *prima facie* case that their patents in question were valid and infringed and their license was offered on FRAND terms.[33] At paragraph 149 of said judgement, the Hon'ble Court stated that *"Keeping in view the aforesaid, this Court finds that prima facie the suit patents are essential, have been infringed and the royalty sought by Ericsson is on FRAND terms. Further, Intex is prima facie an intentional unwilling licensee and it has failed to raise a credible challenge to the validity of the suit patents."* On global vs territorial license issue, Intex argued that out of the 33,000 patents in Ericsson's portfolio, only eight India patents were at issue and therefore license/rates can only be decided for the suit patents under the Indian Suit.[34] However, the Hon'ble Court cited the UK Supreme Court decision in *Unwired Planet v. Huawei* to reason that negotiating separate licenses for each country would be impractical and, therefore, it may be FRAND for a SEP holder to license a global portfolio of SEPs.[35] The Hon'ble Court went on to state that a *prima facie* showing that one patent is infringed is sufficient to award injunctive relief for an entire patent portfolio.[36] This decision also notes that SEP holders must adhere to their SDO commitments, which includes making their SEPs available to all willing licensees on

[30] *Intex Technologies (India) Ltd. V. Telefonaktiebolaget L M Ericsson [2023 SCC OnLine Del 1845].*
[31] *Nokia Technologies OY v. Guangdong Oppo Telecommunications Corp [2022 SCC OnLine Del 4014]* at para 83. (i) Suit patents are in fact SEPs.; (ii) Technology used by defendants were infringing on the SEPs; (iii) Royalty rate at which licenses were offered are FRAND; (iv) Unwillingness of alleged infringer to obtain FRAND license.
[32] While the appellate bench is hearing the appeal in the matter, the Single Judge of the Delhi High Court had rejected Nokia's prayer for interim payments since they have failed to furnish any proof of admission regarding Oppo's liability towards Nokia. Supra at para 91.
[33] *Supra* note 30 at para 3.
[34] *Supra* note 30 at para 10.
[35] *Supra* note 30 at para 105-111.
[36] *Supra* note 30 at para 99-104.

FRAND terms and providing proper disclosures of their SEPs, including past comparable licenses.

- *Philips v. Vivo*[37] – The Hon'ble Court refused the granting of an injunction whereby all manufacture, import, and sales of disputed products would have been halted. Instead, the Court accepted the defendant's offering of security by means of land received by it from the government and instructed the defendants not to create any subsequent third-party rights on the land until final disposal of suit. This order from the Delhi High Court is important since it gives a remedy alternate to an injunction, by way of a security from the defendant(s) which does not cause them any irreparable harm that an ordinary injunction otherwise would have.

- *Ericsson v. Competition Commission of India (CCI)*[38] – This case arose from investigations initiated by the CCI into Ericsson's and Monsanto's abuse of dominant position in exercise of their patent rights. The Delhi High Court set these CCI investigations aside and held that where the Patents Act, 1970 conflicts with the Competition Act, 2002, the Patents Act, 1970 prevails. Particularly, where the issue concerns anti-competitive agreements and abuse of dominant position of a patent holder, Chapter XVI of the Patents Act, 1970 pre-empts the competition law.

- *Nokia v. Oppo*[39] – Further, on the issue of infringement, this judgement aligned Indian jurisprudence with the international jurisprudence. It was highlighted in this judgement that '*Unlike normal patents, the use, by another of a patent held by one party, does not, ipso facto, entitle the party, as a right, to an injunction restraining the other party from using the patent. This is because SEPs, by their very nature, constitute standards for operation of technologies which are required worldwide and form an integral part of telecommunication across the globe. An inalienable element of public interest, therefore, is ingrained in allowing accessibility to such patents'*. Although later *Pro Tem* security amount was ordered in this matter by the Learned Division Bench, this

[37] *Koninklijke Philips N.v V. Vivo Mobile Communications Co. Ltd. & Ors. CS (COMM) 383/2020 in order dated 17.11.2020.*
[38] *Telefonaktiebolaget LM Ericsson (PUBL) v. Competition Commission of India & ANR., 2023 SCC OnLine Del 4078, decided on 13-07-2023.*
[39] *Nokia Technologies OY v. Guangdong Oppo Mobile Telecommunications Corp. [2022 SCC OnLine Del 4014]*, at para 3.

case had unique facts wherein Nokia had asserted that since there was a previous licensing agreement between them and the defendants, which expired in 2018, that would amount to admission of liability. The Learned Single Judge stated that the previous FRAND agreement does not amount to an unequivocal admission of liability since the SEPs covered in the first agreement are not the same as the ones being exploited in the current matter.[40] The principle of non-granting of injunctive relief when monetary compensation is available is an overarching principle in SEP jurisprudence and cannot be negated by asserting any liability from a party without a FRAND agreement between them. The judgement by the Learned Single Judge was appealed by Nokia and the Learned Division Bench of the Hon'ble Delhi High Court opined that the aforementioned order ought to be set aside, especially in light of the fact that Oppo had a previous license with Nokia and therefore had a liability to renew the same. The Learned Division Bench further directed Oppo to deposit the 'last paid amount', attributable to India and not global sales. The Learned Division Bench has, therefore, set a crucial precedence by restricting deposits in proportion to a licensee's activities in India alone.

- *IDG* – Oppo[41]: IDG asserted its Indian patents against Oppo and filed interlocutory applications demanding *Pro Tem* deposits and interim injunction till the suit is decreed. However, during the course of the Suit, the parties agreed on an understanding basis which a consent order was passed by the Hon'ble Court, wherein parties consented that Oppo will secure Interdigital by providing bank guarantees to Interdigital, which would be jurisdiction agnostic and non-cancellable as long as Interdigital possess the original bank guarantee document. The Court refrained from injuncting Oppo in this matter and did not evaluate the merits of the matter at interim stage, in light of consent order.

In view of the above, it would mean that the few judgements that had been pronounced regarding SEP jurisprudence in India were in line with international jurisprudence and strikes a balance between the asymmetrical power that a SEP holder enjoys as compared to a potential licensee.

[40] *Supra* note 40 at paras 85,86.
[41] *Interdigital Technology Corporation & Ors. v. Guangdong Oppo Mobile Telecommunications Corp. Ltd. & Ors. [2024:DHC:1338]*

The Courts have opined that at the stage of grant of interim relief, an assessment as to whether a patent is prima facie infringed must be conducted. The test that the Courts have laid out are:[42]

i. Mapping patentee's patent to the standard to show that the patent is a SEP,

ii. Showing that the implementer's device also maps to the standard.

The Court also sets out obligations of an SEP holder which are consistent with the FRAND commitment made by virtue of standardising their patents.[43] Further, the Court states, '*A licensor will be considered a willing licensor only if it gives a FRAND offer and in certain situations provides information necessary, subject to confidentiality agreement, for a licensee to evaluate an offer. If the licensor offers a supra-FRAND offer i.e., exorbitant royalty rates, it will not be considered a willing licensor'*.[44]

In the SEP ecosystem, the implementors/licensees are often victims of exploitation due to lack of experience, information, and resources. Interim injunctions in SEP cases are discouraged because it may well be used as a coercive tactic to force a potential licensee to enter into a non-FRAND compliant licensing agreement. It is pertinent to recognize that in absence of injunctions, implementers may practice the patent holder's technology until a suit is finally disposed but grant of an injunction can force the implementer to exit the market altogether. This hinders further innovation and growth in the concerned market and the power of innovation and access to the market stays condensed within the hands of a small group of patent holders.

Market exclusion becomes a very real outcome when an injunctive relief is sought by a SEP holder. To deter potential abuse of a SEP by bad-faith actors, in situations where monetary and other forms of commercially viable remedies are available, it seems unnecessary to negatively alter market behaviour, especially when the threat of injunctive remedy can lead to hold-ups or gaining of an unfair leverage in a FRAND negotiation process and execution of non-FRAND compliant agreements by the licensee.

Accordingly, and for all these reasons:

Core Principle 1: A FRAND SEP holder must not threaten, seek, or enforce an injunction except in exceptional circumstances and only where FRAND compensation cannot be

---

[42] *Supra* note 30 at para 93.

[43] *Supra* note 30 at para 61.

[44] *Supra* note 30 at para 69.

addressed via adjudication. Parties should seek to negotiate FRAND terms without any unfair 'hold-up' leverage associated with injunctions or other de facto market exclusion processes.

b. Licenses to Any Willing Licensee

FRAND commitment is an obligation that a patent holder agrees to when their patent is included in a technical standard. A FRAND commitment is an agreement by a patent holder to grant licenses for their patented technology on FRAND terms to *any willing licensee*.

The primary objective of FRAND commitments is to strike a balance between promoting innovation and competition and avoiding anti-competitive behaviour. SEP holders, who may be dominant in a market, are in a unique position to exploit their patents and charge exorbitant fees to license their patented technology, making it difficult for competitors to enter the market. This could stifle innovation and competition and lead to market distortion. When a patent holder fails to honour their FRAND commitment, it can have serious anti-competitive effects on the market. For example, a SEP holder may use their patents to exclude competitors from the market, effectively creating a monopoly, which is not in the best interest of the customer because, in such an event, the SEP holder can charge exorbitant money for their product due to lack of options available to the customer.

The European Commission has noted:

> '*In order to ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms ('FRAND commitment'). That commitment should be given prior to the adoption of the standard. At the same time, the IPR policy should allow IPR holders to exclude specified technology from the standard-setting process and thereby from the commitment to offer to license, providing that exclusion takes place at an early stage in the development of the standard. To ensure the effectiveness of the FRAND commitment, there would also need to be a requirement on all participating IPR holders who provide such a commitment to ensure that any company to which the IPR owner transfers its IPR (including the right to license that IPR) is bound by*

that commitment, for example through a contractual clause between buyer and seller'.[45]

The essentiality of an irrevocable commitment for granting licenses is reflected in IPR policies of various SDOs.[46] Once a patent holder has made a FRAND commitment, it becomes binding on them. This means that if they refuse to license their technology on FRAND terms, they could face antitrust investigations and legal action.

The legal implications of FRAND commitments were explored in the case of *Huawei v. ZTE*[47] where the European Court of Justice laid down guidelines for how patent holders and licensees should negotiate FRAND licensing agreements. The court held that a SEP holder, who has made a FRAND commitment, must provide a written offer for a license on FRAND terms to the potential licensee. The potential licensee must respond to the offer promptly and in good faith. If the licensee rejects the offer, they must provide a counteroffer on FRAND terms.[48] Recently the UK Court, in *Interdigital v. Lenovo*, opined that Interdigital's conduct, whereby they were consistently trying to seek supra-FRAND rates from the licensee, amounted to them not being a '*willing*' licensor.[49]

The refusal to license leads to an inefficient market. However, by granting license to willing licensees create a compelling case of market efficiency and commerce. The number of suppliers of standard-compliant component is very little compared to consumers utilizing them. A SEP holder could effectively license a greater portion of the particular industry by granting licenses based on FRAND terms to these suppliers.

Accordingly, and for all these reasons:

Core Principle 2: A FRAND license should be made available to anybody that wants one to implement the relevant standard. Refusing to license to some implementers is the antithesis

[45] *EC Horizontal Guidelines*, *supra* at Note 7, at para 285.
[46] Clause 6.1 of the *ETSI IPR Policy* states, "*When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory ("FRAND") terms*".
[47] *Supra* note 24.
[48] *Supra* note 24.
[49] *Interdigital v. Lenovo [2023] EWHC 539 (Pat).* paras 927,928 at page 219.

of the FRAND promise. In many cases, upstream licensing can create significant efficiencies that benefit the patent holder, the licensee, and the industry.

c. FRAND valuation methodologies

Although parties to a FRAND negotiation have the liberty of mutually deciding on a particular method of valuating SEPs, there are certain guidelines which have developed through case laws and communications from regulatory authorities regarding approaches to ensure a FRAND valuation.

Valuing SEPs can be a complex process, and there are several methodologies that can be used to determine the appropriate licensing fees. However, not all SEP valuation methodologies are FRAND-compliant, and it is important for SEP holders and licensees to understand the differences between these approaches. It is an accepted principle that valuations should not be based on downstream uses. Although valuation methodologies should be determined on a case-by-case basis, here are some ways SDOs are trying to ensure parity of information among parties to a licensing negotiation and to help patent holders and licensees navigate the SEP licensing process:

i. ETSI Intellectual Property Rights (IPR) policy, which requires patent holders to provide timely and transparent information about the patent and the licensing process, including details about the specific claims that are essential to the standard and the methodology used to determine licensing fees.

ii. IEEE Standards Association's Patent Policy[50], includes specific guidelines for SEP valuation such as the SSSPU approach and the Comparable Licensing Approach.[51] They also suggest patent holders to disclose sample license agreements and one or more material licensing terms along with its Letter of Assurance to license on FRAND terms.[52]

Accordingly, and for all these reasons:

---

[50] *IEEE SA Standards Board Bylaws Section 6.1, "Reasonable Rate"* at page 2.

[51] Comparable Licenses Methodology involves looking at existing licensing agreements for similar technologies and using them as a basis for determining the appropriate licensing fees. This approach can be useful for determining the market value of the patent, but it can also lead to potential disputes over the appropriate comparables and the relevance of the licensing agreements. In some cases, patent holders may attempt to use unrelated or outdated licensing agreements as comparables, which can result in unreasonably high licensing fees that are not FRAND-compliant.

[52] *IEEE SA Standards Board Operations Manual* at Section 6.2.

Core Principle 3: SEPs should be valued based on their own technological merits and scope, not based on downstream values or uses. In many cases this will involve focusing on the smallest component that directly or indirectly infringes on the SEP, not the end product incorporating additional technologies. As noted by the European Commission, SEP valuations 'should not include any element resulting from the decision to include the technology in the standard'. Moreover, 'in defining a FRAND value, parties need to take account of a reasonable aggregate rate for the standard'.[53]

d. Portfolio licensing and treatment of disputed patents

As seen in the previous section on valuating a FRAND royalty rate, the value of a patent should not exceed the individual value of the technology. Patents have always been viewed as individual assets. Hence, the act of 'bundling' or 'tying' of multiple patents and refusing to grant license on individual patents or only the ones required by a potential licensee unless the entire portfolio is licensed is inconsistent with the FRAND promise.

Forceful bundling of assets has anti-competitive elements to it. This was alleged in the *Ericsson*[54] cases as well, where the Competition Commission took a view that the actions of the licensor *prima facie* seemed discriminatory and against FRAND terms. The offering of a 'General Patent License' instead of offering the core SEPs that are required in the potential licensee's product is unreasonable and often the cause of subsequent disputes.[55]

In bundled patent portfolios, except other than the word of the licensor, it may be quite difficult and costly to decipher if some patents are 'over-declared'. Over-declaration of SEPs refers to the practice of patent holders claiming that their patents are essential to a particular standard, even though they may not be. This practice can result in a significant increase in licensing fees and can stifle innovation.

Over-declaration of patents creates uncertainty as to the number of SEP licences that are required, reduces efficacy and accuracy of patent valuation methods based on patent counting,

[53] European Commission "*Setting out the EU approach to Standard Essential Patents*" Communication, *COM(2017)* at page 6 Section 2.1.

[54] In *Best IT World (India) Private Limited (iBall) v. Telefonaktiebolaget L.M. Ericsson [2015 SCC OnLine CCI 76]*, the informant alleged Ericsson of bundling patents irrelevant to the licensee's products by way of a GPLA.

[55] Sripada Yashwant Prasad, "*Reasonable Royalty Rates: The Quintessential Determination in Indian Standard Essential Patent Infringement Suits*", *(2018) 2.1 jips 67.*

and increases the cost and time needed to establish standard essentiality of a patent portfolio.[56] The European Commission has stated that they have found, by way of studies commissioned by them, 50-60 percent of declared SEPs are in fact not essential to the standard.[57] If that is the case, then there is compelling public interest in challenging SEPs. There should not be any 'safe harbour' for non-challenge clauses in license agreements. Regarding the same, the Hon'ble Delhi High Court has stated, '*a potential licensee cannot be precluded from challenging the validity of the patents in question. The expression "willing licensee" only means a potential licensee who is willing to accept licence of valid patents on FRAND terms. This does not mean that he is willing to accept a licence for invalid patents and he has to waive his rights to challenge the patents in question. Any person, notwithstanding that he has entered into a licence agreement for a patent, would have a right to challenge the validity of the patents*'.[58]

Section 140(1) of the Indian Patent Act 1970, titled '*Avoidance of certain restrictive conditions*' prohibits insertion of any clause preventing challenges to validity of a patent and *coercive package licensing.*[59] A potential and willing licensee must always reserve the right to challenge the validity of a patent and a licensee is not rendered 'unwilling' if they decide to challenge patents on their merits.[60]

A licensor should not withhold licenses for patents that both parties have voluntary agreed to, only because applicability of certain other patents in the pool/portfolio are subject to disagreement and instead engage in meaningful methods of dispute resolution while maintaining their FRAND responsibilities. There are benefits of portfolio licensing especially if it reduces various 'slippage' costs such as various administrative costs, but they must be voluntary licenses and not coercive.

Accordingly, and for all these reasons:

Core Principle 4: While in some cases parties may mutually and voluntarily agree to a portfolio license, no party should withhold a FRAND license to patents that are agreed to be

[56] The Government of UK IPO "*Standard Essential Patents and Innovation: Summary of Responses to the Call for Views*" para 3.18 at page 35.
[57] European Commission "*Setting out the EU approach to Standard Essential Patents*", footnote 19.
[58] *Telefonaktiebolaget LM Ericsson v. CCI [2016 SCC OnLine Del 1951]*, at para 212.
[59] Section 140(1)(iii)(d) of the *Indian Patents Act 170*.
[60] *Motorola Mobility LLC & Google Inc*., Dkt. No. C-4410 (F.T.C. July 23, 2013), page 8 para E.2.

essential based on disagreements regarding other patents within a portfolio. For patents that are not agreed upon, no party should be forced to take a portfolio license, and if there is a dispute over some patents, a SEP holder must meet its burden of proof on the merits.

e. Transparency and predictability

Most SDOs have an IPR policy which requires members to make declarations respective to their patents. For example, ETSI mandates its contributors to inform them of all past and future members of a patent family in a timely manner.[61]

Transparency is an essential element of FRAND obligations, and if not adhered to it creates asymmetric information access between negotiating parties. Some benefits of transparency adherence to contributors and implementers are the following:

i. Reduces the risk of IPR constraints potentially blocking the standardisation process,
ii. Allow SDO participants to evaluate and select technologies during the developments of the standard,
iii. Help SDO participants to assess the potential risks and costs of supporting a particular standard.

Transparency obligations, however, should not be limited only to the standardisation process, it should also extend to licensing negotiations. A potential willing licensee should be able to obtain all relevant information related to SEPs that they are negotiating to license. As discussed earlier in this paper, a licensor should not tie down a licensee with strict and broad NDAs as pre-conditions to sharing information that is crucial for the negotiation process being fair and non-discriminatory.

In a SEP licensing negotiation, unless there is a transparent licensor who discloses all information relevant to the SEP and its royalty rates and valuation, there cannot be a level playing field between the parties. If a potential licensee cannot access basic information about a SEP holder's existing licenses, it may be impossible for the licensee to determine whether or not the proposed licensing terms are non-discriminatory or not. To develop a healthy ecosystem of technological advancement coupled with FRAND licensing between participants, it is important to keep in mind that not all potential licensees are similarly situated and may not

[61] Clause 4.3 of *ETSI IPR Policy*.

have access to or expertise of the information which may assist them in entering into FRAND licensing agreements. This harms the market as it deters new entrants or halts growth of micro, small and medium scale enterprises (MSMEs).

When there is information that may amount to trade secrets or third-party information subject to confidentiality obligations, only then should a licensor require a potential licensee to enter into a NDA. However, it is pertinent to note that the following information does not require a NDA and licensors should provide the following information to any and all potential licensees to be seen as "willing" licensor:

i. A listing of the patents proposed to be licensed.

ii. Identification of corresponding sections of the standard where each such SEP is alleged to be practiced.

iii. Details of the basis for allegations of essentiality and infringement, such as claim charts.

iv. Details of the licensing terms which can assist the implementer of the standard in evaluating whether the terms offered are FRAND or not.

v. Details of the basis and methodology upon which the FRAND offer (including any royalty rate) has been calculated.

vi. In case of patent pool administrators or others that may claim licensing rights to patents owned by others, written authorities from the patent owners authorising the administrator to enter into negotiations on behalf of the patent owner (and specifying any limits to the administrator's authority).

vii. Historical rate and licensing information, inclusive of any side agreements, caps, or rebates (anonymised if there are legitimate third-party confidentiality issues).

viii. Details of any pending litigation related to any concerned patent.

ix. Information regarding prior licensing to suppliers or customers of the potential licensee, so as to avoid double payments ("double dipping") if a technology is already licensed in their supply chain.

Accordingly, and for all these reasons:

Core Principle 5: Neither party to a FRAND negotiation should seek to force the other party into overbroad secrecy agreements. Some information, such as patent lists, claim charts identifying relevant products, FRAND licensing terms, aspects of prior licensing history, and the like are important to the evaluation of potential FRAND terms, and public availability of those materials can support the public interest in consistent application of FRAND.

f. Patent Transfer and Disaggregation

Patent transfer and disaggregation are critical concepts that have significant implications in the field of SEPs. Patent transfer refers to the process of transferring ownership of a patent from one entity to another. This can occur for various reasons, such as a sale or acquisition of a company or as part of a licensing agreement. Patent transfer can have significant implications for SEP licensing, particularly when the acquiring entity is not committed to FRAND licensing terms. If a patent is transferred to a company that is not willing to license the patent on FRAND terms, it can create a situation where companies that rely on the technology are unable to use it without paying exorbitant licensing fees. This can lead to disputes between the acquiring entity and licensees, which can harm the development and adoption of new technologies.

One significant concern related to SEP transfer is that it can lead to a loss of transparency in the licensing process. When a patent is transferred, the acquiring entity becomes responsible for negotiating licensing terms and setting royalty rates. This can lead to a lack of transparency in the licensing process, as the acquiring entity may not be obligated to provide the same level of transparency or disclosure as the original SEP holder which creates challenges for potential licensees, who may not have access to critical information about the patent and licensing terms.

Disaggregation is another important concept that has significant implications for SEP licensing. Patent disaggregation refers to the process of breaking down a SEP into its individual components, such as specific claims or elements of the patent that are essential to the standard. This can be a useful tool for analysing the validity and scope of the patent, but it can also create challenges when it comes to licensing and enforcement.

One concern with patent disaggregation is that it can make it more difficult to license SEPs on FRAND terms. If a SEP is disaggregated into its component parts, it can be more difficult to determine which parts of the patent are essential to the standard and which are not. This can create disagreements between patent owners and licensees about the scope of the license and the appropriate royalty rates. Disaggregation can also lead to the potential for patent holdout, where a potential licensee may refuse to take a license and instead litigate the validity or scope of the patent. This can lead to delays and uncertainty in the licensing process, which can ultimately harm the development and adoption of new technologies.

In response to these concerns, various SDOs have stated acceptable conducts in their guidelines for licensing SEPs on FRAND terms. For example, some industry groups and standards organisations have established guidelines for patent holders that include commitments to licensing on FRAND terms and restrictions on patent transfer to entities that are not willing to abide by these commitments. Some guidelines also include requirements for transparency in the licensing process, such as disclosing licensing terms and providing access to relevant patent information. By establishing best practices and guidelines for patent holders, SDOs can ensure that the licensing process is transparent and accessible to all interested parties.

Accordingly, and for all these reasons:
Core Principle 6: FRAND obligations remain undisturbed despite patent transfers, and patent sales transactions should include express language to that effect. Where SEP portfolios are broken up, the total royalties charged for the broken-up parts should not exceed the royalties that would have been found to be FRAND, had the portfolio been retained by a single owner. Patent transfers should not be used to defeat a potential licensee's royalty 'offset' or similar reciprocity rights.

SECTION 7: POLICY RECOMMENDATION TO STAKEHOLDERS

This part of the paper makes an effort to suggest some broad policy recommendations that stakeholders can implement so that uniformity in SEP governance is ensured. India has a vested interest in boosting MSMEs, and with interoperability of technologies across various different sectors becoming a reality, such an interest will be a great advancement to the economy. The paper identifies three stakeholders who can make some policy decisions that could possibly serve a great impact on access to FRAND licenses in the future.

g. To Legislator

In India, two pieces of legislation—namely the Indian Patents Act, 1970 and the Competition Act, 2002—seem to govern the field of SEPs. However, neither have any provision that is specific to SEPs.

There should be legislation whereby terms like "valid SEP" and "FRAND" and subsequent obligations arising out of standardisation and a FRAND promise should be defined/laid out.

Access to justice especially in case of anti-competitive conduct must not be limited to informants. There should be a higher degree of disclosure obligations by virtue of which it may become easier for the CCI to take cognisance of suspected anti-competitive behaviour and start *suo-motto* investigation and proceedings against the dominant party.

h. To Regulator

Regulatory authorities (such as TRAI) should take more pro-active measures when it comes to SEP and FRAND oversight.

Regulatory authorities find their powers through legislative mandate and should therefore use them for public benefit, which would include ensuring SEPs are available for licensing to any willing licensee.

Regulatory authorities should add licensing assistance to their list of functions by which a potential licensee, who may be uninformed of appropriate measures of conduct and their rights, could approach the authority for assistance in a licensing negotiation.

Regulatory authorities should, relative to their sector, focus on educating market participants of SEPs and FRAND licensing. As we are moving towards a world of total technological interoperability, educated and informed market players become crucial to combat abuse from SEP holders.

i. To SDOs

Indian SDOs should start a channel of communication with regulatory bodies and quasi-judicial bodies (such as CCI) so as to maintain a parity of information relating to SEPs.

This channel of communication could be by way of the government placing an ombudsman who shall be tasked with collecting regular reports from SDOs and reporting them back to the government.

SDOs should engage in the educating their participants along with other contributors industry-wide by way of workshops etc., as it serves the greater public interest.

SECTION 8: CONCLUSION

The aim of this paper was to give a balanced approach to licensing negotiations through descriptive analysis of existing case laws and policies specific to Indian market.

It is hoped that this paper will assist licensors and licensees in pursuing and successfully concluding SEP negotiations that are consistent with the FRAND obligation.

Finally, this paper has taken ambitious steps in the hope that any possible stakeholder in the SEP community can find this paper useful for their understanding and possibly improvements in the role that they have in maintaining a robust SEP environment.

Appendix 4

ACT | The App Association

June 2024

Position of

ACT | The App Association
Rue de la Loi 23,
1000 Brussels, Belgium

on the

Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001

Position paper on the European Union new Framework for Standard-Essential Patents

I. Executive summary

ACT | The App Association ('The App Association') views the proposed European Union (EU) standard essential patent (SEP) Regulation as a crucial step towards establishing a transparent and fair SEP licensing framework within the EU. The Regulation aims to address concerns raised by the European Commission in 2017 regarding the SEP licensing landscape and its impact on innovation and competition. The App Association, representing small and medium-sized enterprises (SMEs), believes that clear guidance and measures to mitigate anticompetitive SEP licensing practises are essential to foster innovation and support SMEs.

To support innovation and competition, EU policy must reflect key SEP licensing consensus principles, including that SEP licences are made available to all willing stakeholders; that injunctions are awarded only in exceptional circumstances, such as when monetary remedies are not available; that the tying of non-essential patents in with SEP licensing requirements is prohibited; and that fair, reasonable, and non-discriminatory (FRAND) royalties are based on the value of the patented technology itself. Where standards development organisation (SDO) patent policies are insufficient to guide a clear and predictable understanding of FRAND, the European Commission (EC) should provide guidance to its stakeholders. We recognise the significance of SMEs in the EU economy and their challenges in SEP negotiations due to limited resources and support the proposed mechanisms under the EU SEP Regulation to remove their significant barriers to competition. We also support a non-binding FRAND conciliation process, aggregate royalty rate determination, and essentiality assessment process performed under the auspices of the EU Intellectual Property Office (EUIPO) and independent expert conciliators and evaluators. EUIPO competence centre procedures proposed in the EU SEP Regulation will allow SEP licensing parties to amicably conclude fair SEP licences and avoid expensive litigation.

The App Association strongly believes that the implementation of a robust EU SEP Regulation is necessary for a balanced SEP framework and provides necessary modifications that align with the European Commission's goals for transparency and effectiveness. We emphasise the inclusion of necessary definitions in the Regulation, such as for essentiality checks and SMEs. Even where the European Commission provides important definitions elsewhere, there should be explicit reference to those definitions in the Regulation. We also stress the importance of EUIPO conducting consistent essentiality checks for SEPs registered with the competence centre, without allowing their determination of essentiality for one patent to have bearing on the essentiality of another patent in a respective patent family that may have been issued in a different jurisdiction. When one patent in a patent family is declared essential by the competence centre, the SEP holder should bear the burden to prove the essentiality for all other patents that they own in that patent family.

In addition, we believe that the EU SEP Regulation offers loopholes for SEP holders to continue exerting undue pressure on implementing standards users, by allowing for preliminary injunctions based on the vague and undefined element of 'financial nature' and providing exceptions for certain use cases of a standard from undergoing a mandatory aggregate royalty rate determination and FRAND conciliation process. Analysing these exceptions based on use cases, instead of the standard alone, does not address that significant difficulties or inefficiencies affecting the functioning of the internal market are caused by SEP licensing abuses, which impacts many market sectors. Standards that have a negative effect on EU competition and should always be subject to competence centre procedures include wireless communications, cellular, Wi-Fi, and audio/video codec standards.

The EU SEP Regulation, with the recommended modifications, will indisputably establish a transparent, predictable, and efficient SEP licensing framework that fosters innovation, supports SMEs, and creates a competitive environment that benefits both SEP holders and implementers, ultimately serving the interests of the EU economy and consumers. Minor adjustments in SEP policy are slow to provide a balance in the SEP ecosystem. The European Commission should take into consideration the implementation of the proposed changes to the EU SEP Regulation to build an equitable SEP licensing ecosystem that will promote innovation and will be open to new players.

II. Background and overview

ACT | The App Association is a policy trade association for the **small business technology developer community**. Our members are entrepreneurs, innovators, and independent developers within the global app ecosystem that engage with markets across every industry. We work with and for our members to promote a policy environment that rewards and inspires innovation while providing resources that help them raise capital, create jobs, and continue to build incredible technology. Today, the ecosystem the App Association represents—which we call the app economy—is valued at approximately €830 billion globally and is responsible for more than 1.3 million jobs in the European Union (EU).[1]

Many of our members create internet of things (IoT) devices. The IoT ecosystem is expected to generate EUR 12.5 billion for the global economy by 2030, significantly contributing to economic growth and job creation within the EU.[2] The IoT sector relies heavily on the seamless licensing and implementation of SEPs. Unfortunately, the IoT market is 'very fragmented, competitive and cost sensitive'.[3]

The App Association developed this paper to build on comments that we submitted to the European Commission (EC) on 10 August 2023 to highlight how the proposed **Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001** *(the EU SEP Regulation)* would provide a balanced, transparent, and predictable standard-essential patent (SEP) framework for the EU. Following our comments submitted to the EC, we provided our membership views to 12 EU Member States.[4] The App Association held multiple meetings with members of the EC, European Parliament (EP), and EU Member States.

Our message is simple: we believe that clear guidance that mitigates anticompetitive effects of SEP licensing abuse is necessary to enable EU innovation. Our position paper on *Standards, Patents, and Competition Policy to Drive Small Business Innovation* provides our

[1] *See* https://actonline.org/wp-content/uploads/Deloitte-The-App-Economy-in-the-EU-2020.pdf.
[2] See Impact assessment accompanying the proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, Page 10
[3] Ibid, Page 14
[4] *See* https://actonline.org/2023/10/05/the-european-unions-proposal-for-a-transparent-fair-and-reliable-standard-essential-patent-landscape/.

detailed views on principles that support a SEP licensing ecosystem that combats abusive tactics currently at play.[5]

The EC has long recognised that abusive SEP licensing practices distort competition, publishing communications on these concerns as early as the EU's inception in 1992.[6] In 2009, the EC accepted commitments from Rambus, addressing its anticompetitive activities in SEP licensing, such as 'patent ambush' and the charging of unfair/unreasonable royalty fees.[7] In 2011, the EC published its guidelines regarding horizontal co-operation agreements, discussing the anticompetitive threat of patent hold-up in the SDO context and the importance of the effective use of FRAND commitments in combating that threat.[8] In 2014, the EC made two antitrust decisions, namely regarding Samsung[9] and Motorola,[10] recognising that injunctions can be used by SEP holders to exert pressure in licensing negotiations, constituting an abuse of dominant position.[11] This view on injunctions was later reinforced by the Court of Justice of the European Union (CJEU) in its *Huawei v. ZTE* case, where it laid down general guidelines on how to avoid antitrust abuse in SEP licensing.[12] Unfortunately, the varying interpretation of the CJEU's guidelines by European national courts have introduced ambiguities, resulting in loopholes that have been exploited by SEP holders to continue the use of abusive injunctions.

In 2017, the EC took issue with the SEP licensing landscape and called for a balanced approach based on increased transparency. On 25 November 2020, the Commission developed an intellectual property (IP) action plan that would restructure the SEP licensing system to promote transparency and predictability in technology-based innovation. This plan was supported by the European Council Conclusions[13] and the European Parliament in its Resolution.[14] On 14 February 2022, the European Commission held a call for evidence for an impact assessment,[15] on which

[5] *See* https://actonline.org/wp-content/uploads/ACT-SEP-Gen-Position-Paper-sent-081619.pdf.
[6] In 1992 the European Commission published its Communication on Intellectual Property Rights and Standardization: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:51992DC0445. In 1995 the European Commission published its Green Paper on Innovation: https://eur-lex.europa.eu/resource.html?uri=cellar:eb5dae41-104d-4724-ac99-d7cbcfa11b86.0006.01/DOC_1&format=PDF. Both of these documents discuss the competition implications of improper SEP licensing.
[7] EU Commission Decision, Case COMP/38.636 – RAMBUS (2009) Paragraphs 27 and 66 https://ec.europa.eu/competition/antitrust/cases/dec_docs/38636/38636_1203_1.pdf.
[8] Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreement, Par. 285 (Jan. 14, 2011). https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023XC0721(01).
[9] EU Commission Decision, Case AT.39939 - SAMSUNG – Enforcement of UMTS Standard Essential Patents (2014).
[10] EU Commission Decision, Case AT.39985 - Motorola – Enforcement of GPRS standard essential patents (2014).
[11] *See* https://ec.europa.eu/commission/presscorner/detail/en/MEMO_14_322.
[12] Court of Justice of the European Union, Case C-170/13 - Huawei v ZTE (2015), https://curia.europa.eu/juris/document/document.jsf;jsessionid=C917B2ADA4191E15F7BDE34824FBED0E?text=&docid=165911&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=3300003.
[13] Council conclusions on intellectual property policy, as approved by the Council (Economic and Financial Affairs) at its meeting on 18 June 2021.
[14] European Parliament resolution of 11 November 2021 on an intellectual property action plan to support the EU's recovery and resilience (2021/2007(INI)).
[15] *See* https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

the App Association provided feedback.[16] Building on our initial comments on the EU SEP Regulation, we provide our position in response to the regulatory text that passed the EP plenary vote on 28 February 2024, which included amendments by the Committee on Legal Affairs (JURI).

III. Detailed views of ACT | The App Association on the EU SEP Regulation

The App Association supports the adoption of the EU SEP Regulation with some modifications that align with the Commission's goal of establishing a **transparent, predictable, and efficient SEP licensing framework**. The EU SEP Regulation includes important objectives that address concerns that our SME community has raised regarding SEP holders committing to license their SEPs on fair, reasonable, and non-discriminatory (FRAND) terms to a standard development organisation (SDO) and later exploiting or revoking that obligation. Opportunistic SEP holders have taken advantage of SDO policies that have ambiguous definitions of FRAND to manipulate a fair licensing negotiation process. Many SEP holders have breached their FRAND commitment with no legal reprimand. Since SDOs facilitate access to technical standards that touch various industries, these **opportunistic SEP holders plague many verticals**, always looking for the next market to extract additional and unrelated value for their SEP. The anticompetitive harms experienced in the SEP licensing ecosystem disrupt fair usage of technical standards that support efficient innovation.

It is important that SDOs maintain the autonomy they need to be responsive to their members and standards process participants. But where SDOs fail to provide sufficient guidance on essential elements of a SEP licensing negotiation, such as the meaning of FRAND, **jurisdictions should provide clarifications for their stakeholders**. From a competition perspective, standard development should be recognised as an artificial market intervention by industry participants, with disruptive effects on markets. We don't advocate for regulatory intervention in standardisation processes, instead, we advocate for the recognition of the potential harmful effects of such industry market interventions, which are in turn balanced by voluntary FRAND commitments by those whose technologies win the race of standardisation negotiations, namely getting adopted into standards.

SEP licensing has a long history that has unveiled foundational principles that underlie the FRAND commitment to ensure a system that is competitive and beneficial to consumers. These principles have been identified in empirical evidence,[17] high-profile court cases,[18] and through stakeholder

---

[16] *See* https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3257503_en.

[17] *E.g.*, Love, Brian J. and Lefouili, Yassine and Helmers, Christian and Helmers, Christian, Do Standard-Essential Patent Owners Behave Opportunistically? Evidence from U.S. District Court Dockets (February 7, 2023). Available at SSRN: https://ssrn.com/abstract=3727085 or http://dx.doi.org/10.2139/ssrn.3727085; Simcoe, Timothy S. and Zhang, Qing, Does Patent Monetization Promote SSO Participation? (November 29, 2021) at 10-14. Available at SSRN: https://ssrn.com/abstract=3973585 or http://dx.doi.org/10.2139/ssrn.3973585.

[18] Interdigital Technology Co. v. Lenovo Group Ltd. [2023] EWHC 126, 539 (Pat). ("Having considered all the evidence on the issue of volume discounts I have reached the clear conclusion that the volume discounts said to have been applied to the largest InterDigital licensees (i.e., in the range of 60%-80%) do not have any economic or other justification. Instead, their primary purpose is to attempt to shore up InterDigital's chosen 'program rates'. Their primary effect is discrimination against smaller licensees."); Optis Cellular Technology v. Apple Retail UK [2023] EWHC 1095 (Ch) ("[G]iven the nature of Optis' counterparties to the Optis Comparables – generally small players in the market, with low or at least not massive sales volumes – there is a question whether these licences properly reflect a FRAND rate for a counterparty like Apple."); Microsoft Corp. v. Motorola, Inc., 795 F.3d 1024, 1030-31 (9th Cir. 2015)

consensus documents like the CWA 95000, *Core Principles and Approaches for Licensing of Standard Essential Patents* (CWA 95000), developed by a broad cross-section of European stakeholders through the CEN/CENELEC Workshop Agreement.[19] The CWA 95000 was established in response to growing problems of abuse of both standardisation and SEP licensing now affecting a range of sectors and market segments in the EU. We believe that this evidence is best positioned to inform the Commission on how to establish an equitable SEP licensing ecosystem for both experienced and inexperienced SEP negotiators that promotes the goals and interests of industry, standardisation and, ultimately, consumers.[20] Consistent with the CWA 95000, we recommend that the Regulation align with the following principles:

1. **The FRAND Commitment means all can license –** A holder of a FRAND-committed SEP must license that SEP to all companies, organisations, and individuals who use or wish to use the standard on FRAND terms.

2. **Prohibitive orders on FRAND-committed SEPs should only be allowed in Rare circumstances –** Prohibitive orders (including federal district court injunctions and U.S. International Trade Commission exclusion orders) should not be sought by SEP holders or allowed for FRAND-committed SEPs except in rare circumstances where monetary remedies are not available.

3. **FRAND royalties –** A reasonable rate for a valid, infringed, and enforceable FRAND-committed SEP should be based on the value of the actual patented invention itself to the smallest saleable patent practicing unit, which is separate from purported value due to that patent's inclusion in the standard, hypothetical downstream uses, or other factors unrelated to invention's value.

4. **FRAND-committed SEPs should respect patent territoriality** – Patents are creatures of national law, and courts should respect the jurisdiction of foreign patent laws to avoid overreach with respect to SEP remedies. Absent agreement by both parties, no court should impose global licensing terms on pain of a national injunction.

5. **The FRAND commitment prohibits harmful tying practices –** While some licensees may wish to get broader licenses, a SEP holder that has made a FRAND commitment cannot require licensees to take or grant licenses to other patents not essential to the standard, invalid, unenforceable, and/or not infringed.

6. **The FRAND commitment follows the transfer of a SEP –** As many jurisdictions have recognised, if a FRAND-committed SEP is transferred, the FRAND commitments follow the SEP in that and all subsequent transfers.

(standardization "creates an opportunity for companies to engage in anti-competitive behavior"); *see also* ETSI, ETSI Guidelines for Antitrust Compliance, §§ A-B (ETSI is "a forum in which competitors interact with each other. Therefore, the market-related rules apply to the decisions which are adopted by the Institute as a standardization body as well as with regard to the activities of Members within ETSI"; accordingly, "[t]he imposition of discriminatory and unfair conditions by the dominant company, to any categories of users, or any other company having contractual relationships with the dominant company, is abusive"), *available at* http://www.etsi.org/images/files/IPR/etsi%20guidelines%20for%20antitrust%20compliance.pdf.

[19] *See* https://www.cencenelec.eu/media/CEN-CENELEC/CWAs/ICT/cwa95000.pdf.

[20] *Id.*

The EU SEP Regulation aims to strike a balance between the interests of patent holders and implementing standards users by incorporating **three important components of a balanced SEP licensing regulation**:

1. identifying universal principles defining the FRAND licensing of SEPs;
2. removing disproportionate barriers to innovation for small and medium-sized entities (SMEs); and;
3. appointing a competence centre to facilitate mechanisms for fair SEP licensing negotiations under the guidance of expert conciliators.

The EU SEP Regulation represents positive steps taken by the European Commission to provide a more balanced SEP licensing framework. Modifications should be made to support a procompetitive SEP licensing process.

A. Recognised key principles underlying the definition of FRAND

The text of the EU SEP Regulation acknowledges key principles of FRAND that often hinder SME innovators from entering or succeeding in standardised technology-based industries. In **Recital 3** of the EU SEP Regulation, the Commission recognises that **wide implementation determines the success of a standard** and, therefore, **all stakeholders should be able to use the standard**.[21] In this section, the Commission explains that SDOs require SEP holders to commit to licensing their SEP on FRAND terms for this purpose.[22] Known opportunistic SEP holders refuse to licence to certain entities in a value chain, while instead licensing to downstream stakeholders, such as end product manufacturers, from whom the SEP holder can extract additional value for their patented technology from unrelated features of the implementing technology. This section correctly identifies that the **commitment to licence to all implementing standards users should be respected by subsequent SEP holders**.[23] In order to enable wide implementation of a standard, the FRAND commitment must attach to the SEP regardless of the holder since the patented technology was contributed to the standard prior the transfer of patent ownership.

To provide the most effective version of the EU SEP Regulation, the Commission must explicitly acknowledge all universal principles of FRAND that we have outlined above and that have been agreed upon by EU stakeholders. Therefore, the Regulation still lacks consideration of the following:

1. injunctions should only be available in **exceptional circumstances,** when monetary remedies are not available;
2. SEP holders should not offer **overbroad licensing**; and
3. the analysis to determine a reasonable rate for a valid, infringed, and enforceable FRAND-encumbered SEP should be based on the **value of the actual patented invention** apart from its inclusion in the standard.

---

21 *See* COM(2023)232, Recital 3 at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.
22 *Id.*
23 *Id.*

We are confident that excessive judicial awards of injunctive relief and over-valuation of royalty rates in SEP licensing disputes will be properly mitigated under the auspices of the EU Intellectual Property Office (EUIPO) competence centre. The EUIPO is an established venue for mediation amongst parties in intellectual property disputes.[24] By contrast, the issue of **overbroad licensing may not be fully addressed** if the Regulation does not provide for specific language that states that forcing implementing standards users to license irrelevant patents is not compliant with a balanced and transparent SEP licensing process. During a SEP licensing negotiation, some patent holders persistently require SMEs to license patents that are invalid, nonessential, or otherwise unenforceable along with the relevant SEP. It is important that the Regulation clarifies that imposing licensing conditions that require a cross-license of non-SEPs, or other patents, is non-compliant with the FRAND commitment and that it indicates unreasonableness on the part of the licensor.

B. Mechanisms to remove barriers for SMEs in the SEP licensing ecosystem

Recital 1 and Article 3 of the EU SEP Regulation properly acknowledges **SMEs as important stakeholders in the standards process** and implements mechanisms that support their ability to be competitive in technology-based industries. Through this Regulation, the EUIPO can alleviate SME challenges to engaging in a fair SEP licensing process by providing reduced or omitted fees, free advice, and free trainings. These mechanisms provided through the Regulation will reduce barriers for SMEs and ensure that they are able to make informed decisions during a SEP licensing negotiation without making a difficult cost-efficiency analysis on whether to incur standards usage costs and hire outside legal and professional help.

The Commission's Impact Assessment accompanying the proposal for the EU SEP Regulation[25] found that 84 per cent of European SEP implementers were SMEs.[26] SMEs operate with minimal financial and professional resources and often find it challenging to secure investments for their products. SMEs also rely on fairness and predictability and are reluctant to depend on a standards process that invites uncertainties and risk. For example, 80 per cent of SMEs responding to the SME survey said they did not know who owns SEPs relevant to the standard they use and 90 per cent did not know if patents presented to them during negotiations were essential to the standard.[27] Most SEP portfolios are held by international companies, leaving **SMEs in the EU vulnerable to potential abuses of market power by well-funded and well-resourced entities**.[28] These entities make up **a small group of stakeholders that benefit from the current system and are working hard to oppose the implementation of the EU SEP Regulation**. SMEs make up 90 to 95 per cent of all non-financial businesses in the EU, contribute more than half of Europe's gross domestic product (GDP), and participate in every sector of the economy.[29] They are indispensable for Europe's industrial ecosystems, economic and technological sovereignty, and resilience to external shocks. SMEs are vital for the EU's innovation ecosystem, economic growth, and job retention. We view hostility towards the EU SEP Regulation as an

[24] *See* https://www.euipo.europa.eu/en/manage-ip/mediation-centre/resources.
[25] Impact assessment accompanying the proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001
[26] Ibid. page 11.
[27] Ibid. page 19.
[28] *See* https://www.copperpodip.com/post/seps-standard-essential-patents-the-status-quo.
[29] *See* https://single-market-economy.ec.europa.eu/document/download/b7d8f71f-4784-4537-8ecf-7f4b53d5fe24_en?filename=Annual%20Report%20on%20European%20SMEs%202023_FINAL.pdf.

attempt to disrupt competition for the benefit of a few profit-seeking SEP holders with large portfolios.

C. Non-binding, expert adjudication of SEP licensing disputes through the EUIPO

Establishing a **competence centre** to facilitate essentiality checks, aggregate royalty rate setting, and FRAND conciliations addresses important issues that arise in SEP licensing disputes. Under **Title 3, Chapter 3** of the EU SEP Regulation, stakeholders must register their SEP with the competence centre. The competence centre will then perform **essentiality checks to avoid over-registration through procedures defined in Title 5.** SMEs are often harmed by the threat of frivolous lawsuits by SEP holders that have declared their patent 'essential' while providing little-to-no proof of evidence to SDOs, patent pools, or national jurisdictions. The Commission's impact assessment highlights that only between 25-40 per cent of declared SEPs are estimated as truly essential, or as low as 15 per cent in the case of 5G.[30] SDOs often find it difficult to expend resources or properly allocate the burden of expending resources on essentiality checks. It is proper for the EU to fill this gap to ensure that stakeholders can rely on essentiality determinations.

Article 17 of the EU SEP Regulation also provides that the competence centre will **facilitate agreements on aggregate royalty determinations** for the SEPs covering a particular standard. This process will likely reduce the ability for certain SEP licensors to extract excessive royalties for their SEP from implementing standards users. This process will require relevant SEP holders to disclose the scope of the aggregate royalty rate, including their determination of whether the rate is global.[31] Setting **global rates is harmful to SMEs**, including those that participate in the EU economy, because it would allow SEP holders to determine a potentially disproportionate royalty rate that, if not agreed to by the implementing standards user, would **allow the SEP holder to seek a national injunction** based on extraterritorial conduct. The EU should focus solely on their stakeholders and **limit aggregate royalty rate determinations to its own economy**.

The third process that would be handled by the competence centre would be a **mandatory and non-binding FRAND conciliation** process facilitated by independent expert evaluators and conciliators with extensive experience in dispute resolution and the economics of licensing on FRAND terms. The FRAND conciliation process is outlined in **Title 6** of the EU SEP Regulation. This process will allow licensing parties to amicably reach an agreement as to the terms of a SEP license without the threat of litigation. The EU SEP Regulation should further define the rules and procedures around this dispute resolution mechanism to ensure that its process is fair for all stakeholders. It would be appropriate for the EUIPO to seek guidance from the CWA 95000 to develop foundational understandings of FRAND.

IV. Necessary modifications to the EU SEP Regulation that enable a balanced SEP licensing ecosystem in the EU

Effective regulations require sufficient clarity for the most unsophisticated entity affected by its guidance. The most fundamental aspect of a clear regulation is **proper definitions of essential terms**. We hope that more clarity and reliability will be added into the text of the Regulation, by clarifying the definition of 'essentiality checks'. We are pleased to observe that the European

[30] Impact assessment accompanying the proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, p. 19.
[31] *See* COM(2023)232, Article 15(2)(g)) at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

Parliament has introduced definitions for certain terms that were previously undefined, such as ‘evaluator’ and ‘conciliator’.

The Regulation should also ensure that its definitions do not leave room for broad interpretation. For example, the EC’s proposed regulatory text defines ‘**standard essential patent**’ as ‘any patent that is essential to a standard’, while the EP’s proposed amendments define a ‘**standard essential patent**’ as ‘any patent that **a SEP holder claims to be** is essential to a standard’. A more accurate definition for a standard-essential patent would be ‘any patent that is contributed and declared essential to a standard’. The proposed definition of ‘**FRAND determination**’ should also be clarified to include how the process is initiated, that it is conducted prior to filing a suit in a competent court of a Member State, and that an independent conciliator will be facilitating this procedure by collecting evidence from the parties and issuing a non-binding opinion.

A. Essentiality checks must be consistent for all registered patents

The EU SEP Regulation’s text regarding essentiality checks is crucial to ensuring that claimed SEP holders are not fraudulently seeking additional profits for their patent. We support the facilitation of essentiality checks under the auspices of the EUIPO and expert guidance of an independent evaluator, however the current structure does not achieve the European Commission’s transparency goals. **Essentiality checks are necessary to avoid false SEP claims that lead to over-declaration. Article 28** does not accomplish this goal and should be modified to ensure that non-essential patents claiming to be SEPs are not registered with the EUIPO and, therefore, not held out to be SEPs by the European government. **Article 28(3)** of the EU SEP Regulation states that essentiality checks should not be performed for more than one SEP of a respective patent family. This system would allow potentially non-essential patents in a patent family be enforced as a SEP in the EU unless and until later disproven by a competent court of a Member State. While the competence centre annually selects a sampling of registered SEPs to perform essentiality checks, it is likely that non-essential patents held out as SEPs will have already caused damage to the SEP licensing ecosystem. We note that considering differences between the patent laws of EU Member States and jurisdictions outside the EU, **it is not reasonable to determine that a patent is essential in one jurisdiction because it is essential in another jurisdiction**. It is harmful to the SEP licensing process for the EU to hold patents out to be essential based on these metrics. This understanding should apply to practising and non-practising stakeholders that hold a declared SEP. Therefore, the **SEP holder(s)** that declare(s) their patent(s) essential **should bear the burden to prove the essentiality** for all their respective patents in a patent family **after the competence centre has determined one of those patents to be essential.**

Recital 27 of the EC’s proposed regulatory text also works against this goal by adopting existing essentiality checks by patent pools prior to the Regulation’s entry into force without ensuring that the checks meet the methodological standards set forth by the competence centre. Unless provided through judicial authority, **essentiality checks should be conducted regardless of prior evaluations of essentiality by an independent entity**. The EP proposed amendments provide a positive qualification when the evaluator has an ‘objective reason to believe, based on sufficient evidence, that the prior essentiality check was inaccurate’. While this provision is helpful, we urge for consistent essentiality checks. Some SEP holders try to cleverly circumvent fair process through the guise of their patent pool. Some well-known **patent pools** have argued that they are not held to the FRAND commitment although they **are agents of a FRAND-encumbered SEP holder**. **Honouring a patent pool’s previous essentiality check** will provide opportunistic SEP holders, through their patent pools, with **an opportunity to assert potentially non-essential patents on non-FRAND terms**. Per the EC’s proposed text, the only evidence that the EUIPO seeks to accept previous independent examinations of essentiality are the SEP registration number, the identity of the patent pool and its administrator, and the evaluator.[32] This should not be considered sufficient evidence. While the EP's proposed amendments provide helpful language that allows the EUIPO-appointed evaluator to challenge the essentiality assessment of a SEP holder or patent pool based on objective reasoning, the inconsistent essentiality determinations will cause unnecessary loopholes to this process.

B. Broad exceptions to mandatory processes will diminish the Regulation's effect on the SEP licensing ecosystem

The Commission includes two broad **exceptions** to undergoing the outlined mandatory **aggregate royalty rate** and **FRAND conciliation processes** through the competence centre that invite abuse and defeat the purpose of establishing such procedures.

1. Provisional Injunctions of a 'financial nature'

Article 34(4) of the regulatory text states that either party may request, pending a FRAND determination, a competent court of a Member State to issue a provisional injunction of a financial nature against an alleged infringer. It is unclear what would constitute a 'financial nature' that would qualify for provisional injunctive relief. Smaller stakeholders would be most harmed from this ambiguous provision. If an SME were subjected to a provisional injunction, they would likely suffer unrecoverable and massive revenue and investment losses even if a court would decide later that there was no actual infringement of the SEP in question. While the Commission might be considering SME innovators that are SEP holders, it is likely that this provision will be used by the minority of large portfolio patent holders that have often exploited ambiguities in the law and in regulation to the detriment of implementing standards users. This process would also make the purpose of a mandatory FRAND conciliation process prior to asserting claims at the UPC or a competent court of a Member State ineffective because SEP holders would be able to bypass this requirement.

2. Standards deemed mature and well-developed

The Regulation also provides a **carve out** for **identified use cases** of certain standards where there is sufficient evidence that SEP licensing negotiations subject to FRAND terms do not give rise to **significant difficulties or inefficiencies affecting the functioning of the internal market**.[33] The Commission reasons that mature standards may have well-developed commercial relationships and licensing practices for certain use cases of a standard, citing wireless communications. By contrast, the Commission states that such use cases should be treated differently than novel use cases, even of the same standards, with less mature markets.

Analysing carve outs based on 'use cases', instead of the standard alone, does not address the fact that the significant difficulties or inefficiencies affecting the functioning of the internal market **are caused by lack of access to the standard itself**, which impacts many market verticals.

[32] *See* COM (2023)232, Article 8(b)) at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109- Intellectual-property-new-framework-for-standard-essential-patents_en.
[33] *See* COM(2023)232, Recital 4; Article 1(3)(4); Article 66(4)); Article 17; Article 18; Article 34(1) at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

Therefore, **the analysis** to determine exceptions to the mechanisms performed under the competence centre **should be based on the standard** for existing and future standards.

It is also well known that licensing disputes in **wireless communication, cellular, Wi-Fi, and audio/video codec standards** are still impacting the **efficiency** of **competition** and **innovation** in the **EU's internal market** due to bad-faith SEP holders that participate in those standards and utilise **ambiguous SDO definitions of FRAND** to their advantage in **SEP licensing negotiations**, including **distorting the value of their patented technology** to receive **greater royalties**. Most recently, a UK High Court identified that a prominent SEP holder, InterDigital Technology Corporation, attempted to extract the value of the entire implementing technology (a mobile phone), which included features (e.g. screen size, processor power, brand) unrelated to the SEP technology.[34] The Court recognized that the value of a SEP should not have reflected premium prices unrelated to the components of the implementing technology that function due to the SEP.[35] The Court also recently unveiled **in both *InterDigital v. Lenovo* and in *Optis v. Apple*** that **the SEP licensor** in question had a **consistent practise** of offering **unreasonable** and **discriminatory licences** to **'smaller players'** and using those licences as comparables in disputes with larger licensees.[36] Not only do **smaller licensees** not have the experience or resources necessary to determine what a reasonable royalty rate should be for a given SEP,[37] but they are often **integral** to a larger **profit-seeking scheme** by certain SEP holders. As a result, **the large volume of SMEs** that make up the EU's internal economy **experience competitive setbacks** that have **a domino effect on entire markets.**[38]

The most **mature** and **litigious use cases** for a standard **lie in the wireless communications space**, which the Commission cites as having well-developed commercial relationships and licensing practises. When certain **SEP licensors** are unable to force implementing standards users into unreasonable licensing terms, despite their FRAND obligation, they **utilise favourable jurisdictions** to handle the outcome of their disputes.[39] **Courts have even recognised that they should not interject** in SEP licensing negotiations, namely **the determination of FRAND terms**, but endeavour to provide tools to solve such matters.[40] These SEP licensing disputes are based on the **unclear definition of FRAND** outlined by the **European Telecommunications Standards Institute (ETSI)**, which is roughly **responsible** for **75 per cent of SEP litigation around the world**.[41] SMEs cannot afford such a costly occurrence and may not want to risk entering a market that has a high potential of resulting in litigation.

---

[34] Interdigital Technology Co. v. Lenovo Group Ltd. [2023] EWHC 539 (Pat).
[35] *Id.*
[36] Interdigital Technology Co. v. Lenovo Group Ltd. [2023] EWHC 126, 539 (Pat). ("Having considered all the evidence on the issue of volume discounts I have reached the clear conclusion that the volume discounts said to have been applied to the largest InterDigital licensees (i.e., in the range of 60%-80%) do not have any economic or other justification. Instead, their primary purpose is to attempt to shore up InterDigital's chosen 'program rates'. Their primary effect is discrimination against smaller licensees."); Optis Cellular Technology v. Apple Retail UK [2023] EWHC 1095 (Ch) ("[G]iven the nature of Optis' counterparties to the Optis Comparables – generally small players in the market, with low or at least not massive sales volumes – there is a question whether these licences properly reflect a FRAND rate for a counterparty like Apple.").
[37] *See* European Commission, SME survey annex, Q12.
[38] 65% (17 out of 26) and 64% (18 out of 28) respectively. See Annex 8.3 SME Survey, Q16.
[39] *See* Sisvel International S.A. v. Haier Deutschland GmbH (FCJ 2020); *see* Motorola Mobility Inc. v. Microsoft Corp (2013).
[40] Interdigital Technology Co. v. Lenovo Group Ltd., p. 16, [2023] EWHC 539 (Pat).
[41] IPLytics, SEP Litigation Trends and Licensing Realities 7 (2021), https://actonline.org/seplitigation-trends-and-licensing-realities-ipwatchdog-and-iplytics-march-2021/.

Mature standards, such as **wireless communication, cellular, W-Fi, and audio/video codec standards** provide many SEP licensing disputes and **justify the EU's intervention** to set mechanisms in place to alleviate the amount of SEP licensing disputes that reach litigation. Therefore, it is necessary for wireless communication, cellular, Wi-Fi, and audio/video codec standards be subject to competence centre mechanisms under **Article 17, Article 18, and Article 34(1)** until the Commission determines that commercial relationships have been well established.

V. Conclusion

The EU SEP Regulation should be implemented to provide European stakeholders with guidance and procedures to undergo **fair, predictable, and reliable SEP licensing negotiations**. The objectives of the Regulation consider the most disadvantaged and underrepresented stakeholders, namely **SMEs**. With modifications to strengthen the utility of the competence centre in facilitating fair SEP licensing negotiations and providing parties with basic information and tools to make the most informed decision during the licensing process, the EU SEP Regulation will **restrain abusive conduct and encourage innovation and competition**.

Sincerely,

Mike Sax
Founder and Chairperson

Brian Scarpelli
Senior Global Policy Counsel

Priya Nair
Intellectual Property Policy Counsel

Borbála Szücs-Bártfai
European Policy Manager