

November 27, 2023

ATTN: Shri Sunil Kumar Singhal, Advisor Telecom Regulatory Authority of India Mahanagar Doorsanchar Bhawan, Jawahar Lal Nehru Marg, New Delhi-110002

#### RE: Comments of ACT | The App Association Regarding the Telecom Regulatory Authority of India's Consultation Paper on Digital Transformation through 5G Ecosystem

Dear Sir/Madam:

ACT | The App Association (the App Association) writes to provide comments to the Telecom Regulatory Authority of India (TRAI) in response to its request for comment on the Consultation Paper on Digital Transformation through 5G Ecosystem.<sup>1</sup>

ACT | The App Association is a global not-for-profit trade association representing the small business technology developer community, including in India. Our members are entrepreneurs, innovators, and independent developers within the global app ecosystem that engage with verticals 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. Largely driven by the ingenuity of startups and small businesses, the app ecosystem has been a catalyst for the rise of smartphones and accelerating the growth of technology markets such as the internet of things (IoT) through robust standards development and a balanced intellectual property system. The dynamic, hyper-competitive app ecosystem continues to produce innovative solutions that drive the global digital economy and augment consumer interactions and experiences. The App Association applauds TRAI for undertaking a public consultation on this matter.

The App Association supports TRAI's efforts to develop policies and principles that will enable creation of a vibrant and competitive framework on digital transformation through the 5G ecosystem to strengthen India's long-term competitiveness and serve the needs of its citizens. App Association members' innovations provide the interface for IoT, an all-encompassing concept where everyday products use the internet to communicate data collected through sensors. IoT will continue to enable improved efficiencies in processes, products, and services across every sector. The rise of IoT is demonstrating efficiencies in key segments of the Indian economy, including retail, agriculture, and healthcare, and is projected to be worth more than \$9.28 billion in India by 2025.<sup>2</sup>

The real power of IoT comes from the actionable information gathered by sensors embedded in connected devices. IoT devices are useful in direct consumer interactions but have huge potential as part of what is now commonly referred to as "big data." For this document, we define this term to mean structured or unstructured data sets so large or complex that traditional

<sup>&</sup>lt;sup>1</sup> https://www.trai.gov.in/consultation-paper-digital-transformation-through-5g-ecosystem.

<sup>&</sup>lt;sup>2</sup> https://insights.frost.com/pr\_ict\_sdaivanayagam\_pc26\_indianiot?campaign\_source=PR.

data processing applications are not sufficient for analysis. As sensors become smaller, cheaper, and more accurate, big data analytics enable more efficiencies across consumer and enterprise use cases.

IoT deployment will be highly use case-dependent yet will depend on standardised solutions to ensure the ability for data to flow between parties. To date, the technology industry has utilised open application programming interfaces (APIs) and other widely adopted standards (e.g., TCP/IP) to enable interoperability. For example, in healthcare, a miniaturised IoT sensor embedded in a connected medical device must be able to communicate bidirectionally in real time. This capability enables a healthcare practitioner to monitor a patient's biometric data and allows the patient to communicate with a caregiver in the event of a medical emergency. Other uses, such as sensors deployed to alert security of an unauthorised presence, may only require the ability to send data to security professionals with minimal (or even no) capability to receive communications. And ultimately, the rise and sustainability of IoT in India will depend on the ability to leverage standardised solutions.

The App Association's community is the primary driver of a global \$6.3 trillion digital economy<sup>3</sup> that employs millions of Indians. App Association members develop and use IoT sensors that can be found in an increasing amount of consumer and enterprise objects and develop the software apps that serve as the main interface for communicating with and managing these devices. India's framework for telecommunications should enable Indian companies and individuals to easily access and use these IoT innovations.

Given the intertwined relationship between mobile and IoT devices, software apps, and telecommunications networks, we strongly encourage TRAI to ensure that policy guidance encouraging innovation in the 5G ecosystem is clear and predictable to help secure the Indian market's global competitiveness and avoid barriers for Indian innovators to share their products and services (in India and abroad).

The App Association emphasises that mandates to localise manufacturing processes, requiring use of indigenous hardware or software in manufacturing design processes, preferring domestic products and services with domestically-owned intellectual property rights (IPR) in procurement by government agencies (especially for the procurement of security-related products), among other discriminatory measures, make it difficult, if not impossible, for innovators to access and leverage global hardware and software development chains, putting Indian manufacturers and Indian consumers at a significant disadvantage. Such mandates ultimately lead to a lack of market choice and reduce the number of ways our members' innovations can provide new efficiencies and solutions to end users, also increasing prices for consumers; we therefore strongly urge TRAI to ensure that its guidance avoids any such requirements. Moving forward, the App Association commits to work with TRAI to help shape policies that promote IoT growth across all sectors of the Indian economy.

Building on the above, the App Association offers the following specific recommendations for TRAI's consideration:

• <u>Outcome-based, technology-neutral, and aligned with international standards:</u> The App Association supports TRAI's contemplation of the future of Indian innovation in important markets like 5G. TRAI guidance can primarily be future proofed via setting policy goals that are outcome based and technology neutral. Further, the new policy framework

<sup>&</sup>lt;sup>3</sup> <u>https://actonline.org/global-appcon22-competition-and-privacy/</u>.

should indeed align with global best practices; as one example, this consultation's guidance can advance telecommunications security interests most effectively by fully aligning with the Common Criteria for Information Technology Security Evaluation.<sup>4</sup>

- <u>Streamline guidance</u>: The App Association recommends TRAI simplify its guidance, including through consolidating provisions and authorities as well as ensuring duplicative and contradicting language is mitigated. We further recommend minimising policy disruptions by providing for continuation of rules, guidelines, and administrative orders issued under the existing regime until superseded by new rules.
- <u>A balanced approach to spectrum policy</u>: The App Association supports TRAI guidance for India that embraces every opportunity for the most efficient use of spectrum bands, which must include a mix of both licenced and unlicenced allowances (and sharing arrangements within the same bands for licenced and unlicenced uses that take responsible measures to avoid harmful interference).
- <u>Consistent and efficient processes for infrastructure deployment:</u> The App Association supports TRAI guidance that improves the ability to obtain rights of way in a uniform, non-discriminatory manner for establishment of telecommunication infrastructure. TRAI is also encouraged to include a "dig once" policy, which would require the consideration of including broadband in other infrastructure projects (electric, road, water, etc.).<sup>5</sup>
- Avoiding universal service obligations on OTTs: The App Association has expressed our • support for the Department of Telecommunications (DOT) proposal to overhaul its Universal Service Obligation Fund (USOF) to ensure that India's USOF delivers universal telecommunication service to underserved rural and urban areas, advances the research and development of new technologies, and promotes employment and training activities (Appendix 1). However, we continue to caution against pursuing the expansion of the contribution base of the USOF in India. The imposition of USOF fees, levies, or taxes on small business over-the-top (OTT) innovators will negatively impact the ability to provide OTT services globally, take away from resources dedicated to investment in these services and their delivery, and can represent insurmountable barriers to market entry for small businesses. For OTT application and service providers to grow and create jobs, they must expand to new customers across the global digital economy. Targeted fees and other trade barriers can pose legal liability concerns that jeopardise the ability of startups and small businesses to reach a global scale, resulting in reduced availability and higher prices for the consumer. OTT providers already bear significant costs to ensure content delivery networks can provide their application or service. OTT services stimulate telecommunications network growth, increase demand for data uptake, drive the need for bandwidth, and reduce consumer costs; and requirements for universal service contributions by OTT providers would have the effect of "locking in" older technology and stagnating innovation, harming the quality and reliability of consumer service.
- <u>Supporting Indian public safety across IoT markets and deployments:</u> The App Association also supports India's prioritisation for standards, public safety, and national security in a new Indian telecommunications framework (*Appendix 2*). We strongly encourage alignment with international standards and best practices for telecommunications security and supply chain integrity, and for the avoidance of measures or requirements that mandate localising manufacturing processes, require the

<sup>&</sup>lt;sup>4</sup> <u>https://www.commoncriteriaportal.org/</u>.

<sup>&</sup>lt;sup>5</sup> <u>https://www.ncbroadband.gov/technical-assistance/playbook/policy-broadband/dig-once-policies.</u>

use of indigenous software in manufacturing design processes, prefer domestic products and services with domestically owned IPR in the procurement by government agencies, especially for the procurement of security-related products, and other discriminatory measures that suppress competition and innovation.

A world-leading and pro-innovation approach to standard-essential patent licensing: Where TRAI approaches OTT innovation and technical standards in this consultation paper, we encourage framed scoping to ensure that standards use, and access is possible for all innovators. India's economy is growing at a fast pace due to its technology industry employing over 5.4 million workers with revenues expected to rise by \$245 billion at the end of 2023.<sup>6</sup> This growth is met with an evolving legal landscape for standardised technology that is susceptible to intellectual property (IP) abuse and requires transparent, balanced, and predictable guidance. The IP-based incentives in the standardisation process differ from non-essential IP incentives. In general, a patent holder has the right to exclude others, for a limited period of time, from commercially making, using, distributing, importing, or selling their protected invention, unless their consent is otherwise given. Patent protection only extends as far as the territories the patent was issued in. 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 development organisations (SDOs) with a commitment that they will license their standard-essential patents (SEPs) on fair, reasonable, and non-discriminatory (FRAND) terms in order to gain access to a wider pool of licensees. Therefore, by contributing to the standardisation process, a SEP holder understands and agrees to not unduly exclude competitors from a standard past requiring a FRAND license.

The international community has consistently held that the success of the voluntary, consensus-based, open-participation technology standards system is vital for competitiveness and national security. The success of the standards development process is that industry participants are providing competing patent contributions and approaches. This system enables the market to determine a company's success and incents standardised technology development. This system ensures that internationally adopted standards are high quality and benefit all standards users, including Indian stakeholders. The consensus-based, open-participation technology standards system must be preserved in order to protect competitive standards that include Indian leadership and involvement.

Today, SEP holders in key telecommunications standards routinely abuse their dominant gatekeeper position to those seeking reasonable SEP licences needed simply to build standardised technologies into their products. To avoid this abuse and enable IoT growth and innovation in India, the App Association strongly supports the development of an Indian policy framework to clarify the obligations of SEP holders who commit to licence on FRAND terms. FRAND commitments increase competition by reducing IP

<sup>&</sup>lt;sup>6</sup> https://nasscom.in/sites/default/files/sr-2023-press-release.pdf.

abuse as well as unnecessary and burdensome litigation. We strongly urge TRAI's guidance to reflect basic principles that underlie the FRAND commitment, promote procompetitive technical standard-setting processes, and ensure terms of SEP licences are reasonable. Such a policy should reflect, and enable SDOs to clarify in their own patent policies, all the following principles, which prevent SEP holder anti-competitive abuses:

- Patents provide a clear and powerful incentive for innovation and continue to play an important role in driving competition and economic growth.
- Standards provide the foundation for the entire internet ecosystem and are a critical enabler of innovative startups and small and medium-sized firms.
- Holders of patented technologies that are essential to a standard may voluntarily commit to licence such patents on FRAND terms, which allows SEP holders to obtain fair and reasonable royalties from a large body of standard implementers.
- Companies that voluntarily participate in standards bodies and choose to commit their patents to a standard under FRAND terms must uphold their promises.
- o A commitment to FRAND patent licensing is a broad commitment that means:
  - Fair and Reasonable to All A holder of a SEP subject to a FRAND commitment must licence such SEP on fair, reasonable, and nondiscriminatory terms to all willing licencees, who implement or wish to implement the standard regardless of where they sit in the supply chain.
  - Injunctions Available Only in Exceptionally Limited Circumstances Injunctions and other exclusionary remedies should not be sought by SEP holders or allowed except in limited circumstances where monetary remedies are not available. The implementer or licensee is always entitled to assert claims and defences in good faith.
  - 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 Overbroad Licensing While some licensees may wish to get broader licences, the patent holder should not require implementers to take or grant licences to a declared 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 the value of the actual patented invention apart from its inclusion in the standard and should consider 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.

The App Association is strongly engaged in efforts to support an equitable SEP licensing landscape in India for our members. As part of this effort, referred in an appendix to these comments, we have developed *A Call to Action: Guiding a Fair Standard-Essential Patent Licensing Process for a Thriving Indian Economy*,<sup>7</sup> a detailed paper recommending a pro-competitive standards and SEP framework for India. We strongly encourage India's approach to policies and laws at the intersection of standards, patents, and competition to align with these recommendations.

<sup>&</sup>lt;sup>7</sup> Scarpelli, Brian and Nair, Priya, A Call To Action: Guiding a Fair Standard-Essential Patent Licensing Process For a Thriving Indian Economy (August 9, 2023). Available at SSRN: <u>https://ssrn.com/abstract=4536835</u> or <u>http://dx.doi.org/10.2139/ssrn.4536835</u>.

The App Association appreciates the opportunity to share its views with TRAI and looks forward to assisting TRAI in the development of a new policy guidance that encourages digital transformation through the 5G ecosystem.

Sincerely,

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20 October 2022

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## RE: Comments of ACT | The App Association to the Indian Government's Department of Telecommunications regarding its Indian Telecommunication Bill Draft, 2022

#### I. Introduction

ACT | The App Association (App Association) writes to provide comments to the Government of India's (GOI) Ministry of Communications within the Department of Telecommunications (MOC) regarding the draft Indian Telecommunication Act, 2022 (Draft Bill).<sup>1</sup> The App Association represents the interests of small and medium-sized business technology developers from around the world, including in India. The App Association encourages the development of policies and principles that will enable vibrant, competitive, and digitally inclusive telecom market to strengthen India's long-term competitiveness and serve the needs of its citizens. We appreciate MOC seeking feedback on its proposed Draft Bill from a diverse group of stakeholders.

App Association members' innovations provide the interface for IoT, an all-encompassing concept where everyday products use the internet to communicate data. IoT will continue to enable improved efficiencies in processes, products, and services across every sector. The rise of IoT is demonstrating efficiencies in key segments of the Indian economy, including retail, agriculture, and healthcare, and is projected to be worth more than \$9.28 billion in India by 2025.<sup>2</sup> The app industry has experienced rapid growth alongside the rise of smartphones. Our community is the primary driver of a global \$6.3 trillion digital economy<sup>3</sup> that employs millions of Indians. App Association members develop the software apps that serve as the main interface for communicating with and managing devices across the digital ecosystem. India's Draft Bill on telecommunications should enable Indian companies and individuals to easily access and use these IoT innovations.

#### II. General Views of the App Association to DOT regarding Draft Indian Telecommunication Bill 2022

Indian consumers and businesses immensely benefit from over-the-top (OTT) services applications and services that are accessible over the internet and are accessed via telecommunications network operators' networks—in a variety of ways. OTT applications and

<sup>&</sup>lt;sup>1</sup><u>https://dot.gov.in/sites/default/files/Draft%20Indian%20Telecommunication%20Bill%2C%202022.pdf</u>.

<sup>&</sup>lt;sup>2</sup> <u>https://insights.frost.com/pr\_ict\_sdaivanayagam\_pc26\_indianiot?campaign\_source=PR.</u>

<sup>&</sup>lt;sup>3</sup> <u>https://actonline.org/global-appcon22-competition-and-privacy/</u>.

services provide consumers with access to personalized and customizable services at lower costs and higher efficiency, driven by enhanced competition that allows new innovations across the array of use cases that consumers rely on for internet connectivity. Further, OTT services reduce consumer costs by stimulating telecommunications network growth by increasing demand for bandwidth, driving further investment in infrastructure, and facilitating innovation. These benefits are already seen today across numerous sectors of the global economy, such as communications, transport, retail, and entertainment. In addition, this trend will likely continue. The demand for OTT services continues to grow and is expected to provide \$129 billion of value annual by 2023.<sup>4</sup>

In addition, OTT applications and services are key enablers of the digital economy and the IoT, powering a future where an increasing number of everyday products use the internet to communicate data collected through sensors, inform decisions through data analytics, and ensure efficiencies in processes, products, and services across every sector. The global digital economy is projected to reach a value of \$23 trillion by 2025.<sup>5</sup>

Apps are the interface for technological progression. The industry that the App Association represents—one that is primarily OTT—has been in existence for approximately a decade and has experienced incredible growth. Apps revolutionized the software industry, touching every sector of the economy that is led by startups and small businesses, many of which are in India. While OTT applications and services can help meet nearly every need in a consumer's life, the app on an internet-enabled mobile device (smartphone, tablet, etc.) is likely to remain the interface for communicating with these devices. And in the enterprise context, OTTs offer the ability to realize greater efficiencies and improvements across verticals, from health to industrial control to manufacturing and other sectors. The continued rise of innovative OTT services will hinge on the app economy's continued innovation, investment, and growth; and we urge GOI to affirm that it shares the goal of advancing the development and uptake of innovative OTTs in India.

Based on the above, we strongly discourage GOI from creating new regulations for OTT applications and services at large. Such regulations are, practically, a suggestion that the method of delivering the service (OTT) alone presents some additional risk to consumers. We completely reject this presumption, which has not been demonstrated by an evidence base. Further, the scope of such a regulation would stretch to cover the entire digital economy, which is not feasible.

The impact of such a new regulations on OTT provision, deployment, and uptake would be significant and damaging. OTT-specific regulations, including through expanding definitions to include OTTs in the same category as telecommunications services, poses a serious threat of creating an overly burdensome regulatory environment that will hamper economic growth not only for a locality that puts such regulations in place but also for the mobile app developer business community in that locality. The application of an OTT-specific regulatory framework in a local jurisdiction would be detrimental to the growth of OTT applications and services and to the availability of these OTT applications and services to consumers in that jurisdiction. We strongly urge GOI to acknowledge that these OTT application and service providers already go to great lengths to comply with general consumer protection laws in the jurisdictions they do business. GOI should avoid applying legacy Telecommunications Service Provider (TSP)

<sup>&</sup>lt;sup>4</sup> https://www.multichannel.com/news/u-s-ott-revenue-will-spike-26-to-28-8b-in-2018-report-says.

<sup>&</sup>lt;sup>5</sup> https://talkiot.co.za/2018/05/29/digital-economy-to-be-worth-23-trillion-by-2025/.

regulatory requirements to OTTs; such attempts often have the effect of "locking in" older technology and stagnating innovation, harming the quality and reliability of consumer service.

OTTs also already pay local, regional/provincial, and national taxes. The imposition of further OTT-specific fees, levies, or taxes will have a negative impact on the provision of OTT services in India. Additionally, these fees, levies, and taxes will be diverted from OTT application and service providers' resources which are available to invest in both the innovation in services themselves and the means of delivery in which they already invest. Particularly, for small businesses, these fees, levies, and taxes can represent insurmountable barriers to market entry. In order for these OTT application and service providers to grow and create jobs, they must look to expand to new customers across the global digital economy. Targeted fees, levies, or taxes in a locality (along with other trade barriers) present the possibility of different legal liability concerns depending on the jurisdiction, degrading the ability to more quickly reach a global scale.

We note that OTTs provide different services from TSPs, which focus on providing the capacity to end users. It is important that GOI understand and acknowledge that OTT service providers already bear costs to ensure content delivery networks can provide their application or service to stay competitive and a part of the virtuous cycle of innovation that includes OTT application and service providers, telecommunications network operators, and consumers. OTT services reduce consumer costs by stimulating telecommunications network growth which in turn increases demand for uptake of data and the need for more bandwidth, driving further revenues and investments in infrastructure by the TSP. Customer service issues and quality assurance concerns for OTTs are best addressed through free market competition; in the hyper-competitive OTT application and service provider world, customer service and/or quality assurance are key market differentiators. Failure to innovate in either area will quickly drive customers to a competing OTT application or service provider because of very low switching costs. These are also assured through compliance with general consumer protection laws in place around the world today.

Further, we note our opposition to proposals that would require OTT service providers to contribute to universal service funds used for network roll-out in unserved and underserved areas. Such proposals present the danger of combining a telecommunications network operator with an OTT application or service provider. Telecommunications network operators and OTT application and service providers are fundamentally different; OTT application and service providers do not primarily engage in the business of providing broadband connectivity to an end-user (instead, they offer applications or services over that broadband pipe). Further, OTT application and service providers are significantly contributing to global investment in telecommunications infrastructure (data centers, etc.). The App Association does not believe that a regulatory or licensing imbalance is affecting infusion of investments in the telecom networks required from time to time for network capacity expansions and technology upgradations. As we have discussed above, OTTs do not maintain or provide network infrastructure services and are generally different from TSP services. We strongly urge TRAI to acknowledge that OTT service providers already go to great lengths to comply with general consumer protection laws in the jurisdictions in which they do business. OTTs also already pay relevant local, regional/provincial, and national taxes as applicable. Further, applying TSP regulatory requirements to OTTs would have the effect of "locking in" older technology and stagnating innovation, harming the guality and reliability of consumer service.

OTT service providers already bear costs to ensure content delivery networks can provide their application or service to stay competitive and a part of the virtuous cycle of innovation that

includes OTT application and service providers, telecommunications network operators, and consumers. OTT services reduce consumer costs by stimulating telecommunications network growth which in turn increases demand for uptake of data and the need for more bandwidth. This drives further revenue and investment in infrastructure by the TSP. Customer service issues and quality assurance concerns for OTTs are best addressed through free market competition; in the hyper-competitive OTT application and service provider world, customer service and/or quality assurance are key market differentiators. Failure to innovate in either area will quickly drive customers to a competing OTT application or service provider because of low switching costs. These are also assured through compliance with general consumer protection laws in place around the world today.

In short, new OTT regulations would damage the Indian startup ecosystem by imposing new market entry costs and barriers to innovation. Ultimately, such regulations would suppress innovation by small businesses in India that would otherwise grow and create new jobs in India. The App Association generally supports DOT's efforts to develop a legal and regulatory framework to enable access to wireless broadband services, reduce barriers to new infrastructure, and support efficacious ways to use wireless spectrum through licensing agreements and advanced sharing arrangements. However, we are concerned provisions of the Draft Bill will have a severely adverse impact on the global small business community. We strongly encourage DOT to ensure that the law will help secure the Indian market's global competitiveness and will not create barriers for Indian innovators to share their products and services (in India and abroad). Moreover, the Draft Bill, as it stands, will weaken the powers of the Telecom Regulatory Authority of India (GOI) by eliminating the provisions that require the GOI to consider recommendations from the authority before issuing licenses. This circumvention of power brings guestion to the autonomy and basic function of GOI. A light-touch regulatory approach, both in operation and in scope will prevent stifling of economic growth and investment. Moreover, the regulations the Indian government dedicates to protecting consumers should be based on an established evidence base supported by reliable data.

GOI should retain the option of avoiding specific regulatory intervention with respect to OTTs and permitting market forces to force TSPs to correct their business models. The App Association believes that, given there is no demonstrated market failure present (and that none has been demonstrated by GOI), such an approach is the most appropriate.

Building on the above, the App Association offers the following specific input on issues and areas raised in the Draft Bill:

#### A. Definition of "Telecommunication Services"

As discussed above, generally, OTT services are not similar or the same to TSP services, save for OTT communications services that have the primary purpose of providing real-time personto-person telecommunication voice services using the network infrastructure (e.g., utilizing a telephone number) of a TSP. Any other OTT services should not be considered the same or similar to TSP services for the reasons provided above in our general comments above.

Substitutability may be used in comparing regulatory or licensing norms applicable to TSPs and OTT service providers based on the primary purpose of a service, as consideration of any ancillary purposes would, in practice, have OTTs unduly determined to be substitutable for TSP services when additional (even minor) features in OTT services are considered. More specifically, a "primary purpose" test should be utilized to OTT communications services that

provide real-time person to person telecommunication voice services using the network infrastructure (e.g., utilizing a telephone number) of a TSP.

Further, as discussed above, providing the capacity for services as opposed to providing services that are available over the top of the networks providing such capacity. As noted above in our general comments, TSP and OTT services are not similar or the same and are fundamentally different. This difference further is illustrated through the relations between TSP and OTT service providers: OTT services reduce consumer costs by stimulating telecommunications network growth which in turn increases demand for uptake of data and the need for more bandwidth, driving further investment in infrastructure (which OTTs, by definition, cannot provide) by the telecommunications network operator

While the global digital economy holds great promise for App Association member companies, our members face a diverse array of challenges when entering new markets. Fees, taxes, levies, or customs duties on digital services directly and negatively impact App Association members that lead in the software development and connected device industries. Unilateral and uncoordinated digital services taxes are unreasonable and discriminatory, disjoint the digital economy, and impede exports and investment.

The App Association supports DOT's proposal to create a Telecommunications Development Fund to ensure that India delivers universal telecommunication service to underserved rural and urban areas, advances the research and development of new technologies, and promotes employment and training activities. However, the imposition of USOF fees, levies, or taxes on small business OTT innovators will negatively impact the ability to provide OTT services globally, takes away from resources dedicated to investment in these services and their delivery, and can represent insurmountable barriers to market entry for small businesses. For OTT application and service providers to grow and create jobs, they must expand to new customers across the global digital economy. Targeted fees and other trade barriers can pose legal liability concerns that jeopardise the ability of startups and small businesses to reach a global scale, resulting in reduced availability and higher prices for the consumer. OTT providers already bear significant costs to ensure content delivery networks can provide their application or service. Not only do OTT services stimulate telecommunications network growth, increase demand for data uptake, and drive the need for bandwidth, but they also help reduce consumer costs. When contemplating the global trade implications of the Draft Bill, the App Association urges the Government to refine the scope of definition of telecommunication services. Broad inclusion of OTT communication services and internet-based communication services disadvantages small business communities on a global scale. Section 19 of the Draft Bill, if applied, will avail our members to "fees and charges, applicable to the licensee or registered entity," deeply impacting our dynamic communities and how they realise economic success. Not only do OTT services stimulate telecommunications network growth, increase demand for data uptake, and drive the need for bandwidth, but they also help reduce consumer costs. Excluding OTT communication services from being regulated under this law will enhance growth of the mobile app economy in India.

#### B. Telecommunications Infrastructure and Spectrum Management

The App Association supports DOT's recommendation that India's new telecommunications framework be "future-ready" and in alignment with global best practices. The new framework can primarily be future proofed via setting policy goals that are outcome based and technology neutral.

The App Association supports DOT's recommendation that a new Indian telecommunications framework improve the ability to obtain right of way in a uniform, non-discriminatory manner for establishment of telecommunication infrastructure. DOT is also encouraged to include a "dig once" policy under this prong of a new framework, which would require the consideration of including broadband in other infrastructure projects (electric, road, water, etc.).<sup>6</sup>

A new Indian telecommunications framework for India should embrace every opportunity for the most efficient use of spectrum bands, which must include a mix of both licenced and unlicenced allowances (and sharing arrangements within the same bands for licenced and unlicenced uses that take responsible measures to avoid harmful interference).

#### C. Standards, Public Safety, and National Security

We strongly encourage India's new telecommunications framework to align with global best practices; as one example, India's new telecommunications framework can advance telecommunications security interests most effectively by aligning with the Common Criteria for Information Technology Security Evaluation.<sup>7</sup>

Due to the global nature of the digital economy, both for India-based OTTs as well as OTTs based elsewhere, the App Association strongly urges for TRAI's approach to lawful interception of OTT communications be taken through bilateral or multilateral agreements with foreign governments for cross-border data requests (e.g., a bilateral arrangement with the U.S. government per the CLOUD Act).

We very strongly discourage against the use of data localization requirements, which seriously hinder imports and exports, reduce an economy's international competitiveness, and undermine domestic economic diversification. OTT innovators do not have the resources to build or maintain unique infrastructure in every country in which they do business, and these requirements effectively exclude them from commerce. The App Association does not believe that such requirements should be applied to TSPs nor OTTs.

We also strongly encourage TRAI to preserve the ability of OTTs to utilize strong encryption techniques to protect end user security and privacy. Global digital trade depends on the use of strong encryption techniques to keep users safe from harms like identity theft. However, some governments continue to demand that "backdoors" be built into encryption keys for the purpose of government access. These policies jeopardize the safety and security of data, as well as the trust of end users, by creating known vulnerabilities that unauthorized parties can exploit. From a privacy and security standpoint, the viability of an OTT service provider's product depends on the trust of its end users.

To address public safety concerns, OTTs that have the primary purpose of providing real-time person-to-person telecommunication voice services using the network infrastructure (utilizing a telephone number) of a TSP may need to be required to provide emergency services connection capabilities to align with reasonable consumer expectations. Expanding such obligations to OTTs past this category would not align with consumer expectations and would impose unreasonably high costs to OTTs, discouraging innovation and investment, without benefit to the public.

<sup>&</sup>lt;sup>6</sup> https://www.ncbroadband.gov/technical-assistance/playbook/policy-broadband/dig-once-policies.

<sup>&</sup>lt;sup>7</sup> <u>https://www.commoncriteriaportal.org/</u>.

Within this pillar of DOT's approach to a new Indian telecommunications framework, we encourage reframed scoping to ensure that standards use and access is possible for all innovators. Today, holders of standard-essential patents (SEPs) in key telecommunications standards routinely abuse their dominant gatekeeper position to those seeking reasonable SEP licences needed simply to build standardised technologies into their products. To avoid this abuse and enable IoT growth and innovation in India, the App Association strongly supports the development of an Indian policy framework to clarify the obligations of SEP holders who commit to licence on fair, reasonable, and non-discriminatory (FRAND) terms. FRAND commitments increase competition by reducing intellectual property (IP) abuse as well as unnecessary and burdensome litigation. We strongly urge India's new telecommunications framework to reflect basic principles that underlie the FRAND commitment, promote procompetitive technical standard-setting processes, and ensure terms of SEP licences are reasonable. Such a policy should reflect, and enable standard-setting organisations (SSOs) to clarify in their own patent policies, all the following principles, which prevent SEP holder anti-competitive abuses:

- Patents provide a clear and powerful incentive for innovation and continue to play an important role in driving competition and economic growth.
- Standards provide the foundation for the entire internet ecosystem and are a critical enabler of innovative startups and small and medium-sized firms.
- Holders of patented technologies that are essential to a standard may voluntarily commit to licence such patents on FRAND terms, which allows SEP holders to obtain fair and reasonable royalties from a large body of standard implementers.
- Companies that voluntarily participate in standards bodies and choose to commit their patents to a standard under FRAND terms must uphold their promises.
- A commitment to FRAND patent licensing is a broad commitment that means:
  - Fair and Reasonable to All A holder of a SEP subject to a FRAND commitment must licence such SEP on fair, reasonable, and nondiscriminatory terms to all willing licencees, who implement or wish to implement the standard regardless of where they sit in the supply chain.
  - Injunctions Available Only in Exceptionally Limited Circumstances SEP holders should not be allowed to pursue injunctions and other exclusionary remedies, except in limited circumstances. An implementer or licencee may assert a claim or defence against a licensor in good faith.
  - 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 licencees may wish to get broader licences, the patent holder should not require implementers to take or grant licences to a FRAND-encumbered SEP that is invalid, unenforceable, not infringed, or nonessential to a standard.
  - 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, and cannot be assessed in a vacuum that ignores the portion in which the SEP is substantially practiced or royalty rates from other SEPs required to implement the standard.

#### D. Mergers, demergers, and acquisitions

The App Association appreciates DOT identifying the need to improve the process for or mergers, demergers, and acquisitions, or other forms of restructuring. We appreciate DOT's support for allowing for any licencee or registered entity to comply with the scheme for restructuring as provided under the Companies Act of 2013, after which that party would inform the DOT, as required. However, we strongly urge GOI to refrain from including new or separate antitrust policy from the Companies Act of 2013 in the latest telecommunication bill. The App Association notes that success for a startup or small business can take a variety of forms, including being purchased by a larger company that may have the resources and added expertise to enhance the product and/or bring the product to market for customers. Frequently, small businesses and startups are founded with the expectation that when their idea's potential has been sufficiently developed and demonstrated, the business will be acquired. Such an acquisition connects entrepreneurs to the scale and resources needed to develop their innovation to its full potential. Such an acquisition also allows the creative minds behind these new technologies to move on to develop new businesses, equipped with the additional skills and resources from the successful exit. The Indian economy and consumers have benefited tremendously from the creativity of individuals when combined with the resources and institutional knowledge of businesses that acquire their innovations. A merger that helps produce better products or services for consumers is both a natural and beneficial end for some companies and is healthy from a competition policy perspective, a fact that existing merger enforcement guidance reflects.

While, from time to time, it may be necessary to update merger/acquisition laws, Indian policymakers must inform any updates made to the merger guidelines by an objective datadriven evidence base and avoid making policy-level decisions based on edge-use cases and hypotheticals. DOT and other Indian policymakers should be mindful to avoid framing mergers, especially vertical integrations, as inherently anticompetitive or as innately having a negative effect on consumers. Such assumptions stand in stark contrast to both objective evidence and the experiences of those we work with, and we strongly urge Indian policymakers to base next steps on empirical evidence and existing caselaw precedent.

We also strongly discourage India from invoking industry- or sector-specific merger enforcement guidance. To date, the flexible and industry-agnostic approach of antitrust law concepts has proven effective in providing fairness and consistency in antitrust law enforcement. There would be substantial risks and unintended consequences associated with disparate treatment among industries if Indian policymakers were to carve out exemptions or specifically target certain sectors of the economy. Today's time-tested, flexible, industry-agnostic merger enforcement guidance is far superior in addressing unique and challenging use cases, promotes a harmonised 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. For example, differences in terminology between how phrases are used in commerce and how phrases are used in static industry-specific merger guidance will inevitably diverge, leading to an inconsistent application of antitrust law that would deter beneficial mergers and acquisitions.

If merger/acquisition policy is changed in India, we urge a light touch approach and advocate for careful and targeted improvements to be made to existing guidelines, consistent with the above. Any revisions to today's merger enforcement guidelines must retain rigorous economic analysis as a cornerstone of any review or enforcement. Economic analysis provides a transparent and objective method of evaluation in enforcements and allows businesses to predict when their

actions will and will not create antitrust enforcement concerns. Reducing the role of or removing economic analysis from the merger guidelines would create uncertainty for businesses, disrupting legal and business certainties and limiting the ability of the innovative companies we represent to attain success through pro-competitive mergers.

#### III. Conclusion

India is a key market for App Association members looking to expand their impact. We commit to working with the Indian government and other stakeholders to promote the growth of the app economy, telecommunication infrastructure, and competitive technology markets involving IoT.

Sincerely,

A

Brian Scarpelli Senior Policy Counsel

Leanna Wade Policy Associate

ACT | The App Association 1401 K St NW (Suite 501) Washington, District of Columbia 20005 United States



24 August 2022

Department of Telecommunications 20, Sanchar Bhawan, Ashoka Road New Delhi, Delhi 110001 India

#### RE: Comments of ACT | The App Association on the Department of Telecommunication's Consultation, 'Need for a new legal framework governing Telecommunication in India'

Dear Sir/Madam:

ACT | The App Association (the App Association) writes to provide comments to the Department of Telecommunications' (DOT) consultation on a new legal framework for telecommunications in India.<sup>1</sup> The App Association represents the interests of small business technology developers from around the world, including in India. The App Association is committed to preserving and promoting innovation generally as well as accelerating the growth of technology markets such as the internet of things (IoT) through robust standards development and a balanced intellectual property system. The App Association applauds DOT for undertaking a public consultation on this matter.

The App Association supports DOT's efforts to reimagine India's telecommunications legal framework, and to develop policies and principles that will enable creation of a vibrant and competitive telecom market to strengthen India's long-term competitiveness and serve the needs of its citizens. App Association members' innovations provide the interface for IoT, an all-encompassing concept where everyday products use the internet to communicate data collected through sensors. IoT will continue to enable improved efficiencies in processes, products, and services across every sector. The rise of IoT is demonstrating efficiencies in key segments of the Indian economy, including retail, agriculture, and healthcare, and is projected to be worth more than \$9.28 billion in India by 2025.<sup>2</sup>

The real power of IoT comes from the actionable information gathered by sensors embedded in connected devices. IoT devices are useful in direct consumer interactions but have huge potential as part of what is now commonly referred to as "big data." For this document, we define this term to mean structured or unstructured data sets so large

<sup>&</sup>lt;sup>1</sup> See <u>https://dot.gov.in/sites/default/files/Consultation%20Paper%20final%2023072022-</u> 1.pdf?download=1.

<sup>&</sup>lt;sup>2</sup> <u>https://insights.frost.com/pr\_ict\_sdaivanayagam\_pc26\_indianiot?campaign\_source=PR.</u>

or complex that traditional data processing applications are not sufficient for analysis. As sensors become smaller, cheaper, and more accurate, big data analytics enable more efficiencies across consumer and enterprise use cases.

IoT deployment will be highly use case-dependent yet will depend on standardised solutions to ensure the ability for data to flow between parties. To date, the technology industry has utilised open application programming interfaces (APIs) and other widely adopted standards (e.g., TCP/IP) to enable interoperability. For example, in healthcare, a miniaturised IoT sensor embedded in a connected medical device must be able to communicate bidirectionally in real time. This capability enables a healthcare practitioner to monitor a patient's biometric data and allows the patient to communicate with a caregiver in the event of a medical emergency. Other uses, such as sensors deployed to alert security of an unauthorised presence, may only require the ability to send data to security professionals with minimal (or even no) capability to receive communications. And ultimately, the rise and sustainability of IoT in India will depend on a robust and accessible telecommunications network that leverages standardised solutions.

The app industry has experienced rapid growth alongside the rise of smartphones. The App Association's community is the primary driver of a global \$6.3 trillion digital economy<sup>3</sup> that employs millions of Indians. App Association members develop and use IoT sensors that can be found in an increasing amount of consumer and enterprise objects and develop the software apps that serve as the main interface for communicating with and managing these devices. India's framework for telecommunications should enable Indian companies and individuals to easily access and use these IoT innovations.

Given the intertwined relationship between mobile and IoT devices, software apps, and telecommunications networks, we strongly encourage DOT to ensure that an updated Indian telecommunications framework has clear and predictable policies that will help secure the Indian market's global competitiveness and will not create barriers for Indian innovators to share their products and services (in India and abroad).

The App Association emphasises that mandates to localise manufacturing processes, requiring use of indigenous software in manufacturing design processes, preferring domestic products and services with domestically-owned intellectual property rights (IPR) in the procurement by government agencies, especially for the procurement of security-related products, among other discriminatory measures, make it difficult, if not impossible, for innovators to access and leverage global hardware and software development chains, putting Indian manufacturers and Indian consumers at a significant disadvantage. Such mandates ultimately lead to a lack of market choice and reduce the number of ways our members' innovations can provide new efficiencies and solutions to end users, also increasing prices for consumers; we therefore strongly urge DOT to ensure that a new Indian telecommunications framework avoids any such requirements.

<sup>&</sup>lt;sup>3</sup> <u>https://actonline.org/global-appcon22-competition-and-privacy/</u>.

Moving forward, the App Association commits to work with DOT to help shape policies that promote IoT growth across all sectors of the Indian economy.

Building on the above, the App Association offers the following specific recommendations on issues and areas raised in DOT's consultation:

- The App Association supports DOT's recommendation that India's new telecommunications framework be "future-ready" and in alignment with global best practices. The new framework can primarily be future proofed via setting policy goals that are outcome based and technology neutral. Further, the new policy framework should indeed align with global best practices; as one example, India's new telecommunications framework can advance telecommunications security interests most effectively by aligning with the Common Criteria for Information Technology Security Evaluation.<sup>4</sup>
- The App Association agrees with DOT's proposal to prioritise simplifying its new framework, including through consolidating provisions and authorities, and ensuring duplicative and contradicting language is addressed. We further support DOT's proposed approach of minimising policy disruptions by providing for continuation of rules, guidelines, and administrative orders issued under the existing regime until superseded by new rules.
- The App Association supports a new Indian framework advancing each of the priorities articulated by DOT in 16a-16c in its Consultation Paper. A new Indian telecommunications framework for India should embrace every opportunity for the most efficient use of spectrum bands, which must include a mix of both licenced and unlicenced allowances (and sharing arrangements within the same bands for licenced and unlicenced uses that take responsible measures to avoid harmful interference).
- The App Association supports DOT's recommendation that a new Indian telecommunications framework improve the ability to obtain right of way in a uniform, non-discriminatory manner for establishment of telecommunication infrastructure. DOT is also encouraged to include a "dig once" policy under this prong of a new framework, which would require the consideration of including broadband in other infrastructure projects (electric, road, water, etc.).<sup>5</sup>
- The App Association appreciates DOT identifying the need to improve the process for or mergers, demergers, and acquisitions, or other forms of restructuring. We strongly urge a new telecommunications framework to ensure that it does not create new or separate antitrust policy from that under the Companies Act of 2013, and appreciate DOT's support for allowing for any licencee or registered entity to comply with the scheme for restructuring as provided under the Companies Act of 2013, after which that party would inform the DOT, as required.

<sup>&</sup>lt;sup>4</sup> <u>https://www.commoncriteriaportal.org/</u>.

<sup>&</sup>lt;sup>5</sup> https://www.ncbroadband.gov/technical-assistance/playbook/policy-broadband/dig-once-policies.

The App Association notes that success for a startup or small business can take a variety of forms, including being purchased by a larger company that may have the resources and added expertise to enhance the product and/or bring the product to market for customers. Frequently, small businesses and startups are founded with the expectation that when their idea's potential has been sufficiently developed and demonstrated, the business will be acquired. Such an acquisition connects entrepreneurs to the scale and resources needed to develop their innovation to its full potential. Such an acquisition also allows the creative minds behind these new technologies to move on to develop new businesses, equipped with the additional skills and resources from the successful exit. The Indian economy and consumers have benefited tremendously from the creativity of individuals when combined with the resources and institutional knowledge of businesses that acquire their innovations. A merger that helps produce better products or services for consumers is both a natural and beneficial end for some companies and is healthy from a competition policy perspective, a fact that existing merger enforcement guidance reflects. Any updates to Indian law with respect to merger enforcement therefore stand to deeply impact our dynamic communities and how they realise success.

While, from time to time, it may be necessary to update merger/acquisition laws, Indian policymakers must inform any updates made to the merger guidelines by an objective data-driven evidence base and avoid making policy-level decisions based on edge-use cases and hypotheticals. DOT and other Indian policymakers should be mindful to avoid framing mergers, especially vertical integrations, as inherently anticompetitive or as innately having a negative effect on consumers. Such assumptions stand in stark contrast to both objective evidence and the experiences of those we work with, and we strongly urge Indian policymakers to base next steps on empirical evidence and existing caselaw precedent.

We also strongly discourage India from developing industry- or sector-specific merger enforcement guidance. To date, the flexible and industry-agnostic approach of antitrust law concepts has proven effective in providing fairness and consistency in antitrust law enforcement. There would be substantial risks and unintended consequences associated with disparate treatment among industries if Indian policymakers were to carve out exemptions or specifically target certain sectors of the economy. Today's time-tested, flexible, industry-agnostic merger enforcement guidance is far superior in addressing unique and challenging use cases, promotes a harmonised 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. For example, differences in terminology between how phrases are used in commerce and how phrases are used in static industry-specific merger guidance will inevitably diverge, leading to an inconsistent application of antitrust law that would deter beneficial mergers and acquisitions.

If merger/acquisition policy is changed in India, we urge a light touch approach and advocate for careful and targeted improvements to be made to existing guidelines, consistent with the above. Any revisions to today's merger enforcement guidelines must retain rigorous economic analysis as a cornerstone of any review or enforcement. Economic analysis provides a transparent and objective method of evaluation in enforcements and allows businesses to predict when their actions will and will not create antitrust enforcement concerns. Reducing the role of or removing economic analysis from the merger guidelines would create uncertainty for businesses, disrupting legal and business certainties and limiting the ability of the innovative companies we represent to attain success through pro-competitive mergers.

- The App Association supports DOT's proposal to overhaul its Universal Service • Obligation Fund (USOF) to ensure that India's USOF delivers universal telecommunication service to underserved rural and urban areas, advances the research and development of new technologies, and promotes employment and training activities. However, the App Association cautions DOT against pursuing the expansion of the contribution base of the USOF in India. The imposition of USOF fees, levies, or taxes on small business over-the-top (OTT) innovators will negatively impact the ability to provide OTT services globally, takes away from resources dedicated to investment in these services and their delivery, and can represent insurmountable barriers to market entry for small businesses. For OTT application and service providers to grow and create jobs, they must expand to new customers across the global digital economy. Targeted fees and other trade barriers can pose legal liability concerns that jeopardise the ability of startups and small businesses to reach a global scale, resulting in reduced availability and higher prices for the consumer. OTT providers already bear significant costs to ensure content delivery networks can provide their application or service. Not only do OTT services stimulate telecommunications network growth, increase demand for data uptake, and drive the need for bandwidth, but they also help reduce consumer costs.
- The App Association also supports DOT's proposed prioritisation for standards, public safety, and national security in a new Indian telecommunications framework. We strongly encourage alignment with international standards and best practices for telecommunications security and supply chain integrity, and for the avoidance of measures or requirements that mandate localising manufacturing processes; require the use of indigenous software in manufacturing design processes; prefer domestic products and services with domestically owned IPR in the procurement by government agencies, especially for the procurement of security-related products; and other discriminatory measures that suppress competition and innovation.

Within this pillar of DOT's approach to a new Indian telecommunications framework, we encourage reframed scoping to ensure that standards use and access is possible for all innovators. Today, holders of standard-essential patents (SEPs) in key telecommunications standards routinely abuse their dominant gatekeeper position to those seeking reasonable SEP licences needed simply to build standardised technologies into their products. To avoid this abuse and enable IoT growth and innovation in India, the App Association strongly supports the development of an Indian policy framework to clarify the obligations of SEP holders who commit to licence on fair, reasonable, and non-discriminatory (FRAND) terms. FRAND commitments increase competition by reducing intellectual property (IP) abuse as well as unnecessary and burdensome litigation. We strongly urge India's new telecommunications framework to reflect basic principles that underlie the FRAND commitment, promote procompetitive technical standard-setting processes, and ensure terms of SEP licences are reasonable. Such a policy should reflect, and enable standard-setting organisations (SSOs) to clarify in their own patent policies, all the following principles, which prevent SEP holder anti-competitive abuses:

- Patents provide a clear and powerful incentive for innovation and continue to play an important role in driving competition and economic growth.
- Standards provide the foundation for the entire internet ecosystem and are a critical enabler of innovative startups and small and medium-sized firms.
- Holders of patented technologies that are essential to a standard may voluntarily commit to licence such patents on FRAND terms, which allows SEP holders to obtain fair and reasonable royalties from a large body of standard implementers.
- Companies that voluntarily participate in standards bodies and choose to commit their patents to a standard under FRAND terms must uphold their promises.
- A commitment to FRAND patent licensing is a broad commitment that means:
  - Fair and Reasonable to All A holder of a SEP subject to a FRAND commitment must licence such SEP on fair, reasonable, and nondiscriminatory terms to all willing licencees, who implement or wish to implement the standard regardless of where they sit in the supply chain.
  - Injunctions Available Only in Exceptionally Limited Circumstances – SEP holders should not be allowed to pursue injunctions and other exclusionary remedies, except in limited circumstances. An implementer or licencee may assert a claim or defence against a licensor in good faith.
  - FRAND Promise Extends if Transferred If a FRANDencumbered SEP is transferred, the FRAND commitments follow the SEP in that and all subsequent transfers.
  - No Forced Licensing While some licencees may wish to get broader licences, the patent holder should not require implementers to take or grant licences to a FRAND-encumbered SEP that is invalid, unenforceable, not infringed, or nonessential to a standard.

 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, and cannot be assessed in a vacuum that ignores the portion in which the SEP is substantially practiced or royalty rates from other SEPs required to implement the standard.

The App Association appreciates the opportunity to share its views with DOT and looks forward to assisting DOT in the development of a new Indian telecommunications framework.

Sincerely,

Brian Scarpelli Senior Global Policy Counsel

Priya Nair IP Policy Counsel

ACT | The App Association 1401 K St NW (Ste 501) Washington, DC 20005 **Appendix 3** 

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

Brian Scarpelli<sup>1</sup>

Priya Nair<sup>2</sup>

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## 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 often 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, a few prominent Indian SDOs include 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 may be the subject of issued patents (or pending patent applications) either held by a stakeholder that contributed to the specification or by other third-parties. These patents are necessary to implement a standard and are referred to as standard essential patents (SEPs). A minority of opportunistic SEP holders have historically attempted to mischaracterise the interests of the SDO participants in developing strong, usable and successful standards by incorrectly suggesting that there is a differentiation between stakeholders that are "contributors" and those that are "implementers". In fact, many SDO stakeholders both contribute their patented technologies during the development of a standard and implement the final standard into their commercialised products.

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. Patents reward innovation, and it is important that SDOs have the ability to incorporate innovative new technologies. The challenge is to guard against potential abuse that produces a lock-in effect, when competitors select patented technology for standardisation thereby creating an inability to design around such technology.

To mitigate potential anticompetitive harms, such a patent 'hold-up', and preserve competition, SDOs commonly adopt patent policies requiring 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. Still, a minority of SEP holders commonly exploit ambiguities in the FRAND commitment or revoke their FRAND commitment altogether. As the Indian economy expands, the need for the Indian government to approach the encroaching and 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 is competitive and beneficial to businesses and consumers:

• Fair and Reasonable to All – A holder of an SEP subject to a FRAND commitment must licence such SEP on fair, reasonable, and non-discriminatory terms to all

companies, organisations, 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, including when the licensee is in bankruptcy or outside the court's jurisdiction, a valid and essential patent or patents is actually infringed, monetary compensation is not otherwise available; or the licensee is found by a court to be 'unwilling'. The implementer or licensee is always entitled to assert claims and defences.
- 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 Overbroad Licencing While some licensees may wish to get broader licences, 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 FRANDencumbered 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.

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"). These issues are of increasing importance as standardised technologies, including wireless communication technologies, move into new industries such as automotive, industrial, energy, finance, transportation, warehousing, infrastructure and security.

This paper recommends that the best course of action for the Indian government to facilitate a procompetitive SEP licensing ecosystem for both experienced and inexperienced SEP negotiators is to shape new law and policy through a comprehensive and whole-of-government 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 IoT economy and demonstrate India's global leadership in pro-innovation policies.

#### SUMMARY OF DOCUMENT

This paper includes the following parts:

Introduction. This introduces the reader to the elements in the standardisation process – its key players and points of dispute and debate, standardisation in India and the necessity for guidelines for stakeholders in the process.

- *Section 1. This defines the scope of the paper and its possible use-cases.*
- *Section 2.* This highlights the 'core principles' of standard essential patent licensing.

Section 3. This contains a detailed descriptive embodiment of 'best practices' that ought to be followed during licensing negotiations to preserve the fair, reasonable, and non-discriminatory promise and contextual research of Indian jurisprudence regarding the same.

- Section 4. This portion will give a detailed analysis of standards (wireless or other technicals) in India, the need for structured terms/law when it comes to FRAND licensing, along with an explanation of the competitive aspect of FRAND.
- Section 5. This portion shall provide extensive review and legal research on FRAND obligations, which shall then be used to encapsulate the 'six core principles' in detail.
- Section 6. This part of the paper shall have a comparative analysis of the SEP and FRAND regulations globally and compare it to the present scenario in India. Key aspects from global authorities shall be highlighted and then a list of policy recommendations shall be made over SEP and FRAND governance.
- *Section 7.* This is a conclusion to the paper containing a run-down of all key aspects mentioned before and a hopeful message for the implementation of some of the recommendations.

#### **INTRODUCTION**

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<sup>3</sup>. 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.

#### STANDARDS, STANDARD DEVELOPERS, AND FRAND

'Standards' are defined in the World Trade Organization (WTO) Technical Barriers to Trade 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....' Patents imperative for the implementation of a standard are referred to as a standard-essential patent ('SEP'). A standard-setting organisation (commonly referred to as an 'SSO') is a recognised body which undertakes the development, promulgation, and implementation of standards.<sup>4</sup> One of the most important functions performed by SSOs 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. In the cosmos of standards and patents essential for implementing those standards, the lines of division between an implementer and a contributor are often smudged. Many companies are both contributors to the development of standards as well as implementers of certain standards.

#### **GLOBALLY RECOGNISED STANDARD DEVELOPERS**

Since an SSO participates in the function of developing a standardised technology, they are also referred to as a standard-development organisation ('SDO'). Different industries have

<sup>&</sup>lt;sup>3</sup> Manufacturing Sector in India Industry Report, India Brand Equity Foundation (August, 2022) https://www.ibef.org/industry/manufacturing-sector-india.

<sup>&</sup>lt;sup>4</sup> Lakshita Handa & Naina Jindal (2020). "Standard Essential Patents: A Tale of Two Countries" 5.1 NLUO SLJ (2020) 66.

established their own SDOs globally and they facilitate the coordination between firms in the industry and other stakeholders.<sup>5</sup> 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.

A few Indian SDOs are:

- *Telecommunications Standards Development Society, India* (TSDSI) They develop standards for India-specific telecom/ICT 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.

#### **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 SSO during the standard-setting process.<sup>6</sup> Some SEP holders engage in anticompetitive 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

<sup>&</sup>lt;sup>5</sup> 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.

<sup>&</sup>lt;sup>6</sup> Lerner, J., & Tirole, J. (2015). Standard-Essential Patents. *Journal of Political Economy*, *123*(3), 547–586. https://doi.org/10.1086/680995.

holder when trying to negotiate licensing terms for the SEP. Some forms of abuse that market participants may face upon the approval of a standard are:

- Patent hold-up After an industry has been locked into a standard, innovators 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.<sup>7</sup>

#### **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 88.17 per cent in FY21.<sup>8</sup> 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 incent 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 harmful to standard implementers and to the industry broadly, in the Indian context, and then provide possible solutions by way of recommendations to –

<sup>&</sup>lt;sup>7</sup> Zelin Yang, "Damaging Royalties: An Overview of Reasonable Royalty Damages." (2014) 29 Berkeley Technology Law Journal 647.

<sup>&</sup>lt;sup>8</sup> Indian Telecommunication Industry Report, India Brand Equity Foundation (August, 2022) https://www.ibef.org/industry/telecommunications.

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

#### 1. SCOPE

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 limits of licensing negotiations and further assist courts, arbitrators, and possible regulators in outlining their own rules – which may have the effect of a mandate.

#### 2. CORE PRINCIPLES SUMMARY

The following is a summarised version of the six core principles that form the basis of FRAND licensing practices:

- 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.
- **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.

### 3. LICENSING PROCESSES AND BEST PRACTICE SUMMARY

#### **3.1 PARTIES**

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 obligation, 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. In context of FRAND-encumbered SEPs, it takes two 'willing' parties to negotiate a license. To be a 'willing' party is almost an obligation on both parties, and their respective conducts during the negotiation process is the indicator of this *willingness*. The following sub-section provides an illustrative, although not exhaustive, list of actions conducive to a 'willing' and appropriate negotiation process.

There is a pressing need for a clear guidance from the regulatory bodies on what constitutes 'willingness' and the respective obligations derived from it – as this is often one of the facts of dispute. We have attempted, based on general consensus of the signatories and based on the ethical reasoning falling from such practices, to outline what may constitute as a willing and unwilling licensor or a licensee.

#### Willing Licensors

- i. Should act in a reasonable manner Without a willing licensor, there can be no 'unwilling licensee'.<sup>9</sup> 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.

<sup>&</sup>lt;sup>9</sup> CWA 95000:2019.

- 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. This kind of conduct is predatory and against the notion of a 'willing' licensor.
- 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, licensed, 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,
- The 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,<sup>10</sup>
- 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. This is further elucidated in sub-section 3.4 and later in the paper.
- v. Valuation A willing licensor must explain with sufficient detail:
  - Proposed licensing terms,
  - Valuation method used to determine FRAND royalty rate,
  - How proposed rate is consistent with existing case law jurisprudence of courts and regulatory authorities.

#### Willing Licensees

 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 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

<sup>&</sup>lt;sup>10</sup> 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.

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 is a willing licensee, customers of the relevant product from the entity should be assumed to be 'willing' unless their conduct proves otherwise. At the same time, the conduct of the supplier should not bear any adverse consequence or be attributed to a potential licensee.
- 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 reasonable. Unresponsiveness due to the licensor not disclosing relevant information should not be sufficient to render the potential licensee as 'unwilling'. 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.<sup>11</sup>

<sup>&</sup>lt;sup>11</sup> 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"

#### **3.2 NON-DISCLOSURE AGREEMENTS**

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 greater 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.<sup>12</sup> 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.
- A licensor must disclose existence of earlier license(s) because sometimes royalties could be paid multiple times for the same device since the SEP 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,<sup>13</sup> or where

licensee and found, inter alia, that "Intel itself never meaningfully engaged in licensing talks with Ericsson after Ericsson's initial offer" (*at Para 16*).

<sup>&</sup>lt;sup>12</sup> TRAI in consultation paper dated 18<sup>th</sup> 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 <u>https://trai.gov.in/sites/default/files/CP on Manufacturing 18 09 17.pdf</u>. The DPIIT too in their paper dated 1<sup>st</sup> 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.

<sup>&</sup>lt;sup>13</sup> 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.

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'.

#### **3.3 FUNDAMENTALS OF A FRAND LICENSE AGREEMENT**

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

- i. They must be honest and verifiable representations during negotiations.
- ii. A license agreement must not restrict a licensee from initiating invalidity, nonessentiality, or non-infringement proceedings against the licensor.
- iii. Only patents essential to the licensee's products must be offered for license 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. Each party must bear their own costs and no fee must be forced upon a party to initiate licensing negotiations.
- v. 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.
- vi. Use of a formal guarantee or escrow should be unnecessary in the licensing process unless a potential licensee has disclosed potential liquidity problems.

#### **3.4 SEP VALUATION**

In the European Union Horizontal Guidelines 2023,<sup>14</sup> 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'.* <sup>15</sup> Royalty methodologies that are used to arrive at a licensing fee 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

<sup>&</sup>lt;sup>14</sup> 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)

<sup>&</sup>lt;sup>15</sup> *Ibid*. Guidelines (n 1) para 460.

all SEP licensors and potential licensees. Parties have the freedom to mutually and voluntarily decide on a methodology to value a SEP and thereby reach agreeable licensing terms. 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:

- As a general principle, it is always useful for the parties to know that even if they voluntarily and mutually agree on certain licensing terms that does not necessarily equate to those terms being compliant with FRAND obligations.
- ii. 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 SEP holder, and therefore the 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.
- iii. Comparative Analysis This is an ex-post valuation methodology 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.
- iv. 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.

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

- 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 It is not per se a methodology, but more of a practice which is completely against the FRAND promise and therefore not allowable. SEP holders are not allowed to discriminate amongst potential licensees by offering varying licensing terms and royalty rates to them. Discriminatory behaviour is subject to antitrust 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.

#### **3.5 PORTFOLIO LICENSING**

The licensor should follow the following terms regarding portfolio licensing:

- i. Patents that are part of a SEP portfolio should not be treated by the licensor as a whole 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, which is when a portion of a patent portfolio is transferred, the true value of the portfolio must be reflected in FRAND rates and not the original value of the entire portfolio. 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.

#### **3.6 REFUSAL TO LICENSE**

The FRAND promise is 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.

#### **3.7 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 is also an aspect of competition regulations and parties may approach competitive authorities in respective jurisdictions if FRAND obligations have been violated.

#### **3.8 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.
- 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 as well.

#### **3.9 PATENT POOLS**

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

- 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. Patent pools shall not be used as a tactic by patent holders to behave in a manner not aligned with their FRAND obligations, as the patent pools are subject to the same FRAND requirements.
- 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.

#### 3.10 POSSIBLE SDO IMPROVEMENTS

Some areas of possible improvement on part of SDOs are:

- They should provide for guidelines regarding FRAND-friendly practices.
- The FRAND obligations must be clearly defined to combat recognised anticompetitive harms and future potential abuses of the SEP licensing process.
- 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 made 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.

#### 4. MARKET SUMMARY

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.

#### 4.1 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 industry 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 incenting 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',<sup>16</sup> 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.

#### 4.1.1 Development 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. The Department of Telecommunications (DoT), under the Ministry of Communications, is the governing authority for the telecom sector. Some of its functions are:

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

<sup>&</sup>lt;sup>16</sup> 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.

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 TRAI in policy making regarding standards.

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

- 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.
- 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.

#### **4.1.2 Consideration of SME 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 unfair SEP licensing demands. The following factors create asymmetric risks to SMEs and ultimately inhibit downstream innovation:

- 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 amount of resources available to an SME hinders their ability to defend against the same.
- 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.
- iii. Asymmetry of technical information SMEs lack the wherewithal and sometimes, the necessary bandwidth, to evaluate the validity of 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.
- 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 Ministry 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.

#### 4.1.3 Evolution of SEP Jurisprudence in India

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 courts and policymakers will continue to play a critical role in shaping the legal framework for SEP licensing and enforcement. Below we highlight a few landmark judgements passed by the Delhi High Court, which over the past few years have taken the helm of SEP jurisprudence in India:

Interdigital v. Xiaomi<sup>17</sup> – 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, common 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, jurisdictions, including China, adopted the

<sup>&</sup>lt;sup>17</sup> Interdigital Technology Corp. v. Xiaomi Corp. [2021 SCC OnLine Del 2424].

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 Court granted, in a first instance, an AASI,<sup>18</sup> from an order passed by the Wuhan Court in China where global royalty rate setting proceedings were ongoing.

Intex v. Ericsson<sup>19</sup> – In this recent judgement, the Division Bench of the 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 Court stated that there is no embargo on a SEP holder seeking an injunction from the Court at an interim or final stage. In making its decision, the Division Bench of the Delhi High Court clarified another recent landmark judgement in a Single Judge decision in Nokia v. Oppo that laid out a four-factor test, which the Court found is not germane to the interim stage and more for a trial, when determining if the Court could require royalty payments from an alleged infringer<sup>20,21</sup> The 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.<sup>22</sup> Intex argued that out of the 33,000 patents in Ericsson's portfolio, only eight India patents were at issue.<sup>23</sup> The Court cited to 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.<sup>24</sup> The 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.<sup>25</sup> This decision notes that SEP holders must adhere to their SDO commitments, which includes making their

<sup>&</sup>lt;sup>18</sup> 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.

<sup>&</sup>lt;sup>19</sup> Intex Technologies (India) Ltd. V. Telefonaktiebolaget L M Ericsson [2023 SCC OnLine Del 1845].

<sup>&</sup>lt;sup>20</sup> 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. <sup>21</sup> 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.

<sup>&</sup>lt;sup>22</sup> Supra note 17 at para 3.

<sup>&</sup>lt;sup>23</sup> Supra note 17 at para 10.

<sup>&</sup>lt;sup>24</sup> Supra note 17 at para 105-111.

<sup>&</sup>lt;sup>25</sup> *Supra* note 17 at para 99-104.

SEPs available to all willing licensees on FRAND terms and providing proper disclosures of their SEPs, including past comparable licenses.

- Philips v. Vivo<sup>26</sup> The 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.
- Ericsson v. Competition Commission of India (CCI)<sup>27</sup> This recent 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 pre-empts competition law.

#### **4.3 CONDUCT**

In this part, we use relevant facts placed on record in the Competition Commission cases where the Micromax, Intex, and Best It World 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 and compare it with the Best Practices Summary in the earlier section. While a final decision will not be 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** – The informants all 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

<sup>&</sup>lt;sup>26</sup> Koninklijke Philips N.v V. Vivo Mobile Communications Co. Ltd. & Ors. CS (COMM) 383/2020 in order dated 17.11.2020.

<sup>&</sup>lt;sup>27</sup> Telefonaktiebolaget LM Ericsson (PUBL) v. Competition Commission of India & ANR., 2023 SCC OnLine Del 4078, decided on 13-07-2023.

infringement<sup>28</sup> or FRAND licensing terms.<sup>29</sup> As mentioned earlier in Section 3.2, 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 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'.<sup>30</sup>* 

Willingness – Section 3.3 of this paper discusses the fundamentals of a licensing negotiation. A patent holder imposing unreasonable expectations upon a potential licensee goes against these fundamentals. Micromax alleged that Ericsson, upon providing the licensing terms, demanded acceptance within 25 days, otherwise it shall be construed as refusal to obtain license. This is clearly in defiance of SEP licensing fundamentals, since as discussed earlier, 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 should also be decided based on conduct of a potential licensor since a potential and willing licensee may face many hurdles to even 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 coercive toward a potential licensee. Other than this, it is imperative that the portfolio for which a license is sought is demarcated with patents that are abandoned, expired, opposed/revoked, and tested on the tenets of essentiality by providing necessary claim charts to establish the same. 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 as 'unwilling'. Similarly, if the counteroffer of the potential licensee

<sup>&</sup>lt;sup>28</sup> Intex Technologies (India) Limited v. Telefonaktiebolaget LM Ericsson (Publ.) [2014 SCC OnLine CCI 8] at para 7.

<sup>&</sup>lt;sup>29</sup> Supra Note 19 at para 4.

<sup>&</sup>lt;sup>30</sup> Para 17 of the Commission's decision in both Ericsson cases at Note 19 and 24.

is similar to what it is paying to similarly situated licensors, just the fact it is assumably far lesser than what the initial offer of the potential licensor is, doesn't qualify as 'unwilling.

In the recent judgements of *Ericsson v Intex*, the Division Bench (DB) of the Delhi High Court, the DB has explained the test to determine a willing licensor, which is consistent with what has been held in the latest IDC vs Lenovo judgement. It held that the if the licensor offers a supra-FRAND offer i.e. exorbitant royalty rates, it will not be considered a willing licensor.

Additionally, the Court also relied on the admissions made by Intex in its complaint before the Competition Commission of India to assert that Intex has admitted the essentiality of the patents and infringement whereas the Court has rejected the arguments on validity. It however, indulged in no further discussion on how the rate offered by Ericsson was FRAND or similar to the rate it offered to third-party implementers. There was also not much discussion on the conduct of Ericsson, or its offers being FRAND compliant.

**Injunction** – As stated in Section 3.8 of this paper, 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. Parallel to the Competition Commission investigations, Ericsson instituted infringement suits against the informants whereby they were seeking permanent injunctions, but for the interim stage also sought temporary injunctions/direction to custom authorities to notify Ericsson of all imported consignments of informants/interim royalty payment agreements during pendency of final decision in suit. Although there can be exceptions to the above, seeking interim injunctions creates an unnecessary burden upon standard implementors, since it affects the manufacture and subsequent sale of their products.

In one of the parallel judgements in *Ericsson v Intex*, the Division Bench (DB) of the 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.

While the DB did not align itself fully with the four-step test pronounced earlier in the Single Bench judgement in Nokia v Oppo dated 17.11.2022, interestingly, however, the DB itself articulated the same test as that in Nokia v Oppo albeit qualifying it with the expression "prima facie assessment". In Nokia v Oppo, 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 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.

Although Indian courts have re-affirmed the law that a patent holder can seek interim and permanent injunctions against a standard implementor, it said that the Court must also assess prima facie whether the royalty sought by the plaintiff is on FRAND terms i.e., whether globally or locally similar implementers are paying royalty in accordance with the terms suggested by the patentee. It held that if the licensor offers a supra-FRAND offer i.e., exorbitant royalty rates, it will not be considered a willing licensor.

Therefore, as the 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 may seek against them. Exceptional circumstances (for example – unwillingness of a potential licensee to engage into licensing negotiations) 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 licensees 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.

#### 5. CORE PRINCIPLES: A LEGAL AND FACTUAL BACKGROUND

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.

#### **5.1 INJUNCTIVE RELIEF**

In general patent law, the holder of a successfully granted patent enjoys a brief monopoly for the duration of the term of the patent. This is to 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 time of filing the patent application.<sup>31</sup> 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 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 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. Indian courts have acknowledged this and resort to testing the balance of convenience<sup>32</sup> before grant of any temporary 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.

In the world of SEPs especially, the restrictive right enjoyed by a general patent holder is not exactly the same as holder of a standardised patent. 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 holder of an SEP, by making a FRAND promise, commits to pursue fair licensing of their technologies, which is unalike the rights of market exclusion enjoyed by a general patent 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.<sup>33</sup> 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, a FRAND promise while steering a patent holder from seeking injunctive

<sup>&</sup>lt;sup>31</sup> Section 53, Indian Patents Act 1970.

 $<sup>^{32}</sup>$  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.

<sup>&</sup>lt;sup>33</sup> CWA page 28 at para 1.

relief, does not envisage surrendering their right to enforce a patent against unlicensed use. Section 3.8 of this paper highlights the scenarios where injunctive relief should not be used by an SEP holder in case of a suit for infringement.

#### 5.1.1 Global Jurisprudence

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

#### eBay case

In the Unites States, the case of *eBay v. MercExchange*<sup>34</sup> set the test for the grant of injunctions. In this case, eBay was sued by MercExchange for infringing on their patent which was a business method patent for an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants. The U.S. Supreme Court opined that the following test must be applied before awarding injunctive relief to a party:

'Four-factor test:

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<sup>35</sup>

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*, a plaintiff may have difficulties asserting *'irreparable harm'*. The court went on to further state that *'Motorola's* 

<sup>&</sup>lt;sup>34</sup> eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006).

<sup>&</sup>lt;sup>35</sup> Apple Inc. v. Motorola, Inc., 757 F.3d 1286.

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'.<sup>36</sup>

#### Huawei v. ZTE

The European Court of Justice, in the case of *Huawei Tech v. ZTE Corp.*,<sup>37</sup> delivered an important judgement where its position on seeking prohibitory injunction balanced with Article 102 of the TFEU<sup>38</sup> was clarified. Huawei was the proprietor of a certain SEP in the telecom sector, regarding which they were negotiating a licensing agreement with the defendants, subsequent to which they filed a suit for infringement. On 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?'<sup>39</sup>* 

The Court stated that when a patent holder standardises a technology, a prohibitory injunction can exclude a manufacturer's products from the market. A FRAND commitment, according to the 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 the issue the Court 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'.<sup>40</sup>* 

#### 5.1.2 Indian Jurisprudence

<sup>&</sup>lt;sup>36</sup> *Supra* Note 32 at Pg. 1332.

<sup>&</sup>lt;sup>37</sup> C-170/13 Huawei Techs. Co. v. ZTE Corp., [2015] E.C.R. 477.

<sup>&</sup>lt;sup>38</sup> 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.

<sup>&</sup>lt;sup>39</sup> Para 39 of *Huawei* at Note 34.

<sup>&</sup>lt;sup>40</sup> Paras 54,55 of *Huawei* at Note 34.

In India, the issue of allowability of grant of injunctions is a well settled principle where the balance of convenience test is applied. Seeking of injunctive remedy is a statutory right for a patent holder.<sup>41</sup> However, since seeking injunctions when monetary compensation is available is not compliant with FRAND obligations, the courts have decided on the issue of grant of injunctive relief in SEP cases.

In the case of *InterDigital v. Xiaomi*, the 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*'.<sup>42</sup> This goes to show that as SEP jurisprudence grows in India, the courts are ensuring consistency in their approaches to issues with that of established jurisprudence internationally. The Court is not unclear on what fundamentals of a FRAND commitment requires from SEP holders.

This has also been highlighted in a recent judgement from the Delhi High Court in the matter of *Nokia v. Oppo* where the Court stated '*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*'.<sup>43</sup> In this case, Nokia 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 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.<sup>44</sup> The principle of non-granting of injunctive relief when monetary

<sup>&</sup>lt;sup>41</sup> 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.*"

<sup>&</sup>lt;sup>42</sup> Interdigital Technology Corp v. Xiaomi Corp. [2020 SCC OnLine Del 1633], at para 29.

<sup>&</sup>lt;sup>43</sup> Nokia Technologies OY v. Guangdong Oppo Mobile Telecommunications Corp. [2022 SCC OnLine Del 4014], at para 3.

<sup>&</sup>lt;sup>44</sup> Supra note 43 at paras 85,86.

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.

It would seem that the few judgements that had been pronounced regarding SEP jurisprudence in India were in line with international jurisprudence as well as the need to strike a balance between the asymmetrical power that a patent holder enjoys as compared to a potential licensee. However, the Division Bench of the Delhi High Court in *Intex v. Ericsson* deviated from such a stand and while discussing injunctive relief stated, '*an injunction or a direction to pay royalty in the interim is likely to be a more effective remedy, as it does not merely result in a small increment to the cost of products which infringe the patents but prohibits infringement altogether*'.<sup>45</sup>

The Court 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 Court lays out are:<sup>46</sup>

- 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.<sup>47</sup> 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'.<sup>48</sup>* 

As it turns out, by a reading of the decision, it seems that even though the test in the Nokia judgement is overruled, the Court while analysing SEP jurisprudence and practice concludes that a similar test to the Nokia one should be applied in order to render a prima facie assessment for interim relief. However, the Court goes on to say that a bar on seeking interim injunctions is not one that is absolute as the same can be exploited by implementors to cause a patent holdout. The Court also states that in India the ratio of judges to the population is extremely poor and hence Indian realities must also be taken into account before adapting foreign

<sup>&</sup>lt;sup>45</sup> Supra note 43 at para 78.

<sup>&</sup>lt;sup>46</sup> *Supra* note 43 at para 93.

<sup>&</sup>lt;sup>47</sup> *Supra* note 43 at para 61.

<sup>&</sup>lt;sup>48</sup> *Supra* note 43 at para 69.

jurisprudences relating to SEPs. Further the Court went on to state, '*Keeping in view the aforesaid as well as 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<sup>49</sup>.* 

In *Philips v. Vivo*, the Court had refused grant 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.<sup>50</sup> This order from the Delhi High Court is important since it gave alternate remedy to that of an injunction, by way of a security from the defendants which does not cause them any irreparable harm that an ordinary injunction otherwise would have.

In the SEP ecosystem, the implementors/licensees are often victims of exploitation due to lack of experience, information, and resources. Interim injunctions are frowned upon because it may well be used as a coercive tactic to force a potential licensee to enter into an unfavourable licensing agreement. It is pertinent to recognize that failing injunctions, implementors may enjoy the patent holder's technology until a suit is finally disposed but grant of an injunction can force the implementor to exit the market altogether. This hinders further innovation and growth in markets and the power of innovation and exclusion 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. While the issue of deterring potential abuse by bad-faith actors relied on by SEP holders, 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.

<sup>&</sup>lt;sup>49</sup> *Supra* note 43 at para 91.

<sup>&</sup>lt;sup>50</sup> Koninklijke Philips N.V v. Vivo Mobile Communication Co. Ltd & Ors [CS(COMM)383/2020].

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 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.

#### **5.2 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 a voluntary 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. Patent holders who are dominant in a market are in a unique position to exploit their patents and charge exorbitant fees to license their patented technology. This could stifle innovation and competition and lead to market distortion. When a patent holder fails to honour their FRAND commitments, it can have serious anti-competitive effects on the market. For example, a patent holder may use their patents to exclude competitors from the market, effectively creating a monopoly. In addition, a patent holder may use their patents to charge excessive licensing fees, making it difficult for competitors to enter the market.

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*<sup>51</sup>.

The essentiality of an irrevocable commitment for granting licenses is reflected in IPR policies of various SDOs.<sup>52</sup> 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*<sup>53</sup> 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 patent holder who has made a FRAND commitment must provide a written offer for a license on FRAND terms to the prospective licensee. The prospective 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.<sup>54</sup> 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.<sup>55</sup>

The refusal to license leads to an inefficient market. However, by granting license to willing licensees create a compelling case of efficiency and commerce. The number of suppliers of standard-compliant component is very little compared to downstream consumers utilizing them. A patent 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

<sup>&</sup>lt;sup>51</sup> EC Horizontal Guidelines, supra at Note 12, at para 285.

<sup>&</sup>lt;sup>52</sup> 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". <sup>53</sup> Supra note 34.

 $<sup>^{54}</sup>$  Supra note 34.

<sup>&</sup>lt;sup>55</sup> 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.

#### **5.3 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 patent 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<sup>56</sup>, includes specific guidelines for SEP valuation such as the SSSPU approach and the Comparable Licensing Approach.<sup>57</sup> 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.<sup>58</sup>

Accordingly, and for all these reasons:

<sup>&</sup>lt;sup>56</sup> IEEE SA Standards Board Bylaws Section 6.1, "Reasonable Rate" at page 2.

<sup>&</sup>lt;sup>57</sup> 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.

<sup>&</sup>lt;sup>58</sup> 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'.<sup>59</sup>

#### 5.4 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.

Bundling of assets have anti-competitive elements to it. This was alleged in the *Ericsson*<sup>60</sup> 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.<sup>61</sup>

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.

<sup>&</sup>lt;sup>59</sup> European Commission "Setting out the EU approach to Standard Essential Patents" Communication, COM(2017) at page 6 Section 2.1.

<sup>&</sup>lt;sup>60</sup> 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.

<sup>&</sup>lt;sup>61</sup> Sripada Yashwant Prasad, "Reasonable Royalty Rates: The Quintessential Determination in Indian Standard Essential Patent Infringement Suits", (2018) 2.1 jips 67.

Over-declaration of patents creates uncertainty as to the number of SEP licences that are required, reduces efficiency and accuracy of patent valuation methods based on patent counting, and increases the cost and time needed to establish standard essentiality of a patent portfolio.<sup>62</sup> 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.<sup>63</sup> 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 Delhi 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 a 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'.<sup>64</sup>* 

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.<sup>65</sup> 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.<sup>66</sup>

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:

<sup>&</sup>lt;sup>62</sup> The Government of UK IPO "Standard Essential Patents and Innovation: Summary of Responses to the Call for Views" para 3.18 at page 35.

<sup>&</sup>lt;sup>63</sup> European Commission "Setting out the EU approach to Standard Essential Patents", footnote 19.

<sup>&</sup>lt;sup>64</sup> Telefonaktiebolaget LM Ericsson v. CCI [2016 SCC OnLine Del 1951], at para 212.

<sup>&</sup>lt;sup>65</sup> Section 140(1)(iii)(d) of the Indian Patents Act 170.

<sup>&</sup>lt;sup>66</sup> Motorola Mobility LLC & Google Inc., Dkt. No. C-4410 (F.T.C. July 23, 2013), page 8 para E.2.

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.

#### 5.5 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.<sup>67</sup>

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 Section 3.2 of 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 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 patent 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

<sup>&</sup>lt;sup>67</sup> Clause 4.3 of *ETSI IPR Policy*.

technological advancement coupled with FRAND licensing between participants, it is important to keep in mind that not all potential licensees are similarly situated as a licensor and may not have access to or expertise of the information which may assist them in entering into beneficial licensing agreements. This harms the market as it deters new entrants or halts growth of smaller companies.

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 secrecy agreements. However, the following information should not require an NDA and licensors should provide these terms to any and all potential licensees:

- 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 asserted patents.
- ix. Information regarding prior licensing to suppliers or customers of the potential licensee, so as to avoid double payments 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.

#### 5.6 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 patent 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 patent 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 work to 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.

#### 6. 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.

#### 6.1 To Legislators -

- 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 it is defined what a valid SEP is, what FRAND is, and subsequent obligations arising out of standardisation and a FRAND promise.
- 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.

#### 6.2 To Regulators -

- 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 soon moving towards a world of total technological interoperability, educated and informed market players become crucial to combat abuse from patent holders.

#### 6.3 To SDOs -

- Indian SDOs should start a channel of communication with regulatory bodies and quasijudicial 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 innovators industry-wide by way of workshops etc., as it serves the greater public interest.

## **CONCLUSION**

The aim of this paper was to give a balanced approach to licensing negotiations, with an effort to harmonize the CWA with the Indian context, through descriptive analysis of existing case laws and policies.

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.