

13th November, 2017

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

Respected Sir,

Sub: *Singh and Singh Law Firm's submissions to TRAI's consultation paper No. 12/2017 - Local Telecom Equipment Manufacturing*

Singh and Singh Law Firm would like to take this opportunity to provide its comments and response to TRAI's consultation paper wherein certain aspects related to standard essential patents, their implementation and protection in India and concept of FRAND has been discussed. We believe that it is imperative to highlight the legal position that is currently prevalent in India, and also the international jurisprudence that has developed in relation to SEPs and FRAND.

Regards,

Saya Choudhary Kapur
Partner
Singh and Singh Law Firm

COMMENTS ON CONSULTATION PAPER ON “PROMOTING LOCAL TELECOM EQUIPMENT MANUFACTURING”

We appreciate TRAI's efforts in the field of telecom regulatory and policy in India along with its endeavor to promote local manufacturing. However, we wish to address our concerns related to few of the sections, dealing with IP rights, of the Consultation Paper (hereinafter "Paper"). First, issues related to protection of patent rights including *qua* standard essential patents, relief/s to be granted in patent infringement suits, what are FRAND/RAND terms etc. fall squarely within the jurisdiction of Civil Courts and is beyond the purview of telecom regulation/policy. Secondly, concerns raised in TRAI's paper in relation to patent rights, are completely misplaced inasmuch as, it is the grant of patents which encourages further innovation in the society. Historically, patent protection has always boosted innovation and research in a society. In-fact, all the biggest manufacturers in the world including in the field of telecom infrastructure and devices are the leading innovators in the said field. Even TRAI's paper recognizes the fact that in order to promote local manufacturing of telecom equipment in India, innovation is a must and thus Indian companies must endeavor to invest more in R&D and should aim towards innovation. Therefore, contrary to the prevailing skepticism towards patent rights regime, in order to turn the vision of "Make in India" into a reality, creation of a strong patent regime in relation to telecom sector in India has become a necessity. As Abraham Lincoln rightly said, "Patents add the fuel of interest to the fire of genius."

Submissions with respect to specific sections of the Paper

1. Upon a plain reading of Chapter II (portion relating to IPR) of the Paper, it appears that various aspects of IP (patent) rights have

been overlooked, which will not only discourage innovation related efforts in India and also Make in India project, but shall also adversely affect the otherwise legitimate rights/interests of various telecom equipment manufacturers marketing their products in India.

The patent protection regime in India, does not differentiate between a Standard Essential Patents (SEPs) and Non-Standard Essential Patents. In fact, being a signatory to TRIPS, the Indian Legislature has ensured that no discrimination¹ is made on the basis of technology area and patent protection is equally available in all fields. Accordingly, the procedure for application, prosecution, grant, enforcement and protection of SEP is no different from a non-SEP not only in India but across the world. Further, various judicial decisions, both in India as well as globally, have provided clarity regarding FRAND/RAND commitment along with sufficient guidance for the negotiating parties as well as courts/arbitrators, to ensure that such patent rights are not abused by any one individual party.

Accordingly, the jurisprudence pertaining to FRAND as well as SEPs is being looked into and developed by Indian courts while ensuring that interests of both patentees and implementers are protected. Further, the concern regarding patent disputes in the field of telecom equipment manufacturing, is misplaced primarily for the reason that patent disputes currently in the field of telecommunications relate to mobile phone industry and there are hardly any patent disputes relating to telecom equipment. Moreover, the Paper itself acknowledges that the mobile industry has done well in the recent past thereby confirming that India has

¹ Article 27

a robust patent regime in India which equally balances the rights and liabilities of all parties.

2. Our second concern is in respect of Chapter II (1)(e)(iii)-(iv) of the Paper, which seems to imply that requirement of a willing licensee (in respect of FRAND license) to enter into a non-disclosure agreement with the SEP holder, is prejudicial to such licensee as it lacks transparency. Such observation is in direct contradiction to the prevalent global industry practice and the legal position in India and also abroad in relation to execution of NDAs. It is most respectfully submitted that non-disclosure agreements are essential in order to protect the commercial interest of not only a licensor but a prospective licensee as well, who often disclose their business sensitive information, financial details, growth plans, projections etc. while negotiating a licensing deal. NDAs also provide sufficient safeguard and comfort for the executives/professionals who negotiate license deal so that they can freely disclose all the relevant commercial or technical details to each other without any risk of breach of confidentiality of their valuable business sensitive information. In fact, the Paper has overlooked the Hon'ble Delhi High Court's observation in respect of Non-Disclosure Agreements in licensing deals in the case of Ericsson vs Intex (SEP case)², wherein the Court held that said agreements are Sine Qua Non i.e. an essential condition in all the licensing negotiations. Relevant extract of said judgment is reproduced hereunder:

138.The defendant took more than 4 years in executing a Non-Disclosure Agreement which is a sine qua non in every licensing deal, particularly in patent licensing negotiations which entails exchange of various confidential business and technical information between the parties....."

² <http://lobis.nic.in/ddir/dhc/MAN/judgement/16-03-2015/MAN13032015S10452014.pdf>

Moreover, the standard developing bodies like European Telecommunication Standard Institute (“ETSI”) itself recognize the importance of an NDA in a licensing negotiation process.³ The relevant portion of the ETSI Guide of IPRs is extracted hereunder:

“4.4 Notice on the use of NDAs in IPR negotiations

It is recognized that Non-Disclosure Agreements (NDAs) may be used to protect the commercial interests of both potential licensor and potential licensee during an Essential IPR licensing negotiation, and this general practice is not challenged. Nevertheless, ETSI expects its members (as well as non ETSI members) to engage in an impartial and honest Essential IPR licensing negotiation process for FRAND terms and conditions.”

In-fact, in India, the Patents Act, 1970 also recognizes that terms of patent license agreement, can be considered as confidential and thus contains a provision as per which the Controller can pass an order for securing that the terms of the license so that same are not disclosed to any person except under the order of a court.⁴ It is also of importance to note that traditionally while deciding questions/issues related to FRAND, the courts have analyzed comparable license agreements which are also accessed by the lawyers and independent economic experts of the prospective licensee in order to ensure that fair, reasonable and non-discriminatory terms are offered by a licensor to similarly placed parties. Accordingly, adequate safeguards have been adopted and put in place by the Indian Courts to ensure that interests of all parties are protected.

³ ETSI Guide on IPRs, 19 September 2013

⁴ Proviso to Section 69 (4) of the Patents Act, 1970.

Further, we have provided our comments below in relation to certain questions, as raised in the Paper, which are relevant to the issues pertaining to patents, FRAND and patent licensing:

Q.1 Large number of initiatives have been taken by the government to promote electronics manufacturing, while these initiatives have succeeded in attracting significant investments in other sectors like LED, consumer electronics, mobile handsets, automotive electronics etc., they have failed to attract investments in telecom equipment sector e.g. PMA has worked very effectively in LED sector but did not work so effectively in telecom. Please enumerate the reasons with justifications for the poor performance of local telecom manufacturing industry inspite of numerous initiatives by the government/industry.

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Q.2 What policy measures are required to be instituted to boost Innovation and productivity of local Telecom manufacturing in our country? Please provide details in terms of Short-Term, Medium-Term and Long-Term objectives.

Our comments:

Indian government's initiatives/incentives to promote local telecom equipment manufacturing in India are commendable and deserve appreciation. In fact, the Paper correctly takes note of the requirement for investment in Research and development related activities, especially keeping in mind the dynamic nature of the technological advancements in telecom. Thus, there is a need to increase investments in Research and Development by the Indian companies in order for them to make the shift from technology consumer/assemblers to technology developers/manufacturers and only then can the Indian telecom equipment manufacturers

stay at par with the rapidly changing technologies, standards and global innovation firms. Innovation is the need of the hour and this issue needs to be addressed on a priority basis by the industry, by the policy makers, by the regulators and by the legislature as a poor state of innovation is the main reason behind lack of patents being owned by the local players. Furthermore, there is a need for the Indian standard setting organization such as TSDSI (Telecommunications Standards Development Society, India) to promote and develop standards pertaining to the latest state of the art technologies instead of simpliciter adopting different standards. TSDSI must actively participate in standardizing solutions for meeting technology requirements and contributing to international standards, contributing to global standardization in the field of telecommunications, maintaining the technical standards and other deliverables of the organization, safe-guarding the related IPR, helping create manufacturing expertise in the country, etc. Thus, India needs to be at the forefront of innovation and standardization in order to achieve the vision of Make in India.

Also, incentivizing collaborative efforts, such as patent licenses, technology transfer agreement etc., between foreign as well as local telecom equipment manufacturers for research & development activities as well as for local productions can be a welcome step which will enable the local manufacturers to stay at par with their foreign counterparts in terms of both technology and research. In this regard, we would like to refer to the following papers which essentially discuss and analyse the innovation capability of the telecommunications equipment industry in developing countries such as China, India and Korea:

A. *The Dragon vs. the Elephant - Comparative analysis of innovation capability in the telecommunications equipment industry in China and India*⁵:

This paper discusses about the divergent strategies adopted by China and India towards acquiring and maintaining innovation capability in the telecommunications equipment industry. More specifically, said paper discusses how China followed a strategy of promoting manufacturing enterprises with robust in-house R&D capability to stay at par with the developments on the technological front globally. China initially was dependent on MNCs for their technological needs, but subsequently proceeded to build significant local capability. Now China is amongst one of the largest manufacturers of telecommunications equipment in the world. In other words, the paper deliberates upon the success story of China in respect of its transition from a country predominantly dependent upon foreign players to being dominated by local telecom equipment manufacturers. Few of the relevant factors attributable to said success are government support for R&D and other technology generating activities, technology acquisition via foreign-owned joint ventures leading to positive technology spillovers to local enterprises from the operation of the foreign players/MNCs, etc.

B. *Keeping Pace with Globalisation Innovation Capability In Korea's Telecommunications Equipment Industry, (March 2005)*⁶:

This paper discusses Korea's innovation building strategy in the field of telecommunication equipment industry which is a result of the Korean government's continued support to their public

⁵ <https://ideas.repec.org/p/ess/wpaper/id747.html>

⁶ <https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/3075/wp370.pdf?sequence=1>

laboratory through a variety of financial grants and public technology procurement. Said paper recognizes the role of innovation in the rapid progress of Korean Telecommunication Industry.

From the reading of the above two papers, investment in Research & Development related activities/efforts as well as collaboration between foreign players and local telecom equipment manufacturers, emerge as two necessary factors that are instrumental in making the local manufacturers self-reliant via technology spillover as well as to enable them to stay at par with the ever-changing global technological scenario. Thus, if Indian government wants to promote manufacturing telecom equipment locally, the key to achieve the same is innovation via Research & Development activities. Same is evident from the example of various companies such as Nokia, Huawei, Siemen, etc. which are innovation driven companies and are amongst the top patent filers in the world. Nevertheless, local manufacturing of telecom equipment includes foreign players who already have the requisite technical capabilities and such foreign players will be inclined to invest in India in the R&D activities only in case their IP rights are sufficiently protected. As mentioned above, a strong Indian patent regime will be instrumental in promoting innovation in the field of telecom equipment.

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

Our Comments:

The existing patent law regime sufficiently protects the interest of both the patent right holders as well as the

implementer/prospective licensees. The Patents Act, 1970 not only provides for statutory grant of patent rights but also consists of provisions relating to the enforcement of such rights, redressal and remedy in the event of abuse of patents rights by a patentee, revocation of patents etc. In this regard, reference is made to Delhi High Court's decision in *Ericsson vs CCI*⁷ case, wherein the Court held that the existing Patents Act, 1970, is a complete/self-contained code. Relevant extract of said judgment is reproduced hereunder:

*“144. As discussed above, the Patents Act not only provides for a statutory grant of Patent rights but also contains provisions relating to the exercise of and enforcement of those rights. Further, the Patents Act also includes provisions for redressal in the event of abuse of Patents rights.....
.....The Patents Act is a self contained code”.*

In view thereof, it can be safely concluded that the existing Patent Act does not require any change/amendment vis-à-vis the concerns of local telecom equipment manufacturers as discussed in the Paper. Further, the Indian Courts while determining issues related to SEPs, FRAND etc. have judiciously ensured that rights of all parties concerned are balanced and protected.

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

Our Comments:

Various standard setting organizations, quasi-judicial bodies and competition agencies across the world including the Competition Commission of India and ETSI have taken a categorical stand that

⁷ http://lobis.nic.in/d_dir/dhc/VIB/judgement/30-03-2016/VIB30032016CW4642014.pdf

they shall not act as “price setters” and the question of royalty is to be bilaterally negotiated between two parties. In fact, parties world over have looked at Alternate Dispute Resolution (ADR) methods/mechanism to mutually resolve FRAND issues. Thus, Alternate Dispute Resolution (ADR) methods can play a vital role in easing the negotiation process between the parties and avoiding the costs and risk associated with litigation. Arbitration is one such ADR method where parties have successfully resolved their FRAND disputes and have entered into global patent license agreements. While it is true that arbitration may not necessarily be more efficient or cost effective than litigation in all circumstances, however, it does offer an incentive to the parties to negotiate in good faith and resolve their multi-jurisdictional disputes in respect of portfolios of world-wide patents. It also has an advantage of awards capable of being enforced almost anywhere in the world and at the same time maintaining confidentiality in respect of ADR proceedings.

Further, another plausible method for determination of FRAND royalty rates could be mediation. Although, mediation is not always successful, yet it could act as an opening discussion before resorting to arbitration or litigation as the same minimizes the issues between the parties to a great extent leaving behind determination only of essential issues. In fact, lately we have seen that parties have been able to resolve their differences in pre-litigation mediation and enter into global patent license agreements. Needless to say, any form of ADR method can be successful and effective means of resolving the dispute only when the parties agree on all the essential terms of a license except the price (royalty).

In cases involving dispute pertaining to FRAND – the terms and quantum of royalty have always been determined by

Courts. In fact, in the past few years, a lot of FRAND related disputes have given rise to SEP litigation between the SEP holder and the implementers, across the globe. There have been cases where the Courts have discussed various factors to be taken into account while determining FRAND royalty rates. Recently, in the matter of *Unwired Planet vs Huawei*⁸, the UK High Court delivered a judgment determining FRAND royalty rate in respect of world-wide license.

Our proposal: Establishment of specialized patent courts in India:

We believe that another approach to effectively adjudicate FRAND related disputes between parties can be by way of establishing specialized patent courts in India. Although, with the enactment of the Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Act, 2015, matters relating to IPR are designated as commercial disputes triable by specialized commercial courts, however, a more effective alternate to this can be a strict IPR court containing a specialized division that exclusively hears IPR cases. This will have the benefit of speedy and expeditious disposal of IP cases (including patent cases) with the added advantage of having Judges who may be expert in the field of IPR and selected from the patent law practitioners with extensive experience.

Lastly, SSOs, courts, anti-trust agencies etc., the world over have recognized that any mechanism adopted for determination of FRAND royalty should aim at striking a balance between the interest of technology developer in recouping its R&D investment and making further investment in future R&D while at the same time ensuring that the user of such technology gets access to it at a reasonable and

⁸ [2017] EWHC 711 (Pat) (Apr. 5, 2017).

affordable price. Accordingly, it is not possible to develop a straitjacket formula in order to achieve such balance and parity as all cases have to be looked into and decided individually on their own merit.
