Standard-Essential Patents In India: An Analysis Of Key Cases

By ***C. Srinidhi***

Senior Research Fellow, University College of Law, Osmania University

DOI: 10.55662/IJLDAI.2024.10301

ABSTRACT

Enforcement and interpretation of Standard-Essential Patents (SEPs) and their terms of licensing have been challenging courts across the globe. SEPs come under the purview of both intellectual property rights and competition law making it challenging for courts. India, with its growing telecommunication industry, has been becoming a battleground for SEP litigation. This paper encapsulates India's growing jurisprudence on Standard-Essential Patents (SEPs). The cases analysed in this paper illustrate the intricate challenges and jurisprudential developments in the field of SEPs.

Keywords: Standard-Essential Patents, Intellectual Property Law, Competition Law, Telecommunication Industry, SEP litigation

INTRODUCTION

Standard-Essential Patents (SEPs) have assumed immense importance in the modern technological landscape where digital interconnectedness is imperative. SEPs play a crucial role in the telecommunications and information and communication technology (ICT) sectors where it is essential for products and devices to comply with industry standards and being interoperable with other devices. Being standard-compliant through the licensing of SEPs, a manufacturer's product or device can communicate with any other product or device in the market. For instance, a smartphone made by Oppo is able to connect with an Apple iPhone due to them both adhering to the same telecommunication standard such as 4G or 5G. This nature of SEPs contributes to the growth of innovation and competition in the country.

The enforcement of SEPs along with their licensing raises unique legal challenges, especially related to Fair, Reasonable and Non-Discriminatory (FRAND) terms. SEP litigation has grappled with various courts across jurisdictions including India. In the last two decades, India has witnessed rapid expansion of the technology sector and increased reliance on standardized solutions. This triggered the SEP litigation in India in the year 2018 with the case of *Philips v. Rajesh Bansal*[i] which marks India's first post-trial decision. India has emerged as a critical battleground for SEP litigation, reflecting its growing presence in the global technology market. The Delhi High Court has taken centre stage in shaping the jurisprudence of SEPs and FRAND licensing in the country. Landmark cases such as *Intex v. Ericsson*[ii], *InterDigital v. Xioami*[iii] and the more recent case of *Ericsson v. Lava*[iv] highlight the evolving nature of SEP disputes and the complex issues that arise. These cases are evidence of the growing sophistication of the Indian judiciary in handling such cases as they balance the interests of both SEP holders and implementers. The Delhi High Court has been at the forefront of this litigation, engaging in international practices to ensure that the Indian decisions align with global trends.

This paper examines the concept of standard-essential patents, their enforcement and litigation in India.

SEP Litigation In India

KONINKLIJKE PHILIPS V. RAJESH BANSAL[v]

Background

Philips holds a patent related to the DVD playback function called the "Decoding Device for Converting a Modulated Signal to a series of M-Bit Information Words". This patent was recognized as an essential patent by both the DVD forum and later by the International Standards Organization (ISO) and ECMA. Philips initiated a case of patent infringement against Indian manufacturers for allegedly infringing its SEP through the importation and assembly of DVD player components that contained its SEP. These manufacturers were engaged in the business of importing components of DVD players and assembling them in India. Philip's main contention was that the defendants included decoders that used their patented technologies without a license.

Analysis of the Judgement

The Delhi High Court ruled in favour of Philips on multiple issues, significantly shaping the contours of SEP litigation in India:

Patent ownership and validity

The court affirmed Philip's ownership of the patent in question. The court based this on a certified copy of the specification of the patent presented to it by Philips. The defendants argued that Philips's patent is not a patentable subject matter under the Indian Patent Act, of 1970 as it is an algorithm which listed as non-patentable subject matter. The court dismissed these concerns as they were not present in the defendant's written statement.

Essentiality of the patent

The court examined whether Philips' patent was essential to the DVD technology and whether its essentiality was valid under Indian law. Philips argued that its patent was essential to the DVD technology. It backed its claim through essential certificates from related patents in the US and Europe. The court agreed with Philips without conducting any independent assessment, accepting that these international certificates as sufficient proof.[vi] The court commented on the essentiality of a patent,

"...essentiality of a patent necessarily implies that it is technically not possible to manufacture, sell, lease, etc. the equipment or technology which complies with such standard without making use of the patented technology in question."[vii]

Infringement

On the issue of infringement, the court determined that the defendants had infringed Philips' patents on two grounds, *viz.,* and manufacture of standard-compliant devices without seeking a license from the SEP holders will be deemed to be infringement, Philips presented evidence that substantiated its claims of infringement.

Principle of Patent Exhaustion and Licensing Knowledge

The court rejected the defendant's contention related to the exhaustion of Philips' patent rights as they had purchased the DVD devices from licensed third-party manufacturers. The court stated that the defendants did not provide evidence regarding the third-party manufacturers being licensed sellers. On the issue of knowledge regarding Philips' patents, the court assumed the defendant's knowledge when they applied for a license from Philips.

Monopoly and Competition Law

The court addressed the plaintiff's contention regarding Philips and the members of the DVD forum monopolizing the market and the defendants' argument of this being a competition issue that falls under the purview of the Competition Commission of India and not the Delhi High Court. The court rejected this argument and held

"…remedies as provided under Section 27 of the Competition Act for abuse of dominant position are materially different from the remedy as available under Section 84 of the Patents Act, thus the remedies under the two enactments are not mutually exclusive…"[viii]

Royalties and Damages

The court calculated damages based on the Entire Market Value Rule (EMVR) as requested by Philips where the royalty rate was calculated based on the entire product value and as opposed to the value added by the SEP.

Implications of the Judgement

This is a landmark judgement in India in the field of SEPs considering this is the first post-trial decision in the country. The court aimed to balance the basic principles of law with precedents from other jurisdictions. This decision benefits SEP holders such as Philips which would incentivize them to invest in the Indian market. The court has set a critical precedent for managing SEP infringement cases and FRAND terms. However, the court did not address the issue of patent exhaustion. The court did not explore the contention of the defendants regarding their acquiring the infringing products from a licensed third-party manufacturer, suggesting that the principle of exhaustion must shield them from litigation. The court should have shed light on whether such protection can be extended to innocent downstream purchasers.

ERICSSON V. INTEX[ix]

Background

Ericsson alleged Intex of infringing its SEPs related to 2G/EDGE, 3G and Adaptive Multi-Rate Standards in 2008. Ericsson offered a license to Intex of Fair, Reasonable and Non-Discriminatory (FRAND) terms which were similar to the licenses it offered to Gionee and Micromax. While the negotiations were ongoing, Intex filed a complaint with the Competition Commission of India (CCI), accusing Ericsson of abusing its dominant position and sought revocation of Ericsson's patents through the Intellectual Property Appellate Board (IPAB).

Ericsson filed a suit for patent infringement against Intex at the Delhi High Court seeking an injunction as well as compensation for the infringement of eight of its patents. The court ruled in favour of Ericsson and imposed an injunction against Intex preventing it from manufacturing, assembling, importing, selling and advertising their infringing products. Additionally, the court ordered Intex to pay 50% of the owed royalties and 50% as a bank guarantee.

ANALYSIS OF THE JUDGEMENT

The court ruled on the following key issues:

Validity of Ericsson's Patents

The Delhi High Court upheld the validity of Ericsson's patents, rejecting Intex's contention that Ericsson's patent cannot be shielded from being challenged over their validity due to its status as a patent. The court defended its decision on the fact that Intex admitted to the essentiality of Ericsson's patents in its complaint to the CCI. In the opinion of the court, this act of challenging the validity of Ericsson's patents is done in bad faith by Intex. The court also decided on the argument of Intex alleging that Ericsson's patents are not patents under Indian law and they were computer algorithms and hence non-patentable under section 3(k) of the Patents Act, 1970.[x] The court applied the 'technical features test' and significantly more tests from the US, UK and EU and held that

"*Thus, it is appears to me prima facie that any invention which has a technical contribution or has a technical effect and is not merely a computer program per se as alleged by the defendant and the same is patentable*"[xi]

Bad Faith Negotiations

Intex argued that Ericsson's licensing terms were not FRAND compliant as it offered varied licenses to different licensees. Ericsson also imposed Non-Disclosure Agreements on its licensees to keep the licensing terms confidential. The court, however, did not consider these claims relevant. It found that Intex contested the validity of the patents only after facing infringement proceedings by Ericsson. The court concluded that Intex's actions at the IPAB and CCI were aimed at avoiding infringement and hence in bad faith.

Royalty Rate Calculation

Intex advocated for calculating royalties based on the Smallest Patent Practicing Unit (SSPU), which bases royalty calculation on the chipset price rather than the entire value of the product (EMVR rule). Intex substantiated its argument quoting *Microsoft v. Motorola*[xii] and *In re Innovatio*[xiii] In contrast, Ericsson requested the court to calculate royalties based on the Entire Market Value Rule (EMVR). The court sided with Ericsson and calculated royalties based on the EMVR stating that it is FRAND compliant.

Injunction

The court determined whether to grant an injunction against Intex by evaluating the balance of convenience and the potential of irreparable injury to Ericsson. The court ruled in favour of

Ericsson and granted an injunction, noting that Intex's failure to pay royalties could adversely affect other licensees who complied with the terms of license. This non-compliance was viewed by the court as causing irreparable harm.

Implications of the Judgement

This is another significant case in the SEP jurisprudence in India. For the first time, the court acknowledged the concept of 'unwilling licensee' in response to Intex's complaints of abuse of dominant position. However, the court did not address Intex's allegations of discriminatory licensing but chose to evaluate royalties based on the EMVR method, which tends to result in higher royalty fees for implementers. This judgement serves as a critical reminder to SEP holders in India about the potential pitfalls of relying on imported technologies. It also highlights the need for clear and equitable handling of patent licensing and enforcement in the ICT and telecom sectors.

NOKIA V. OPPO[xiv]

In November 2018, Nokia and Oppo entered into a licensing agreement granting Oppo license to Nokia's standard-essential patents SEPs and certain non-SEPs. This agreement concluded in mid-2021 and despite attempts, the two parties could not agree on its renewal. However, Oppo continued to use Nokia's SEPs even after the expiry of the agreement. This made Nokia initiate a suit of patent infringement against Oppo in seven countries.

The court in this case decided on whether implementers such as Oppo are liable to pay *pro tem* security deposit during the pendency of the licensing negotiations. It also decided on the issue of balancing the interests of SEP holders and implementers.

Analysis of the Judgement

In November 2022, a single-judge bench of the Delhi High Court reviewed the dispute between Nokia and Oppo. Nokia sought a court order for Oppo to pay a sum representing the royalty for using its SEPs. However, the application was dismissed under order 39, rule 10 of the Civil Procedure Code as the licensing agreement between the parties based on counter licensing did not make Oppo liable. The court ruled that Oppo should not be compelled to pay royalties before confirming Nokia's patents' validity, essentiality, infringement status, and the FRAND nature of terms.

Dissatisfied with the ruling of the Single Judge, Nokia appealed the decision to a Division Bench. The court ruled in favour of Nokia and ordered Oppo to "deposit a *pro tem* security with the court's registry within four weeks"[xv] The bench observed that the cross-licensing agreement between Nokia and Oppo expired without renewal. The court added that Oppo had knowledge of Nokia's SEPs considering that it had paid royalty to use these patents without challenging its validity or essentiality. The court looked into other suits filed by Nokia against Oppo in countries such as China and Germany where courts upheld Nokia's infringement claims against Oppo. Citing CJEU's decision, *Huawei v. ZTE*[xvi], the court held that during the negotiation process, the implementer is bound to provide a *pro tem* deposit, which would protect Nokia's interest during the pendency of the suit. The court also added that a *pro tem* deposit is better than an injunction as the latter would restrict the use of technology by the licensee. The amount payable as a *pro tem* deposit was lower than what was agreed in the 2018 agreement, which ensures the balance of interests and protects Nokia from substantial losses.

Implications of the Judgement

The judgement highlights the responsibilities of implementers to prove temporary *pro tem* deposits during the licensing negotiations even if they were previously licensed. This ensures that SEP holders are protected against ongoing SEP infringements during the duration of the court proceedings. This decision of the court aims to balance the interests of both SEP holders and implementers. Additionally, the decision of the court to limit the deposit amount to the previously agreed royalty rate demonstrates its intent to uphold fairness and prevent significant financial harm to the SEP holder.

INTERDIGITAL V. XIAOMI[xvii]

Background

InterDigital initiated legal proceedings against Xiaomi in the Delhi High Court, accusing the company of infringing its 3G and 4G SEPs. It sought injunctive relief to stop Xiaomi from using its patent without a license or compel it to obtain a license on FRAND terms. Prior to

ISSN 2454 1273
Volume 10 Issue 3 – May June 2024

filing suit in Delhi, Xiaomi also filed a suit in Wuhan's Intermediate People's Court, China. It sought the Chinese court to prescribe global FRAND royalty rates for InterDigital's SEPs. Concurrently, Xiaomi pursued an anti-suit injunction in the same court to halt the proceedings in the Delhi High Court. The Wuhan Court granted an anti-suit injunction, compelling InterDigital to cease its legal actions in Delhi and other jurisdictions.

In reaction to the Wuhan Court's decision, InterDigital filed an interlocutory application in the Delhi High Court seeking an injunction against Xiaomi's anti-suit injunction. This effectively created an anti-anti-suit injunction. Xiaomi contended that the anti-suit injunction issued by the Wuhan Court prevented it from exercising its right as a patent holder under section 104 of the Indian Patents Act, 1970 and argued that such injunctions encroached upon the sovereignty and judicial policy of India. Xiaomi contended that the reason for filing an anti-suit injunction was to set global FRAND rates for InterDigital's SEPs. It further added that since the subject matter of both cases is similar, it may lead to conflicting FRAND rates for the same SEPs globally.

The court in this case decided on key issues such as whether InterDigital is entitled to seek an injunction against Xiaomi in Wuhan and whether the Wuhan Court was justified in passing an anti-suit injunction.

Analysis of the Judgement

Anti-anti-suit Injunction

The court ruled in favour of InterDigital, issuing India's first anti-anti-suit injunction. The court found that the Wuhan Court had overlooked that the cause of action originated in India as the patents involved were granted in India. The court distinguished between different types of injunctions used in international legal conflicts and introduced the concept of "anti-anti-suit injunctions" as a counter to injunctions from foreign courts. The court iterated that while granting anti-suit injunctions, courts must observe a greater degree of caution.

"If rendering justice, in a given case, requires an anti-enforcement injunction to be issued, the Court should not hold back its hands, on some perceived notion of lack of "exceptionality" in

ISSN 2454 1273
Volume 10 Issue 3 – May June 2024

the case. This would result in perpetuation of injustice. Justice, it is well settled, is the highest to which the law can attain.” [xviii]

The court relied on *Modi Entertainment Network & Anr v. W.S.G. Cricket Pte. Ltd.*[xix] To support its decision as there are no particular rules regarding the issuance of anti-suit injunctions in India. The court held that

“The principles that one may take home, for the purposes of the present dispute, from Modi Entertainment Network, are that anti-suit injunctions are ordinarily to be granted where the foreign proceedings are "oppressive or vexatious", or where declining injunction would result in defeating the ends of justice and perpetuating injustice.”[xx]

Principle of Territoriality

The court observed that according to the principle of territoriality, patent rights are inherently territorial because they are granted by individual sovereign states. A foreign court like the Wuhan Court cannot overstep its jurisdiction to impinge on the sovereignty of other states by issuing anti-suit injunctions.

Lack of transparency

The court criticized Xiaomi for not providing InterDigital with the application it filed in Wuhan Court for Anti-Suit Injunction. It also addressed the claims of Xiaomi about the overlapping nature of the cases in Delhi and Wuhan. It held that the overlap is minimal as the cases were not similar and this condemned the Wuhan Court anti-suit injunction.

Implications of the Judgement

This decision by the Delhi High Court is noteworthy in the SEP jurisprudence as it issued India’s first anti-anti-suit injunction. This decision addresses the dynamics of international disputes over SEPs and the application of the principle of territoriality in patent infringement cases. This judgement highlights that the obligation to uphold international comity should not compromise on the constitutional mandate for justice.

ERICSSON V. LAVA INTERNATIONAL[xxi]

Background

Ericsson issued a notice to Lava directing it to seek licenses for the 2G and 3G SEP it has been using. The licensing negotiations did not conclude even after three years which led to Lava filing a suit against Ericsson in Noida District Court seeking the court to declare that it has forfeited its enforcement rights over its Indian SEPs as it did not pursue any claims of infringement against the chipset or device manufacturers that were using its SEPs without license. Additionally, it also sought relief against the threat of litigation from Ericsson along with a request to determine FRAND licensing terms.

Ericsson, in response, filed a case of patent infringement of its SEPs against Lava. It also sought a permanent injunction and a temporary injunction against Lava. Lava also contested the validity of Ericsson's patents as a counterclaim.

The court in this case decided on whether Ericsson was the rightful owner of the SEPs and whether Lava breached any SEP norms. The court also determined compensation for the infringement of SEPs.

Analysis of the Judgement

Patent Validity

The Delhi High Court confirmed the validity of Ericsson's patents. It employed a seven-stamps approach to determine novelty and non-obviousness.

Infringement analysis

Lava argued that its use of Ericsson's SEPs was justified using the Doctrine of Exhaustion as it purchased Ericsson's chipsets from a licensed third party. However, the court rejected this defence, stating that patent rights extended beyond chipsets and end devices and that the SEPs in question were not licensed to third parties by Ericsson.

FRAND licensing

ISSN 2454 1273
Volume 10 Issue 3 – May June 2024

The court referred to decisions such as Huawei v. ZTE and Unwired Planet v. Huawei to determine FRAND terms. This emphasized that principles applied in these cases are applicable in India due to its significant telecom industry.

Hold-out

The court determined that Lava was engaging in holdout behaviour as it did not show any genuine intention to negotiate a FRAND licensing agreement with Ericsson. The court relied on Lava's delays and lack of counter offers during licensing negotiations.

Ericsson's Licensing Terms

After reviewing fifty-four comparable licenses, the court found Ericsson's licensing offer to Lava to be a complaint to FRAND. It ruled that FRAND rates should be non-discriminatory and should not vary with the licensee's business scale and timing.

Methodology for determining FRAND royalties and Royalty Base

The court preferred the comparable license approach over the top-down approach as advocated by Lava. The court reasoned that the comparable license approach is based on actual negotiated rates among similarly situated parties. The court calculated the royalty base using the EMVR rule and rejected Lava's proposal to calculate royalty based solely on the chipset.

Quantum of Damages

Rather than issuing an injunction, the court awarded damages based on what Ericsson would have earned as royalties had Lava agreed to a FRAND licensing agreement from the outset. Here the court used a hypothetic negotiations approach to determine the quantum of damages.

Calculation of FRAND rate

Using the comparable licenses approach, the court determined the FRAND rate for Ericsson's SEPs. The court set the royalty rate at 1.05% of the net selling price of Lava's devices. This amounted to a massive 244 crores with interest at 5% per annum.

Implications of the judgement

This is one of the most recent and comprehensive judgements of India in the field of SEPs. It thoroughly assesses the validity and essentiality of the patents in question. It also applied internationally recognized methodologies to calculate FRAND royalties. This decision aligns with international standards for handling SEP disputes. It sets a benchmark for how FRAND cases should be resolved in the Indian Courts. The court recognized Lava's conduct to be in bad faith and labelled it an unwilling licensee. Due to this, the court calculated royalties at a very high rate. This decision can be criticised due to the application of global FRAND rates on Lava, an Indian company with a very limited international presence. This may deter Indian manufacturers from investing in the Indian telecom industry.

CONCLUSION

India is in its the nascent stages of SEP jurisprudence with less than a decade since its first case. However, the Indian Courts have been delivering judgements adhering to international standards as evident from *InterDigital v. Xiaomi* and *Ericsson v. Lava* where the court has issued anti-anti-suit injunction and set a global FRAND rate. The courts have consistently emphasized the importance of good faith in negotiations and adherence to FRAND commitments. It can be inferred the decisions given by the courts are SEP holder-centric, probably intending to attract more investments into the telecom and ICT sector. However, this may impede innovation and competition and SEP implementers and licensees may feel threatened to invest in the manufacturing of the products and devices. Hence, the courts must strive to effectively balance the interests of both SEP holders and SEP implementers.

REFERENCES

[i]CS (COMM) 24/2016
[ii] 2015 SCC OnLine CCI 76
[iii] I.A. 8772/2020 in CS(COMM) 295/2020
[iv] CS(COMM) 1148/2016 NCN 2024:DHC: 2698

[v] Supra note at i
[vi] *Philips SEP Judgement, (July 31[st], 2018), SPICYIP, available at* https://spicyip.com/2018/07/philips-sep-judgement-indias-first-post-trial-sep-judgement-has-serious-flaws.html (last visited June 1st, 2024)
[vii] Supra note at i
[viii] *I.d.*
[ix] Telefonaktiebolaget LM Ericsson v. Intex Technology (India) Limited 2015 SCC OnLine CCI 76
[x] Section 3(k) "a mathematical or business method or a computer programme per se or algorithms"
[xi] Supra note at ix
[xii] 963 F. Supp. 2d 1176
[xiii] MDL Docket No. 2303 (N.D. Ill. Sep. 27, 2013)
[xiv] 2022/DHC/004935
[xv] *I.d.*
[xvi] case no C-170/13
[xvii] I.A. 8772/2020 in CS(COMM) 295/2020
[xviii] *I.d.*
[xix] AIR 2003 SC 1177.
[xx] Supra note at xvii
[xxi] CS(COMM) 1148/2016 NCN 2024:DHC: 2698