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Standards, FRAND and Competition Law

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ABSTRACT

Standards are the technical specifications for a new product or process creating interoperability. Standards are protected by patents and technology that is "essential" to comply with a standard is called a Standard Essential Patent. Standard Setting Organizations involve competitors agreeing on certain specifications of the product they plan to market which relates to the competition issues as well as IPRs. Further SEP holders preventing the standard implementer from using the standardized technology can create a "hold-up" and dominate the licensing terms. To achieve the desired objectives SEP holder files may injunctive relief, which itself is seen by many regulators as an abuse of dominant power.

However, from the standard implementer's perspective, who seeks to take the defence of the commitment made by the SEP holder to licence the standard on Fair, Reasonable and Non-Discriminatory (FRAND) wholly depends upon domestic law concerning contracts or competition law. Thus, the enforceability of FRAND commitments is dependent upon the language of the Standard Setting Organisation's (SSO) IPR Policies to which the SEP owner consents and applicable contract law principles are attracted.

I. INTRODUCTION

Intellectual Property Rights (specifically patent) confers double entitlement to the right holder by providing exclusivity and preventing the third party from applying or using the subject matter of his patent. Secondly, if the third party intends to use or apply said subject matter, he should do as per the patent holder's terms and conditions.[2] While the former protects the protection holder, the latter is a reward for innovative contribution. In this way, Intellectual property rights subsidise investments in innovation by granting substantial but time-limited market power.[3] All patent laws and TRIPS Agreement recognise this exclusive right.[4] However, the market power gained due to exclusivity raises competition law concerns due to

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[2] Olav Kolstad, *Competition Law and Intellectual Property Rights – Outline of an economic Based Approach* in RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY AND COMPETITION LAW (Josef Drexel ed., Edward Elgar, 2008)

[3] Robert Pitofsky, *Antitrust and Intellectual Property: Unresolved Issues at the Heart of the New Economy* available at http://scholarship.law.georgetown.edu/facpub/315 (Last accessed on March 26, 2017)

[4] Article 28 of TRIPS; Section 48 of Patent Act, 1970

the potential threat to the competition in the market. Thus competition law ensures that firms compete, and by competing, seek new roads to innovation. It also prevents dominant firms from harming or retarding innovation. The relation between Intellectual Property Rights and Competition Law gets more convoluted in cases of Standard Essential Patents, as many times standard-setting raises a variety of competition law issues protected by patent laws. However, it is well established that both intellectual property protection and reasonable competition enforcement will encourage dynamic efficiency in the market.[5]

Standards are the technical specifications for a new product or process, creating interoperability. Patents protect standards, and "essential" technology to comply with a standard is called a Standard Essential Patent.[6] Standard Setting Organizations involve competitors agreeing on certain specifications of the product they plan to market, which is connected with the competition issues and IPRs. Further, SEP holders, to prevent the standard implementer from using the standardised technology, can create a "hold-up" and dominate the licensing terms. To achieve the desired objectives, SEP holder files may provide injunctive relief, which itself is seen by many regulators as an abuse of dominant power.[7] From the standard implementer's perspective, who seeks to defend the SEP holder's commitment to licencing the standard on Fair, Reasonable and Non-Discriminatory (FRAND), becomes the linking point between the IPR and Competition Law. However, the enforceability of FRAND commitments is dependent upon the language of the Standard Setting Organisation's (SSO) IPR Policies to which the SEP owner consents and applicable contract law principles will be appropriate.[8]

Dispute relating to infringement of patents which has secured the position of Standard Essential Patent, has called the attention of enforcement agencies to a body of laws in which intellectual property and competition intersect, namely exclusivity of the rights and abuse of market power. It was thought that the two 'sets of rules' (IP Laws and Competition laws) conflicted. Still, the modern antitrust doctrine has recognised that they share the common goal of promoting

[5] Kolstad, *supra* note 1

[6] See, http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf ; Washington District Court in Microsoft Corp. v. Motorola Mobility, Inc. 104 U.S.P.Q.2D 2000 defined SEP as "A given patent is "essential" to a standard if use of the standard requires infringement of the patent, even if acceptable alternatives of that patent could have been written into the standard." A patent is also essential "if the patent only reads onto an optional portion of the standard."

[7] See generally, Nicolas Petit, Injunctions for FRAND- Pledged SEPs: The Quest for and Appropriate Test of Abuse under Artcile 102 TFEU available at http://awa2014.concurrences.com/IMG/pdf/ssrn-id2371192.pdf (Last accessed on March 20, 2017); see also, D Geradin and M Rato, *Can Standard-Setting Lead to Exploitative Abuse? A Dissonant View on Patent Hold-Up, RoyaltyStacking and the Meaning of FRAND* 3 EUROPEAN COMPETITION JOURNAL 146. (2007).

[8] Thomas F. Cotter, Comparative Law and Economics of Standard-Essential Patents and FRAND Royalties, 22 TEX. INTELL. PROP. L.J. 311 (2013-2014)

innovation and enhancing consumer welfare and thus together creating a 'system of laws'. IP and competition law work together to reach a socially optimal balance between rewarding innovations while promoting the diffusion of new technologies.[9]

Competition Commission of India has recently initiated an investigation against a few firms looking into anti-competitive conduct in either standard-setting process or licensing the SEP, emphasizing the increasing relevance that competition authorities attribute to this subject in India.[10] Though initially, the jurisdiction of competition authority was questioned due to the Competition Act, 2002, the air was cleared by the intervention of the High Court interpreting and establishing the jurisdiction of the Competition Commission of India.[11]

The present paper inquires into the issues of FRAND encumbered SEP and the role of competition law in the Indian context. To make this enquiry, first, the paper explores the meaning and process of standard-setting and what is potential harm which can affect the market. Then it looks into the measures taken during/in the standardisation process to avoid these harms. If the damage goes beyond the control of the Standard-setting process, what role can competition law play in correcting the market?

II. 'STANDARDS' AND ITS SETTING PROCESS

Standard is *"any set of technical specifications that either provides or is intended to provide a common design for a product or process*."[12] This set of technical specifications can be for physical attributes or performance/result-oriented attributes. Physical characteristics may specify features to make products comparable or provide interoperability. In contrast, performance attributes provide minimal default features to which every product must comply to serve public interests, such as health and safety.[13] This paper is concerned with those physical attributes, which are set as standards for interoperability.

Standard can be formed *de facto, de jure or de consenso.*[14] The difference arises through the process of setting up a standard. The general classification of the standard-setting process can be seen as (i) competition between the standards; and (ii) competition within the standards. In

[9] *See*, JEAN TIROLE, THE THEORY OF INDUSTRIAL ORGANIZATION, (The MIT Press, Cambridge (Massachusetts, US, 1989); M. MOTTA, COMPETITION POLICY: THEORY AND PRACTICE (Cambridge University Press, 2004).
[10] Intex v. Ericsson, Case No. 76.2013; Bull Machines v. JCB, Case No. 105 /2013; Best IT World v. Ericsson, Case No. 4, 2015; Phase Power Technologies private Limited v. ABB India Limited, Case No. 12/2016.
[11] Erricson v. CCI, WP 464/2014 (Delhi High Court)
[12] Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CALIF.L. REv. 1889, 1896 (2002).
[13] A. Updegrove, ICT Standard setting Today: A system under stress available at firstmonday.org/ojs/index.php/fm/article/view/1911/1793 last accessed on June 10, 2017
[14] For longer discussion see, Joseph Farell & Timothy Sincoe, Four Paths to compatibility, in Oxford Handbook of the Digital Economy (Joel Waldfogel & Martin Peitz eds. 2012)

the former case, standards are not compatible with each other. Consequently, the network forces will determine the dominant standard, possibly capturing 100% of the market in the long term.[15] Due to the large installed user base creating a strong network effect, it is difficult to reverse the process easy, even with superior technology. These are called *de facto* standards. A product is standardised de facto informally through market acceptance, industry adoption, or government action over some time.

In some cases, the government exerts influence as a large customer or its regulatory authority to promote a standard. For instance, The Cable Television Networks (Regulation) Amendment Act, 2011 mandated a switch-over of the existing analogue cable TV networks to four phases of the digital addressable system (DAS).[16] In general, government involvement can be relatively uncontroversial when there are large gains from coordination and little scope for innovation or uncertainty about the relative merits of different solutions.[17] But government intervention in a highly technical standard-setting process can pose problems, including lack of expertise, regulatory capture, and lock-in on the government-supported standard.

While in the latter situation, the competition between the two incompatible standards is a settlement on one standard or compatibility between the standards.[18] To facilitate this, generally an external agency (private or public body) intervenes to settle the competition between two incompatible standards. In this case, competition between the standards becomes competition within the standard. This is called as *de jure* standard.[19] In the absence of the adoption of the standard, many technologies may compete for inclusion in the middle. Still, once a technical standard is set and reads on patented technologies, those patents become Standard Essential Patents (SEP) to implement the standards because to make standard-compliant products, everyone must use them.[20] These standards are brought about by industry

[15] See, Stanley M. Besen and Joseph Farrell, *Choosing How to Compete: Strategies and Tactics in Standardisation*, 8(2) JOURNAL OF ECONOMIC PERSPECTIVES 117 (1994).
[16] Sectin 4A of The Cable Television Networks (Regulation) Act, 1995
[17] Joseph Farell and Timothy Somcoe, *Four Paths of Compatibility* in Oxford Handbook of the Digital Economy (Martin Peitz and Joel Walfogel eds.OUP, 2012)
[18] Paul A. David and Shane Greenstein, *The Economics of Compatibility Standards: An Introduction to Recent Research* 1 ECON. INNOV. NEW TECHN. 3 (1990).
[19] Damien Geradin & Miguel Rato, *Can Standard-Setting Lead to Exploitative Abuse? A Dissonant View on Patent Hold-up, Royalty-Stacking and the Meaning of FRAND*, 3 EUR. COMPETITION J. 101, 103 (2007). Author specifies three circumstances in which standard may evolve. First, a particular product or technical specification may evolve into a de facto standard through market dynamics, as a result of widespread adoption of consumers. Second, in certain cases public authorities (government, agencies or supra national entities such as European Union) will specify that certain products or processes must comply with a standard and thus compel manufactures to adopt it. These are usually referred as 'legal' standard. Third, private organisation, often congregating dozens of member companies and individuals, may cooperatively agree on standard. Such private SSOs may adopt a variety of structures and decision making process, and some will be formal whilst others will rely on informal method of cooperation.
[20] See generally, J. Lerner and J. Tirole, *Standard-essential Patents*, Working Paper no. 19664, National Bureau

consensus and work to benefit patentees, licensees and consumers.

Here the main distinction between a SEP and a non-SEP appears critical because only those patents inserted in the standard will raise conflicts of interests, and the difference is a matter of "essentiality".[21] The essential status of a patent arises within the working groups during the standardisation process as a self-certification by the patentee. SSOs do not provide any patent review or verification as to the technical essentiality[22] or validity of the declared patents. SSOs identify proprietary and non-proprietary technological knowledge available related to a standard. SSOs prefer to adopt non-proprietary technology.[23] If only proprietary technology is available, then SSOs ensure FRAND based licensing commitments.[24]

As SSOs allow interested industry members to come together to develop and bring new technology to market, the process sounds prima facie as an anti-competitive activity. However, the economic benefits gained from standardisation generally outweigh the risks of collusion and price-fixing.[25] Certain economic benefits which are a direct effect of standardisation are how standards can help: (i) the exploitation of economies of scale; (ii) the effective division of labour; (iii) the building of competencies; (iv) to reduce barriers to entry; (v) to build network effects; (vi) to reduce transaction costs; and (vii) to increase trust between trading partners.[26]

De jure standard-setting in SSO is open to all interested parties and designed to foster consensus.[27] Participation is voluntary, and policies and decision-making procedures of formal SSO endeavour to ensure that standards are developed in an open environment. At the beginning of the standardisation process, a committee will consider all essential technology to

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of Economic Research, Cambridge, MA, 2013.

[21] For example - ETSI in Annex 6 of its rules of procedure at paragraph 15.6 states that: "**ESSENTIAL**" as applied to IPR means that it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR.

[22] Guidelines on the application of Article 101 TFEU to technology transfer agreements [2014] OJ C 89/3, para. 252 in the context of technology pools enlarges the notion of essentiality to comprehend commercial essentiality. SSOs haven't adopted such a broad definition, since members do not want the standards to include and subject to FRAND terms their commercially essential patents, which may give their owners significant competitive advantages.

[23] Ravikant Bharadwaj, Standard Setting in India: Competition Law and IP Issues available at www.iimidr.ac.in/wp-content/uploads/Standard.pdf (Last accessed on March 20, 2017)

[24] *Ibid*

[25] See, OECD, Potential Pro-Competitive and Anti-competitive Aspects of Trade/ Business Associations (2007) available at http://www.oecd.org/regreform/sectors/41646059.pdf (Last accessed on March 25, 2017)

[26] G M P Swann, The Economics of Standardization: An Update, *available at* http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.618.5922&rep=rep1&type=pdf (Last accessed on April 10, 2017)

[27] Standard setting organizations (SSOs) could be governmental, quasi-governmental or private. There are international, regional and national standard setting organizations on the basis of geography. International standard setting organizations develop global standards. They work in co-operation with regional and national standard setting organization.

meet the proposed standard. Generally, there are three criteria for the establishment/adoption of a standard – *first*, a set of technical specifications; *second*, that these technical specifications provide a common design; and *third*, that the common design provides for a product or process.[28] During the standardisation process, SSO members are required to disclose any claims in patents or patent applications which are read onto the standard, as required by the policies of a particular SSO.[29] While SEPs are being identified, the members must consent to enter license negotiations with anyone who wishes to implement the standard based on the Fair, Reasonable and Non-discriminatory terms (FRAND). If they refuse to do so, the SSO may bypass their technology and require that an alternative technology (either non-proprietary or proprietary subject to a FRAND commitment) be chosen for the standard or that no standard be adopted at all.[30] Though the exact meaning and implication of FRAND commitment that a patent holder makes to an SSO are currently up for debate, the term is still used throughout the standards industry.[31]

SSOs do not go into the question of the validity of the patent. Any objection to the essentiality of the SEP has to be challenged through separate proceedings in the competent court on the validity and infringement of the patent. SEP is presumed valid like any other patent and essential as declared by its owner until a court decides otherwise.[32]

Competitive Dynamism of Standardisation

To begin with the competitive dynamism before and after standardisation, let us take an illustration – Assume that an SSO in choosing essential technologies has three proprietary technologies A, B and C, which can do the almost same thing and achieve interoperability. In the absence of SSO, these technologies will compete to gain the marketplace for adoption by implementers and users. The patent holders would license their technologies at competitive rates and terms in such a competitive setting. Competitive rates for any of the three in this situation will depend on the incremental benefits of one over the other. For example- if technologies achieve the same performance but with A, the user would incur non-licensing

[28] Damien Geradin & Miguel Rato, *Can Standard-Setting Lead to Exploitative Abuse? A Dissonant View on Patent Hold-up, Royalty-Stacking and the Meaning of FRAND*, 3 Eur. Competition J. 101, 103 (2007).
[29] SSO Policy provisions
[30] *See, e.g.*, Eur. Telecomms. Standards Inst. (ETSI), *Intellectual Property Rights Policy*, 1 8.1.1-8.1.2 (2008), *available at* http://www.etsi.org/WebSite/document/Legal/ETSIIPRPolicy.pdf (Last accessed on April 10, 2017)
[31] See, Damein Geradin, *The Meaning of Fair and Reasonable in the Context of Third-Party Determination of FRAND Term*, 21 GEO. MASON L. REV. 919 (2013-2014); See also J. Gregory Sidak, *The Meaning of FRAND, Part I: Royalties* 9(1) JOURNAL OF COMPETITION LAW AND ECONOMIC 931 (2013); J. Gregory Sidak, *The Meaning of FRAND, Part II: Injunctions* 11(1) JOURNAL OF COMPETITION LAW AND ECONOMIC 201 (2015)
[32] See, J. G. SIDAK, *Evading Portfolio Royalties for Standard-Essential Patents through Validity Challenges*, 39 WORLD COMPETITION (2016)

costs of Rs. 1000, with B Rs. 950 and with C Rs. 900. The owner of technology C in a competitive setting would be able to charge a maximum royalty of Rs. 50, i.e. the incremental inherent advantage of its technology over the next cheapest alternative. However, with standardisation, the patent holders of A, B and C and other industry participants agree that only one technology will remain in the marketplace. Competition among the technologies is removed, and the winning technology owner will now license it at monopoly rates and monopolistic terms. Standardisation allows one technology holder to reap the benefits of the standard and exclude other competitors. Further, suppose the owner of the winning technology is also an implementer. In that case, he will be able to impair the competition in downstream markets by discriminating against the licensees that purchase components from their rivals.[33]

Adoption of a standard excludes competition from alternative technologies,[34] and thus an essential patent may have a much higher value after standardisation compared to before. Such necessary standard imposes compliance as a matter of commercial necessity, as failing to comply would render a product incompatible and unmarketable with other companies' products. This singularity results in a lock-in effect, whereby standard implementers must use the SEPs incorporated into the standards they implement. Lock-in derives from the sunk nature of two kinds of investments.[35] First, before the standard is set, all firms have incurred R&D expenditures and switching away from the bar would require duplicating such R&D investments. Second, a standard based on particular technologies may stimulate other specific sunk investments, such as learning the techniques involved, adapting plant and equipment and costly marketing campaigns to create buyer awareness. Sunk R&D costs and standard-specific investments exacerbate the lock-in effect, rendering switching to alternative technologies unprofitable. The patent holder greatly strengthens the bargaining position against the potential licensee due to the inclusion of the patent in SEP and the resultant lock-in effect. However, the patentee's market strength to dominate the bargain also depends on whether *ex-ante* alternatives and the importance of the standard to the industry.

Apart from the contained exclusionary nature of an essential patent, standardisation results in the conferment of a degree of market strength deriving from the lock-in effect. Now, since the patent is standard and the industry is locked-in in the absence of any alternatives, SEP-holder can pursue to extract a higher payment than was attributable to the value of the patented

[33] Goerge S Scary, *The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting*, 77 ANTITRUST L.J. 913 (2011)
[34] Kattan, Joe and Wood, Chris, *Standard-Essential Patents and the Problem of Hold-Up* (December 19, 2013) *available at* https://ssrn.com/abstract=2370113 (Last accessed on April 10, 2017)
[35] *Ibid*

technology before standardisation. Due to the large financial stake involved in developing and commercialising standards, the risk of opportunistic behaviours takes place. There could be a risk of strategic behaviour from the patentee in the form of (i) patent hold-up, and others counter-argue the opposite risk from licensees, which is (ii) patent hold-out.

Patent Hold-up: Due to the essentiality of the patent, its value increases and resultant lock-in effect, a SEP-holder gains an ability to hold up standard implementers either by refusing to license its SEP or asking licensing terms corresponding not to the intrinsic value of the patent, but to the added value conferred by standardisation itself.[36] This is coupled with threats of injunctive relief if the implementers infringe the SEP without licensee against the claims of the SEP holder.

To gain patent hold-up, patentees generally engage in "patent ambush" by deceptively concealing the patents to let the standard involuntary read on them. Non-disclosure of existing patents is to evade the evaluation of technologies to be included in the standard made by SSO. When the lock-in effect is achieved, patentees ask for royalties higher than expected except for their acquired essentiality.[37] Based on this, the associated problem of "royalty stacking" occurs. Royalty stacking refers to multiple royalty burdens stacked together to determine the total royalty on a single product. Most standards are read on many SEPs of different owners, and the cumulative royalty payments for all SEPs read by the standard become excessive. Royalty stacking magnifies the problems associated with injunctions threats and holds up and discourages the diffusion of standardised technology. [38]

Patent Hold-out: Hold-out behaviour is a 'wait and see' strategy under which the implementer decides to free ride on the patented technology without seeking a license. This results in infringement of the patent. Even if the infringement is caught, small and financially weak patent holders prefer to agree on disadvantageous licensing terms instead of time-consuming and expensive litigation.[39] Moreover, the SSO's structure might facilitate collusive hold-out strategies. All the implementers act as licensees' cartels exercising monopsony power; before the standard is set, SSO members could jointly negotiate licenses threatening to cut off the

[36] See, M.A. Lemley & C. Shapiro, *Reply: Patent Holdup and Royalty Stacking*, 85 TEXAS LAW REVIEW 1991 (2007)

[37] See, Robert A. Skitol, *Concerted Buying Power: Its Potential for Addressing the Patent Holdup Problem in Standard Setting* 72(2) ANTITRUST LAW JOURNAL 727 (2005).

[38] Lamley and Shapiro, *Supra* note 35

[39] Hold-out theory is used as a rationale for Patent Assertion Entities (PAEs), also known as patent trolls, organizations whose primary or sole activity is the collection of patents and subsequently assertion against target implementers. Because PAEs do not manufacture, they are not constrained by any need to obtain cross-licenses, so they mine and monetize patents by collecting the maximum possible royalties through licenses or settlements and by winning patent damage awards in court.

patentee's technology from the standard by manipulating the standardisation process.[40]

III. MEASURES TO AVOID POTENTIAL THREAT

IPR Policy is the tool adopted by SSOs that generally provides two rules - disclosure rules and licensing rules. IPR Policies seek to preserve the benefits of the ex-ante competitive conditions that existed before the standard was set and the industry locked in.[41] IPR policies bind members of SSO under the principles of contract law[42] by specific signed contracts, or through incorporation by reference in the by-laws. This contractual arrangement gives rights to the SSO and each subscribing member; the third party intended beneficiaries must be identifiable at the time of performance of the contractual obligation, namely the implementer's members of the SSO and incidental beneficiaries that are non-members. It has to be kept in mind since the arrangement is purely contractual doctrine of 'privity of contract' finds its place in enforcing these contractual obligations. Thus, parties to a contract and third party intended beneficiaries may both enforce agreements, while incidental beneficiaries may not.[43] Now let us examine the important part of the IPR policy relevant to the subject matter.

Duty to Disclose

The first requirement under the IPRs policies of SSOs is the duty to disclose during the standardisation process.[44] This requirement enables SSO's working groups to make informed decisions regarding the open or proprietary nature of the standard they adopt. Disclosure prevents hold-up in the form of patent ambush[45] and avoids the royalty-stacking problem. Due to the disclosures, SSOs working groups can forecast the cumulative royalty of all the disclosed SEPs. SSOs vary regarding the disclosure scope, which may encompass any IPR, although

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[40] Mario Marineillo, *European Antirust Control and Standard Setting* (2013) available at http://aei.pitt.edu/40190/1/European_antitrust_control_and_standard_setting_(English)%5B1%5D.pdf (Last accessed on April 18, 2017)

[41] Georg S Cary, The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting, 77 Antitrust L.J. 913 (2011)

[42] In the EU, contract law is left to the competence of Member States; in the US similarly, contracts are regulated at the States' level, not at the federal one.

[43] Jorge L. Conteras, *Enforcing FRAND and other SDO Licensing Commitments* in THE CAMBRIDGE HANDBOOK OF TECHNICAL STANDARDIZATION LAW 178 (Jorge L. Conteras ed., CUP, 2017)

[44] For example - Rule 4.1 of ETSI IPRs Policy specifies the disclosure requirement for ETSI members: *4.1 …each MEMBER shall use its reasonable endeavours, in particular during the development of a STANDARD or TECHNICAL SPECIFICATION where it participates, to inform ETSI of ESSENTIAL IPRs in a timely fashion. In particular, a MEMBER submitting a technical proposal for a STANDARD or TECHNICAL SPECIFICATION shall, on a bona fide basis, draw the attention of ETSI to any of that MEMBER's IPR which might be ESSENTIAL if that proposal is adopted.*

[45] See Case COMP/38636 *Rambus* Commission Commitment Decision. Rambus is the leading case for patent ambush relating to RAM, a *de consenso* standard adopted by JEDEC; after a complaint set forth by a number of DRAM manufacturers, Rambus Inc. was investigated by the EC for abusing its dominant position, as in the absence of patent ambush it would not have been able to ask the royalty rates it then required. The EC adopted an Article 9 regulation 1/2003 commitment decision providing for a five-year cap on the royalty asked by Rambus.

more often is limited to issued patents. Since the patent protection starts from the date of submission of a patent application and disclosure of such pending application is not encompassed within the disclosure requirement. Further, the duty to disclose also implies the responsibility to search a firm's own inventory for relevant patents. However, due to large portfolios, IPR searches are expensive and time-consuming, which may slow down the standardisation process. Therefore, IPR Policies dilute the IPR search requirements.[46]

FRAND Commitment

The standard-setting process is an inherently difficult task due to a lack of clarity about what should be covered in the standard since the patent claim construction is a complex and uncertain legal inquiry. This makes it hard to define essentiality as patent claims may vary during their application. The disclosure duty alone cannot efficiently solve the licensing problems arising from standardisation. Thus, IPR policies also adopt FRAND commitment at the time or before adopting the standard.[47]

Fair Reasonable and Non-Discriminatory (FRAND) licensing commitment ensures effective access to the standard. In principle, FRAND curtails the part of the patentee's rights instead of adopting the patent into the standard. These rights are the right to exclude others, intended both in its physical and financial facets. Thus, the effect of FRAND commitment is that a license for a SEP must be granted on a non-discriminatory basis for fair and reasonable terms and would-be standard implementers, who can afford a fair and reasonable license, must be granted access to said SEPs. Though all good things that FRAND commitments contain, it does not and cannot guarantee an agreement with a specific end result. Since commitments are made to SSO, not to particular licensees who might not even be known when the commitment is given, there is no direct contractual relationship between the SEP owner and potential implementer; rather, relations exist only between SSO and SEP owner.[48] The Source of obligation for commitment to FRAND terms is provided either under SSO's By-laws, and mere membership activates the obligation or on a case-by-case basis through unilateral statements. However, as the method for such commitment is contractual and voluntary, it leaves the scope for the patentee to avoid the FRAND commitment. However, EC's Horizontal Guidelines specify that

[46] ETSI provides it as follows: *The obligations pursuant to Clause 4.1 above [disclosure] do however not imply any obligation on MEMBERS to conduct IPR searches; Further,* EC's Horizontal Guidelines at para. 286 require for good faith duty to disclose by providing commitment to license SEPs on a royalty-free basis.

[47] EC's Horizontal Guidelines whose para. 285 states "*…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…*(Emphasis added)"

[48] Telyas, D., The Interface between Competition Law, Patents and Technical Standards, Kluwer Law International, 2014 page 191

the FRAND commitment is irrevocable.[49] Guidelines request SSO IPRs policies[50] to ensure the FRAND commitment runs with the patent, like property servitude, regardless of its change of ownership.[51]

FRAND licensing terms coincide with averting hold-up by SEP-holders after the industry has been locked in. SSOs, however, do not participate in the process of negotiation for the licensing, which is bilateral and confidentially negotiated by the parties as the FRAND license can be best determined by the interested parties in arm's length bargaining. If the negotiation breaks down and a dispute over the licensing terms arises, its adjudication is a matter of courts or ADR mechanisms,

Dispute as to what amounts to FRAND is very difficult to determine due to open textured words employed. "Fair and Reasonable Licensing Terms" implies the economic value of the IPR. The rationale is not to regulate pricing but rather to ensure the commercial viability of the standards. "Non-Discriminatory Licensing Terms" safeguard the openness of standards. Openness does not mean SEP-holders to license to anyone as this would amount to compulsory licensing; nor do they impose licensing to all parties with the same terms, but rather to license similarly situated adopters (i.e. competitors) on the same terms. Nonetheless, implied vagueness in FRAND commitment leaves room for interpretation and results in disputes. SEP-holders default on their obligations to capture the hold-up value of their SEPs, while standard implementers claim breach of FRAND commitments by the offers they receive. These disputes may seem simple breach of contract issues, but they are doubly complicated: first by the enforceability of patent infringement through injunctions; and, secondly by the interference of competition law, which proscribes the misuse of market power and provides grounds to react to SEP-based injunctions by the so-called FRAND defence.

[49] Para 285 of Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, 2011

[50] For Example, ETSI IPRs Policy Rule. 6.1bis Transfer of ownership of ESSENTIAL IPR: FRAND licensing undertakings made pursuant to Clause 6 shall be interpreted as encumbrances that bind all successors-in-interest. Recognizing that this interpretation may not apply in all legal jurisdictions, any Declarant who has submitted a FRAND undertaking according to the POLICY who transfers ownership of ESSENTIAL IPR that is subject to such undertaking shall include appropriate provisions in the relevant transfer documents to ensure that the undertaking is binding on the transferee and that the transferee will similarly include appropriate provisions in the event of future transfers with the goal of binding all successors-in-interest. The undertaking shall be interpreted as binding on successors-in-interest regardless of whether such provisions are included in the relevant transfer documents.

[51] In June 2008 Nokia filed a complaint to the EC against IPCom, who had purchased Bosch's FRAND-encumbered SEPs portfolio, alleging that IPCom was abusing its dominant position by asking excessive royalties in breach of Bosch's FRAND commitment. In December 2009, IPCom announced it was ready to maintain Bosch's commitments to grant FRAND licenses; because Nokia withdrew its compliant, the EC decided not to send any Statement of Objections to IPCom.

FRAND Defense/Claim?

Let us take an illustration - 'A' is a downstream firm approached by a 'P', a patent holder who alleges that the downstream firm's product incorporates a feature that infringes its patent. By now, 'A' has already sold its product when it learns of the patent claim. This timing may result because the downstream firm designed its product to include a feature for which a patent application was subsequently published or a patent was later issued, perhaps after the patent holder amended its initial claims to capture the downstream firm's product. Alternatively, the downstream firm may simply have been unaware at the time it designed its product that the patent now being asserted had been issued, or it may have been aware of the patent but had no reason to believe the patent owner would argue that the downstream firm's product infringed it. Further, in some cases, the patent holder can engage in strategic delay or concealment, knowing it will be in a stronger bargaining position once the downstream firm has already designed its product incorporating the patented feature and can demand higher royalty on the patents. To counter the strategy of the patent holder, the downstream firm can enforce the FRAND commitments if the patented technology is SEP.

FRAND defence was an outcome of the decision of the German Federal Supreme Court in Orange–Book Standard decision[52], wherein the defendant made a competition law claim against the seeking of injunctive relief by the plaintiff in a SEP infringement action.[53] Agreeing to the defence that the enforcement of the claim to an injunction could constitute an abuse of a dominant position court laid down the following condition for making the defence succeed:

(1) Firstly, the defendant must prove that it made a binding, unconditional, and ready for acceptance offer to conclude a license on acceptable customary contracting terms, which the patentee could not reject without discriminating against similar companies in the absence of objective reasons, or without unduly obstructing it.

(2) Secondly, the alleged infringer must prove that it has behaved as if licensed, namely that it has complied, from the point of its offer, with the obligation deriving from the license agreement still to be concluded. To do so, if it already practices or has practised the patent in suit. First, it must render an account of such acts of use, and then it must pay the royalties resulting from the future license into an escrow account or ensure their payment through a bank deposit. If the amount is not easily determined, it must secure an amount over its estimate of a

[52] (KZR 39/06)

[53] H. ULLRICH, "Patents and standards – a comment on the German Federal Supreme Court decision Orange Book Standard*", International Review of Intellectual Property and Competition Law,* 2010, vol. 41, n. 3, p. 337 to 351.

non-restrictive and non-discriminatory royalty and offer to accept a license that the licensor will set on equitable terms. If it subsequently believes that the licensor has placed restrictive and discriminatory terms, it may petition the court for redress.

On the other hand, European Commission interpreted the FRAND licensing commitment as a procedure by which adequate remuneration of the SEP-holder is determined, leaving the standard accessible to every willing licensee. On the side of the SEP-holder, if he offers to engage in a FRAND licensing framework, he will not abuse its dominant position when seeking injunctions against a SEP-infringer unwilling to enter such negotiations, namely holding out.[54] On the side of the potential licensee, if he commits to the procedure, while not necessarily accepting every term presented nor the royalty level, it is still adhering to FRAND. It benefits from the safe harbour from SEP based injunctions, immune from hold-ups.[55]

Though the German Courts and EC both decided in the affirmative on the right of the willing licensee to successfully raise the FRAND defence against the seeking and enforcing of SEP-based injunctions, the definition of willingness differs. However, the two approaches can also be distinguished on the nature of SEP as in the Orange book Case, the questioned SEP was *de facto* in nature, while in the EC approach questions SEP was *de jure*. Keeping in mind this difference, willingness to enter FRAND licenses depends on the circumstances of the specific case. The burden of proof for the Orange-Book requirements falls on the alleged infringer, who must show their willingness. At the same time, the EC approach requires the SEP-holder to do the first offer to enter the FRAND Licensing Framework. The willing licensee does not need to make a FRAND counter-offer if he commits to conclude a binding license agreement. He does not frustrate negotiations or accepts third party FRAND determination. While German courts applying the Orange-Book doctrine require no-challenge or termination clauses, the EC deemed these conditions as anticompetitive and against the public interest.

This difference was cleared after the decision of the Court of Justice of the European Union (CJEU) in its recent decision in *Huawei* v *ZTE*,[56] wherein CJEU has set out the circumstances under which seeking a SEP-based injunction constitutes an abuse of a dominant position. The case was made through reference to resolving specific questions on SEPs cases[57] relating to the

[54] As, Case AT.39939 *Samsung Enforcement of UMTS standard essential patents*, Commission Commitment Decision of April 29, 2014

[55] As, Case AT.39985 *Motorola Enforcement of GPRS standard essential patents*, Commission Prohibition Decision of April 29, 2014.

[56] Case C-170/13 *Huawei v ZTE*, EU:C:2015:477

[57] The referral questions were as follows:

1. Does the proprietor of a [SEP] *who informs a* [SSO] *that he is willing to grant any third party a licence on* [FRAND] *terms abuse his dominant market position if he brings an action for an injunction against a patent infringer although the infringer has declared that he is willing to negotiate concerning such a licence? Or is an*

abusive nature of injunctive relief based on FRAND encumbered SEPs. The CJEU ruled that the owner of an allegedly infringed FRAND-encumbered SEP does not breach Article 102 TFEU as long as it follows a specific procedure:

(1) SEP holder has alerted the alleged infringer by indicating the patent and the way it has been infringed. If the implementer does not express willingness to obtain a FRAND license, the SEP holder can proceed to claim injunctive relief without antitrust risk.

(2) The alleged and alerted infringer has then expressed willingness to license. The dominant SEP-holder has presented a detailed written offer for a FRAND license in accordance with the undertaking given to the SSO. after the offer, the alleged infringer continues to use the SEP without promptly and diligently responding to the offer following the recognised industry practice and in good faith, which must be established objectively excluding, in particular, any delaying tactics, the SEP-holder can proceed to claim injunctive relief without abusing its dominant position.

3) Where the alleged infringer does not accept the FRAND licensing offer, it may rely on the abusive nature of the injunction claim only if it has promptly submitted the SEP-holder a written specific FRAND counter-offer.

4) From the moment the counter-offer is rejected, it is up to the alleged infringer to render an account of the use of the SEP and to provide appropriate security, following the recognised commercial practices in the field, like a bank guarantee or deposit, whose amount must cover the past acts of use. After the failure of the counter-offer, the parties may agree to a third party

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abuse of the dominant market position to be presumed only where the infringer has submitted to the proprietor of a [SEP] *an acceptable, unconditional offer to conclude a licensing agreement which the patentee cannot refuse without unfairly impeding the infringer or breaching the prohibition of discrimination, and the infringer fulfils his contractual obligations for acts of use already performed in anticipation of the licence to be granted?*
2. If abuse of a dominant market position is already to be presumed as a consequence of the infringer's willingness to negotiate: Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to the willingness to negotiate? In particular, can willingness to negotiate be presumed where the patent infringer has merely stated (orally) in a general way that that he is prepared to enter into negotiations, or must the infringer already have entered into negotiations by, for example, submitting specific conditions upon which he is prepared to conclude a licensing agreement?
3. If the submission of an acceptable, unconditional offer to conclude a licensing agreement is a prerequisite for abuse of a dominant market position: Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to that offer? Must the offer contain all the provisions which are normally included in licensing agreements in the field of technology in question? In particular, may the offer be made subject to the condition that the [SEP] *is actually used and/or is shown to be valid?*
4. If the fulfilment of the infringer's obligations arising from the licence that is to be granted is a prerequisite for the abuse of a dominant market position: Does Article 102 TFEU lay down particular requirements with regard to those acts of fulfilment? Is the infringer particularly required to render an account for past acts of use and/or to pay royalties? May an obligation to pay royalties be discharged, if necessary, by depositing a security?
5. Do the conditions under which the abuse of a dominant position by the proprietor of a [SEP] *is to be presumed apply also to an action on the ground of other claims (for rendering of accounts, recall of products, damages) arising from patent infringement?*

determination of the FRAND royalty without delay.

Finally, the CJEU admitted the possibility that standard- implementers challenge the validity, essentiality and infringement of the SEP in parallel to licensing negotiations and even after the conclusion of a license. Further, the FRAND encumbered SEP-holder seeking an injunction does not abuse its dominant position as long as it has followed a good governance procedure. At the same time, the alleged infringer has not.

The judgment balanced the interests, by clarifying that the injunction suit by itself does not constitute refusals to license. Injunction suits are legitimate remedies against standard-implementers who ignore or reject a FRAND offer, intentionally fail to seek a license, systematically engage in patent infringement, and prosecute each patent only accepting to pay for found infringed patents. On the other hand, CJEU, while considering the interest of free competition, focused on the potential exclusionary effects that the use of injunctions can produce on the product market when SEP-holders have agreed to FRAND licensing terms but refuse to enter such licenses.

Huawei/ZTE's judgment differed from Orange Book Case. Firstly, while the SEP-holder under Orange Book could remain passive and wait for the standard implementer's godfather offer, under *Huawei/ZTE,* it must do the first step by alerting the unaware user about the infringement and even presenting it a written FRAND offer. Second, while under Orange-Book, the alleged infringer had to behave from the point of its offer as if it was licensed, placing the royalties to be paid into escrow, in *Huawei/ZTE,* the obligation to provide security starts from the moment the counter-offer is rejected, and explicitly covers only past acts of use. Third, in case of failure of negotiations, the CJEU provided, upon common agreement of the parties, for third party determination of FRAND licensing terms. In contrast, the German unconditional SEP-user's offer had to let the SEP-holder determine the FRAND royalty, and only afterwards the alleged infringer could petition the court for redress. Finally and most notably, under the right of access to the court as guaranteed by Article 47 of the Charter, the Court ruled that the alleged infringer could challenge the validity, essentiality and infringement of a SEP in parallel to licensing negotiations and even after the conclusion of a license, the very opposite of the German unconditional godfather offer. This means SEP holders can no longer make their licenses conditional on users' agreeing to no challenge or termination clauses, consistently with the EC's decisions.

Although *Huawei/*ZTE imposes duties on both the SEP-holder and the standard-implementer, the EC's willing licensee test and its standard-implementers safe harbour are not completely

endorsed. For the EC, seeking an injunction for a FRAND encumbered SEP is *prima facie* anticompetitive unless objectively justified by SEP-holder, proving that the alleged infringer is unwilling or unable to conclude a FRAND license, whereby the willingness threshold is easily met by agreeing to third party FRAND adjudication. On the opposite, the Court stated that there is no abuse of dominance as long as the SEP-holder respects a certain procedure; it did not reverse the burden of proof onto the SEP-holder but provided it with a limited safe harbour. Under the EC's decisions, the burden of proving and substantiating the unwillingness rests on the dominant SEP holder, who has claimed injunctive relief, not the EC or the alleged infringer.

The Court placed materially more obligations on the alleged infringer than the EC's legal test. To successfully raise the FRAND defence against an injunction request, the CJEU obliged the implementer to make a FRAND counter-offer, behave diligently by recognised commercial practices, and not employ delaying tactics in good faith.

IV. SEP AND INDIAN COMPETITION LAW

Standard facilitates both the harms that concern the competition law – collusion and abuse of dominance. Collusion is possible when standards are created or enforced by competing producers. At the same time, the abuse of dominance can occur when the standard is used to exclude a few producers out of the market or exploit licensing terms. On this line, cases in India[58] involving questions related to standards also revolve around these two aspects covering the prohibition provided under Sections 3 and 4 of the Competition Act, 2002. However, before enquiring into these specific aspects, it is important to understand how and what creates the Jurisdiction of CCI to decide the subject matter in question. The issue of jurisdiction of CCI was challenged in the case of *Ericsson* v. *Competition Commission of India*[59] by the Single Judge Bench of Delhi High Court, which is now pending an appeal to the Division Bench.

Jurisdiction of Competition Commission of India

It was contended in the Ericsson case[60] that Patents Act provides for an adequate mechanism to prevent any abuse of patent rights granted under that Act, including abuse of dominance as contemplated under Section 4 of the Competition Act. Thus, the applicability of the Competition Act in certain matters regarding patents is ousted. This contention was based on

[58] Ravindra Badgaiyan v. Bureau of Indian Standard, Case No. 71/2010; Prem Prakash v. Bureau of Indian Standard, Case No. 14/2017; Bull Machines v. JCB, Case No. 105 /2013; Phase Power Technologies private Limited v. ABB India Limited, Case No. 12/2016

[59] Ericson v. CCI, WP 464/2014 (Delhi High Court)

[60] Ericson v. CCI, WP 464/2014 (Delhi High Court)

the reasoning that the Patent Act, is a special law which contains comprehensive provisions relating to the grant of patents rights as well as for remedying any abuse thereof; and, on the other hand, the Competition Act is a general law enacted to ensure freedom of trade and to promote and sustain competition in the market.

The Patent Act is a self-contained code that provides a statutory grant of Patent rights[61] and exercise and enforcement of those rights.[62] It also includes provisions for redressal in the event of abuse of Patent rights. On the other hand, the Competition Act proscribes certain anti-competitive agreements[63] and abuse of dominance[64] and regulates combinations to avoid the concentration of market power in general[65]. Undoubtedly, the Competition Act and Patents Act are special acts operating in their respective fields, however, viewed from the perspective above, the Patents Act would be a special enactment vis-à-vis the Competition Act in so far as patents are concerned.[66]

Section 62 of the Competition Act states that *"provisions of this Act shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force."* It is evident from this provision that Parliament's intention in enacting the Competition Act was not to curtail the scope of any other law. Further, Section 60 of the Competition Act, which provides that *"provisions of the said Act to have an effect notwithstanding anything inconsistent in addition to that contained in any other law for the time being in force*", must be read harmoniously with Section 62 of the Competition Act and in the context of the subject matter of the Competition Act. Competition Act is directed to prohibit certain anti-competitive activities which cause or are likely to cause injury to the competition. In the Ericson case, Delhi High Court observed that:

> *"Section 60 is enacted only to restate and emphasise that notwithstanding agreements, arrangements, practices and conduct which may otherwise be legitimate under the general laws would nonetheless be subject to the rigours of the Competition Act. Section 60 cannot be read to curtail or whittle down the provisions of other statutes; this interpretation would also be in sync with provisions of Section 62 of the*

[61] Chapter VII, Patent Act, 1970
[62] Chapter VII, Patent Act, 1970
[63] Section 3 of the Competition Act, 2002
[64] Section 4 of the Competition Act, 2002
[65] Section 5 & 6 of the Competition Act, 2002
[66] See, Herbert Hovekamp, Antitrst Enterprise, 2005 (Antitrust is residuary Law); See also, SVS Raghavan Committee report for observation on IPR and Competition Law Interface; See also, *Life Insurance Corporation of India v. D.J. Bahadur,* (1981) 1 SCC 315: It is now well settled that an enactment may be considered as special in relation to one Act and yet be considered as general enactment in relation to another statute. Allahabad Bank v. Canara bank and Another, (2000) 4 SCC 406

Competition Act"

Competition Act is concerned about anti-competitive activities hurting the competition within India. Where competition authority finds an activity to be anticompetitive, recourse under Section 27 is taken to set the competitive motion right. Tools CCI can use for this purpose are: (a) an order of cease and desist; (b) impose a monetary penalty; (c) direct that the agreements shall stand modified to the extent and in the manner as may be specified in the order by the Commission; (d) direct the enterprises concerned to abide by such other orders as the Commission may pass and comply with the directions, including payment of costs if any; (g) pass such other order or issue such directions as it may deem fit.

The provisions of the Patents Act, which can be construed as dealing with a subject matter common with the Competition Act, are essential provisions of Chapter XVI and Section 140 of the Patents Act. Section 84 of the Patents Act provides for the grant of compulsory licences in certain cases where the reasonable requirement of the public with respect to the patented inventions has not been satisfied or where the patented invention is not available to the public at a reasonably affordable price or where the patented invention is not worked in the territory of India. Further, Section 84(7) lists out different instances where the requirements of the public shall be deemed not to have been satisfied. Section 85 of the Patents Act provides for the Revocation of patents where even after expiry to two years from the date of grant of compulsory licence, the patented invention has not been worked in the territory of India or where reasonable requirements of public with respect to the patented invention have not been satisfied. In addition, Section 92 of the Patents Act also provides a grant of compulsory licences.

Undisputedly, several of the instances listed in Section 84 (7) could be construed, in certain circumstances, as an abuse of dominance if the grant of patent rights places the right holder in a position of dominance. These circumstances include (a) refusal of the patentee to give licence resulting in prejudice to the industrial activity, demand for the article not being met, and failure to develop an export market; (b) unreasonable conditions resulting in prejudice to the development of trade and industry; (c) imposition of exclusive grand back conditions and prevention to challenge the validity of the patent or coercive package licences; (d) case of not working on a commercial scale to an adequate extent or to the fullest extent reasonably possible; and (e) case of working on a commercial scale being prevented by the importation of the patented article from abroad. Remedy in cases as specified under Section 84(7) of the Patents Act is the grant of compulsory licences and possible revocation of licence after that. Section 89 of the Patents Act specifies the general purposes for granting compulsory licences and provides that the powers under Section 84 shall be exercised to secure: (i) that patented

inventions are worked on a commercial scale in the territory of India without undue delay and to the fullest extent that is reasonably practicable; (b) that the interests of any person for the time being working or developing an invention in the territory of India under the protection of a patent are not unfairly prejudiced.

In terms of Section 84 (4) of the Patents Act, the Controller is empowered to settle the terms on which the compulsory licence is to be granted. Section 90 of the Patents Act provides guidelines to the Controller for settling the terms of a compulsory licence. It is apparent that the only remedy available under the Patents Act to a willing prospective licensee who has been denied a licence on reasonable terms is a compulsory licence under Section 84 of the Act on such terms as may be settled by the Controller.

It is clear from the above that the 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. It is also apparent that the remedies under the two enactments are not mutually exclusive; in other words, the grant of one is not destructive of the other. Thus, it may be open for a prospective licensee to approach the Controller of Patents for grant of compulsory licence in certain cases. The same is not inconsistent with the CCI passing the appropriate order under Section 27 of the Competition Act.

One may also refer to Section 3 of the Competition Act, which prohibits a person, enterprise or association of persons/enterprises from entering into certain anti-competitive agreements which cause or are likely to cause an appreciable adverse effect on competition within India. There is no provision(s) of such wide import under the Patents Act. Sub-section (5) of Section 3 of the Competition Act expressly provides that Section 3 would not restrict the right of any person to impose reasonable conditions for protecting its right, among other things, under the Patents Act. Thus, an agreement that imposes reasonable conditions for protecting Patent Rights is permissible; an anti-competitive deal that imposes unreasonable conditions would not be afforded the safe harbour of Section 3(5) of the Competition Act and would foul of Section 3 of the Competition Act. The question as to whether a condition imposed under the agreement is reasonable or not would be a matter which the CCI could only decide under the provisions of the Competition Act. Neither the Controller of Patents discharging his functions in terms of the Patents Act nor a Civil Court would have any jurisdiction to adjudicate whether an agreement falls foul of Section 3 of the Competition Act. This is so because the Controller of Patents cannot exercise any powers which are not specifically conferred by the Patents Act and, by Section 61 of the Competition Act, the jurisdiction of Civil Courts to entertain any suit or proceedings in respect of any matter which the CCI or the COMPAT is empowered to

determine, stands expressly excluded. Thus, in so far as the scope of Section 3 of the Competition Act is concerned, there does not appear to be any overlap or inconsistency with the Patents Act.

V. SEP & ANTI COMPETITIVE AGREEMENTS

Standardisation through SSO is a collaborative process that restricts competition by adopting one of the technologies as standard and excluding the competing technologies. This process and resultant directly fall under the definition of the word "agreement"[67] under the competition law. As the word agreement includes any sort of arrangement or understanding, and adoption of standards through the resolution and consensus among the members of the SSO will be a kind of arrangement. It was clarified by the Competition Commission of India in the matter of *Sunshine Picture* v. *KFCC*[68] even though the associations themselves are not engaged in any activity which enables them to be termed as an "enterprise" since they are taking decisions relating to production or distribution for the interest of the members who are engaged in similar or identical business thus the practices carried or decisions taken by them as an association of enterprise are covered within the scope of Section 3(3) of the Competition Act, 2002. Further, there has been no express denial made by CCI not to bring the anticompetitive conduct of the SSO within the scope of competition in the case of *Ravindra Badgaiyan* v. *Bureau of Indian Standard*,[69] wherein it was held that BIS is primarily a Standard Setting Organisation whose activities would normally *[emphasis supplied]* be not covered under the Competition Act unless there are strong grounds to suggest otherwise *[emphasis supplied]*. Though CCI refused to take cognisance in the above case, at the same time, it has also recognised that if there are pressing grounds of anticompetitive conduct resulting in an appreciable adverse effect on the market, CCI can take cognisance.[70]

A potential appreciable adverse effect on competition may arise from organised standard-setting by bringing together different players in an industry. The standard-setting process allows collaboration, deception and strategy about which regulators must be vigilant and proactive. Under section 3 of the Competition Act, 2002, coordinated actions by the enterprise leading to an anti-competitive agreement are declared void. Generally, the adverse effect on competition from such coordinated efforts may result in exclusion, output restraints and

[67] Section 2(b) of Competition Act, 2002 – "agreement" includes any arrangement or understanding or action in concert,— (i) whether or not, such arrangement, understanding or action is formal or in writing; or (ii) whether or not such arrangement, understanding or action is intended to be enforceable by legal proceedings

[68] Case no. 56 of 2010

[69] Case No. 71/2010

[70] Authors interpretation for the phrase "suggest otherwise"

coordinated higher prices. Exclusion through standard-setting can occur by deliberately choosing criteria that will necessarily exclude competitors from being able to meet the standard. This can result in preventing quality products and services from reaching consumers. Output restraints can take several forms. A standard created in the guise of upholding quality may reduce quantity and variety. However, competition authorities do not condemn all exclusionary standards. Associations can also set regulations on conduct, resulting in higher prices for consumers.[71]

Indian competition law, like major jurisdictions across the globe, provides for two approaches – per se and the rule of reason approach for analysing the anti-competitive agreements. Specifically, in the case of SSO, if its members are horizontally placed, such a resolution for the Competition Act will be presumed to have an appreciable adverse effect on competition. SSO has to prove the efficiency grounds to refute. European Union's approach is different with respect to SSO resolutions (standardisation agreement)[72], as it specifically provides for the rule of reason approach. EU Guidelines on Horizontal Agreements set our requirements for standard-setting agreements which would normally fall outside the scope of Article 101(1) of the TFEU. As per Para 263 of EU Horizontal Guidelines, standardisation agreements usually produce significant positive economic effects, for example, by promoting economic interpenetration on the internal market and improved products or markets and improved supply conditions. However, there is also scope for restrictive effects on the competition by potentially restricting price competition and limiting or controlling production markets, innovation or technical development. There are basic minimum four requirements which should be met by the standardisation agreement:[73] ***(i) Unrestricted Participation***- Rules of participation of the standard-setting organisation would need to guarantee that all competitors in the market and the market affected by the standard can participate in the process leading to the selection of the standard. ***(ii) Adoption of standard through a transparent procedure*** **–** Rules to allow stakeholders to effectively inform themselves of upcoming, ongoing and finalised standardisation work in good time at each stage of development of the standard***; (iii) No obligation to comply*** **–** Rules should not restrict the members to develop alternative standards or product***; (iv) Access to the standard must be granted at FRAND terms*** **–** Rules to provide

[71] As seen with professional service associations, restrictions on bidding and advertising, hallmarks of competition, are sometimes forbidden.

[72] Paragraph 257 of of Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, 2011- states that standardization agreements have as their primary objective the definition of technical or quality requirements with which current or future products, production processes, services or methods may comply.

[73] Para 280 of Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, 2011

the irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms**.**

Further, even if the agreement does not fall within Article 101(1), there is no block exemption, but they may satisfy the Article 101(3) conditions.[74] Indeed the guidelines recognise their considerable scope to achieve efficiencies to the benefit of consumers through Union-wide market integrations; increasing consumer choice; establishing technical interoperability and compatibility; reducing transaction costs for sellers and buyers; facilitation consumer choice and improving product quality; reducing the time taken to bring new technology to the market, and facilitating innovation by allowing companies to build in top of agreed solutions.[75]

However, since Competition Act, 2002 does not contain specific guidelines for such arrangements, the only basis of the assessment will be Section19(3) which provides for the following factors to be taken into consideration by CCI in determining whether an agreement creates an appreciable adverse effect or not - (a) creation of barriers to new entrants in the market; (b) driving existing competitors out of the market; (c) foreclosure of competition by hindering entry into the market; (d) accrual of benefits to consumers; (e) improvements in production or distribution of goods or provision of services; or (f) promotion of technical, scientific and economic development using production or distribution of goods or provision of services. These factors are very generic in nature does not cover situations that specifically demand the analysis of the standardisation agreement / SSO resolutions.

SEP and Abuse of Dominant Power

As noticed above, FRAND commitments act as a check on the power of the SEP holder to exert monopoly royalty rates or monopolistic terms. However, these commitments do not prevent the abuse of dominant power. In the words of the European Commission, "*a FRAND commitment cannot be considered a guarantee that a SEP holder will not abuse its market place*" [76] From a competition law perspective, the concern is regarding the use of market power to distort competition by refusing to license SEP implementers or by imposing on them onerous licensing terms under the threat of injunctions.

Explanation to Section 4 of the Competition Act, 2002 defines a dominant position as a "position of strength, enjoyed by an enterprise, in the relevant market, in India, which enables

[74] COMP/29.151, Philips VCR; COMP/31.148 X/Open Group; Comp/34.179 Dutch Crames [1995] OJ L312/79; COMP/39.416 Ship Classifications Commitment Decisions

[75] Paras 321- 323 of Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, 2011

[76] Case No COMP/M.6381 – Google/Motorola Mobility, Commission Decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004, C(2012) 1068 [2012], ("Google/Motorola"), para. 113

it to operate independently of competitive forces prevailing in the relevant market or affect its competitors or consumers or the relevant market in its favour." The dominance of an enterprise adds up a special responsibility not to impair competition in the market in the manner provided in Section 4. These methods which result in abuse are broadly exclusionary and exploitative. To assess the conduct of the SEP holder first step is to evaluate the market power, as merely the essentiality of the patent does not create any presumption of market power. Though a patent indeed confers the right to exclude others from and create a monopoly, this does not equate to market power. It does not necessarily allow the patent owner to behave independently of its competitors or consumers.[77] Further, even a strong position to operate independently or affect the market does not violate competition law, for the same presence of anticompetitive conduct is required. The main anti-competitive concern is discussed below.

Refusal to Deal

A patent confers an exclusive right to exclude others from commercial exploitation of the patented technology, thus entitling the patent holder to choose trading partners and trading terms.[78] Against this, if the obligation to license is made compulsory, the core of such patent right would be deprived. Thus, mere refusal to license cannot constitute an abuse of the dominant position. However, if such refusal to license patented technology can foreclose the market to competitors, abuse can take place[79] specifically under Section 4(2) (a)(ii) of the Competition Act, 2002, which forbids the act of indulging in practice or practices resulting in a denial of market access in any manner. This also attracts Section 4(2) (c) of the Act, which forbids limiting or restricting the productions, technical or scientific development to the prejudice of consumers. European jurisprudence, on exceptional circumstances where refusal to licence can be an abuse of dominant position, originated from Magill's judgment, wherein four cumulative conditions were set out. As per the said decision, to constitute an abuse, refusal cause or likely to cause (1) elimination of all competition on the secondary market on the part of the person seeking the license; (2) restriction on the access indispensable input for carrying on the person's business on the secondary market, in that there be no actual or potential substitutes; (3) prevents emergence of new products for which there is potential consumer

[77] 2011 Horizontal Guidelines, ¶269 – "…However, even if the establishment of a standard can create or increase the market power of IPR holders possessing IPR essential to the standard, there is no presumption that holding or exercising IPR essential to a standard equates to the possession or exercise of market power. The question of market power can only be assessed on a case by case basis."

[78] Telyas, *supra* note 48 p. 188

[79] Petrovčič, U., Competition Law and Standard Essential Patents: A Transatlantic Perspective, Kluwer Law International, 2014 pp. 50 -51.

demand, and (4) refusal is incapable of being objectively justified.[80] Later these cumulative factors were elaborated in the decision of IMS Health[81] and Microsoft.[82] In IMS Health, indispensability was considered the availability of *"no alternative solutions, even if they are less advantageous, and there are technical, legal and economic obstacles capable of making it impossible or at least unreasonably difficult."*[83] Later in the Microsoft decision, General Court held that a refusal to license might constitute an abuse of dominant position not only where it prevents the emergence of a new product but where it might limit technical development to the prejudice of consumers.[84] Even though the concept of refusal to deal is linked directly to "essential facility doctrine, " the same wording is rarely used in European Jurisprudence.[85] Though none of the cases discussed above is concerned with the Patent right, differentiating between various intellectual properties under the competition law may not be appropriate. Hence, the jurisprudence can be extended to Patents as well. Similarly, a refusal to license an "ordinary" patent, a refusal to license a SEP can, in exceptional circumstances, amount to an abuse of dominant position under Section 4 of Competition Law since such refusal allows a SEP owner to exclude SEP implementers from the market of standard-compliant goods.

Excessive royalties

Pricing abuses another form of abuse of dominant position enshrined in Section 4(1) (a) of the Competition Act is *"directly or indirectly imposing unfair or discriminatory price in purchase or sale."* In the Matter of HT Media v. Super Cassettes, CCI has explicitly held that *"excessive price forms a subset of 'unfair price' in the Indian context."*[86] CCI has recognised the determination of 'excessive pricing' is an uncertain and difficult task, and establishing excessive pricing abuse is more typical due to counterfactuals of the potential competitor who may enter the market if the prices are high. The European approach to the issue is excessive pricing by an IPR owner does not mean the highest possible remuneration but only the appropriate payment.[87] In this context, excessive royalties with respect to SEP would imply

[80] C-241/91 P & C-242/91 RTE and ITP v European Commission, judgment of 6 April 1995, ECLI:EU:C:1995:98 ("Magill"), paras. 52 – 56

[81] C-418/01 IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG., judgment of 29 April 2004, ECLI:EU:C:2004:257 ("IMS Health")

[82] T-201/04 Microsoft Corporation v European Commission, judgment of 17 September 2007, ECLI:EU:T:2007:289 ("Microsoft 2007")

[83] IMS Health, para. 28

[84] Microsoft 2007, para. 647

[85] There is a tendency in EC Competition Law to apply a general refusal to deal test to two-market cases while reserving the essential facilty doctrine to one market situations. See Refusal to Deal and the Doctrine of Essential Facilities in US and EC Competition Law: A Comparative Perspective

[86] Case No. 40 of 2011 Para 197; See also United Brands Para 250

[87] C-403/08 and C-429/08 Football Association Premier League Ltd. and Others v QC Leisure and Others and Karen Murphy v Media Protection Services Ltd., judgment of 4 October 2011, ECLI:EU:C:2011:631, para. 108

that the royalty rate is not compliant with FRAND commitment. Any such demand would result in abuse of dominant power.[88] European Commission has expressed that a finding of exploitative abuse of dominant position may depend on whether the licensing terms were imposed in breach of the FRAND commitment.[89] In general, the competition law intervention in mere 'excessive pricing' abuse is rarely applied due to the self-correcting mechanism of the market[90] wherein excessive pricing will attract new entrants in the market, and the prices will be adjusted to a competitive level due to market forces. Competition Authorities are justified in intervening in such 'excessive pricing abuse' where there is a barrier to entry. Likewise, in the case of SEP network effects and standardisation prevents the self-correcting mechanisms from being developed in the market[91] and to that extent, competition authority can play a vital role in correcting the market.

The other aspect of excessive pricing is the exclusionary effect through constructive refusal to deal. It means that licensing offers are not genuine and that SEP owners are only willing to license on the terms which are not in FRAND terms compliance.[92] Since the effect of such unwilling negotiation is to refuse a license, an assessment of its anti-competitive nature is done as the 'refusal to deal' as a key feature of this conduct is not price itself, but foreclosing the market for competitors.[93]

VI. Conclusion

For economics and technological development, standardization and its licensing on FRAND terms is an essential requirement. For this, the standards must be based on consensus, openness, due process and transparency. There can be anti-competitive conduct arising due to standard-setting, which can be substantially controlled by the IP policy of SSOs. However, IP Policies must be standardised, as pluralism in these policies affects achieving desired outcomes of competition. Competition authorities should also develop guidelines on an anti-competitive

[88] Petrovčič, U., Competition Law and Standard Essential Patents: A Transatlantic Perspective, Kluwer Law International, 2014 p. 59

[89] Antitrust: Commission initiates formal proceedings against Qualcomm, Press Release Database, European Commission. MEMO/07/389 (2007) ("Qualcomm") <http://europa.eu/rapid/press-release_MEMO-07389_en.htm> accessed 10 May 2015

[90] Telyas, Supra note 48 p. 118

[91] Petrovčič, Supra note 92, p. 113

[92] Peeperkorn, L., Verouden V., "Horizontal Cooperation Agreements – Standardisation Agreements" in Faull, J., & Nikpay, A., The EU Law of Competition, 3rd edn, Oxford University Press, 2014, p. 1006. The Commission's Guidance Paper on Enforcement Priorities characterises constructive refusal to supply as a refusal which is not actual, but which takes form of "imposition of unreasonable conditions in return for the supply," for instance. See Communication from the Commission, Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, OJ C 45 of 24 February 2009, para. 78

[93] Petrovčič, Supra note 92, p. 62 – 63

agreement in a standard setting to enhance the competitive conducive environment.

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