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Is Standard Essential Patent a Beneficial Concept?

Introduction:

The growth of electronic devices in recent years has brought the importance of Standard Essential Patents (SEPs) into focus. Standards are the requirements or technical specifications that pursue to deliver a common design for a process. These are the patents important to implement a specific industry standard. This implies that the manufacturers of electronic devices should cover one or more Standard Essential Patents. Even though India now prefers royalty-free and open standards goals for all the developed standards, many industries like telecommunications and global standard organizations impose Standard Essential Patents in the Indian economy. SEPs are the patents that are adopted by a Standard Setting Organization (SSO). Thus, the Standard Essential Patents are those which are unavoidable for the implementation of an industry-standard which requires innovation and skill to achieve.

Standard Essential Patents:

In India, there is no special provision concerning the Standard Essential Patents. Even the Indian Patent Act, 1970, does not specify any special terms and conditions for the compilation of technologies. The determination of specifications is subjective in nature which differs from time to time. But when the patented technology becomes a standard in the market, the situation becomes different. The technology has to be patented in terms of Friendly, Reasonable, and Non-discriminatory (FRAND) terms. The idea behind this patent system is to settle the relation between patents which are private and public. The Washington District Court in the case of

Indic Legal Law Journal

Microsoft Corp. v. Motorola Mobility, Inc.¹, defined SEP as "A given patent is essential" to a standard if the 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".

Standard Setting Organization:

The Standard Essential Patents are determined by the Standards Setting Organization (SSOs) and Standard Development Organizations (SDOs). The essential functions of SSO are developing and producing the standards which are required to tackle the mandate of the adopters of the standard. The SSO's primary requirement is that the SEPs should be implemented following the FRAND terms to prevent the holdups of the patent. These standards are basic which complies with industry in terms of consistency and quality of the manufactured products, especially in the technological industry.

SEP litigation in India:

The litigation for SEP came to India many years later than the United States and Europe. Over a period of time, the SSO has formulated the standards in various sectors. The SEP concept evolved when Ericson objected to the importation of handsets by Kingtech Electronics in 2011. The issue was about handset infringement of several SEPs. This was the starting point of SEP litigation in India.

Micromax Informatics Ltd². case is very important in SEP litigation in India. The Ericsson company filed a patent infringement suit against the Micromax company, claiming Rs. 100 crores for the infringement of 8 SEPs that are registered in India. Initially, the Delhi High Court restrained Micromax from manufacturing and selling the products which infringed the standards. Both the companies agreed to a settlement where Micromax has agreed to pay a compensation of Rs. 100 crores as royalty when the case was pending in the High Court. On the other hand, Micromax filed a case against Ericsson for abuse of dominance and for violating the Competition Act for imposing discriminatory royalty rates in the Competition Commission of India. The Commission, in the primary order, stated that Ericsson is in the dominant position by holding larger SEPs in the market and the royalty rates of Ericsson were huge and

¹ Microsoft Corp. V. Motorola, Inc., Motorola Mobility, Inc., And Gen. Instrument Corp. 104 U.S.P.Q.2d 2000

² In, Re, 2013 CCI 77

Indic Legal Law Journal

discriminatory and ordered for further investigation, but Ericsson filed a writ petition challenging the jurisdiction of the CCI for which Delhi High Court ordered not to issue a final order which is still pending in the court.

Similarly, in the case of **Virngo Infrastructure Inc. v. Indiamart Intermesh Ltd**³, the Vringo infrastructure filed a suit against ZTE for patent infringement. The Delhi High Court granted an injunction against any movement of the devices that infringes the components. And, ZTE has also filed for the revocation of the patent due to its lack of innovativeness and its violation of Section 64 of the Patents Act, 1970.

Issues involved in SEP litigation:

Holdups of patent:

Once the standardization of patent and commercial acceptance of the product is finalized, it becomes Locked-in. So, the manufacturers must use the same or else the product goes unmarketable due to its incompatibility. This situation strengthens the bargaining power of the SEP holder. Once the SEP holder takes advantage by imposing unreasonable royalty rates, patent holdups occur.

In the case of Micromax⁴, the CCI said that "hold-up can subvert the competitive process of choosing among technologies and undermine the integrity of standard-setting activities. Ultimately, the high costs of such patents get transferred to the final consumers." Unless the situation is controlled by the SSO, the locked-in position can be used for exploitation. However, due to the vague nature of FRAND, such type of exploiting situation continues.

Royalty Stacking:

This is the situation where the royalties are stacked upon each other leading to a higher collected royalty. This occurs when in the same multi-component product, royalties are imposed on different components by different SEP holders. This leads the royalties to exceed the total product amount.

The Competition Commission of India raised this issue in the case of **Micromax and Intex**⁵, the High Court of Delhi had ordered Micromax to ensure the royalty on basis of net sale price rather than the technological value which was said to be infringed. The court also stated that

³ ZTE Corpn. V. Vringo Infrastructure Inc., FAO (OS) No. 143 Of 2014 (Del)

⁴ In, Re, 2013 CCI 77

⁵ Ericsson v Micromax, CS(OS) 442/2013 (12 November 2014)

Indic Legal Law Journal

"For the use of GSM chip in a phone costing Rs. 100, royalty would be Rs. 1.25 but if this GSM chip is used in a phone of Rs. 1000, royalty would be Rs. 12.5. Thus, an increase in the royalty for the patent holder is without any contribution to the product of the licensee. The higher cost of a smartphone is due to various other software/technical facilities and applications provided by the manufacturer/licensee for which he had to pay royalties/charges to other patent holders/patent developers. Charging of two different license fees per unit phone for use of the same technology prima facie is discriminatory and also reflects excessive pricing vis-a-vis high-cost phones."

Royalty base:

The royalty base decides the reasonability of the royalty amount. The SEP holders, instead of imposing royalties on the components comprising the infringing patent, impose royalty rates on the net sale price of the final product, which is unreasonable. This means that the manufacturer would be liable to pay the royalties for the components which do not even include in the SEP. This situation diminishes the whole idea of FRAND by improperly compensating the patentee for non-infringing components of the device.

In **Virnetx Inc. v. Cisco Systems**⁶, the court stated that the royalty base must be tied to the claimed innovation only and not the total net sale value of the product.

Conclusion:

India has shown less of strategic development to establish the detailed Standard Essential Patent orientation. The laws relating to the SEPs are not clear and the judgments about the same have different effects. Therefore, the Standard Essential Patent does not seem to be beneficial. Shortly, it is more likely that CCI and the Delhi High Court will face complex problems arising out of the SEP licensing and usage. However, there are signs for the standard development and the government is more likely to provide more information on the subject. If the ambiguity in the concept is erased, the capability of courts and commissions will improve and the knowledge gap between huge SEP holders and other firms may reduce.

⁶ No.13-1489 (Fed. Cir. 2014)