Injunctions based on standard essential patents call for thorough investigation and assessment

Interoperability is paramount in a world driven by technology. To achieve interoperability between devices it is essential that market players agree on common standards. Standard-setting organisations (SSOs) are given the task of defining standards. Companies participating in the standard setting process reap significant benefits. For example, a company that contributes a patented technology for standard setting enjoys a first-mover advantage. This means if the technology of the firm is adopted as the standard, the firm gets the advantage of a ‘large market base of licensees’ for its patented technology (now standard).

Once an already patented technology becomes essential to a standard, it becomes near impossible to manufacture standard-compliant products without using that technology. Such patents are called standard essential patent (SEP). This gives SEP holders significant market power and potential to behave in unfair ways.

Therefore, SSOs mandate companies to commit licenses on fair, reasonable and non-discriminatory (FRAND) terms. This allows consumers to have a wider choice of products while ensuring adequate remuneration for SEP holder’s efforts and innovation.

The patent wars

Last year, a dispute between Apple and Samsung concerning SEPs generated over 50 lawsuits in multiple jurisdictions. SEP holders in the telecommunication industry (Ericsson) are fiercely litigating with smartphone makers (Xiaomi) on what constitutes FRAND terms and are seeking injunctions against the use of SEPs. In the West, the smartphone makers argued that seeking an injunction for infringement of SEP against a willing (potential) licensee constitutes an abuse of a dominant position under competition law by an SEP holder as seeking injunctions increases the risk of excluding smartphone makers and products from the market. The European Competition Commission in decisions involving Apple and Samsung/Motorola, recognised that injunctions are a legitimate remedy for patent infringement, but concluded that seeking injunctions may be abusive where SEPs are involved and the potential licensee is willing to take licence on FRAND terms. In a similar matter, the South Korean Federal Trade Commission (FTC) endorsed Samsung’s injunction claim against Apple on the ground that Apple failed to engage in good faith negotiations.

On the other hand, the US FTC in the Google-Apple dispute outlined specific negotiation procedures to protect the interest of both parties. It prohibited the SEP holder from seeking injunctive relief unless it took a series of steps including providing a potential licensee with a written offer containing all important license terms necessary to license its SEPs, and an offer of binding arbitration to determine the terms of a license. Further, injunctive relief can only be sought where the potential licensee refuses to agree to terms set by a neutral third party.
In India
Recently, Micromax overtook Samsung to become the leading supplier of smartphones in India. In the last two years, SEP holders such as Ericsson and Vringo have filed various SEP infringement suits in the Delhi High Court seeking ex-parte injunctions against device makers Xiaomi, Micromax, Intex, Gionee, Kingtech and ZTE Corporation and AsusTEK, respectively. These disputes related to the licensing of SEPs which are essential for functioning of smartphone.

In most cases, the Court granted ex-parte injunction in favour of the SEP holder even before the alleged infringer (licensee) could receive a legal notice that it had been sued. These injunctions restrain smartphone makers from selling/marketing mobile handsets in India. Have the courts in India assessed fully if the injury to SEP holders is irreparable? Probably not, but they have certainly diverted smartphone makers to seek relief from the Competition Commission of India (CCI). Micromax and Intex have approached the CCI alleging market abuse by Ericsson in violating its FRAND commitments. The CCI stated that imposing excessive and unfair royalty rates does constitute “prima facie” abuse of dominance.

India’s competition law is modelled mainly on the EU and US competition laws. Given that the CCI has, in the past, relied on foreign cases while deciding domestic issues, it will be interesting to see if the CCI views SEP-based injunction against a licensee as abusive. While each nation determines its own competition policy, in today’s global smartphone markets, protecting consumers at home requires that courts consider the worldwide incentives that drive these markets. A decision by a court today is to affect the choices that consumers worldwide have tomorrow.

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