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UNDERSTANDING THE TERM FRAND WITH REFERENCE TO STANDARD ESSENTIAL PATENTS

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Abstract: ***This paper discusses the concept of Standard Essential Patents and Fair, reasonable and non-discriminatory terms on which these patents are expected to be licensed by the owners. The paper discusses the role that the standard setting organizations play in declaring a technology as a Standard essential technology and ensuring that the owner is willing to license it on FRAND terms. The paper also discusses the interplay of competition law and intellectual property law because with regards to SEPs before discussing the Indian position through some of the decisions by the courts. The paper concludes with pondering upon the need for a defined set of laws regarding SEP licensing and a specialised agency to look over the matters relating the same.***

Keywords: Standard Essential Patents, FRAND, Standard setting organization, Intellectual property law, competition law.

INTRODUCTION

Intellectual Property Rights allow intangible property creators to benefit from the hard work and creativity they put into their work. Article 27 of the Universal Declaration of Human Rights calls for the "protection of moral and material interests arising from the authorship of scientific, literary or artistic productions." The creator of any type of IP has a monopoly over the use of his intellectual property. "These rights are state-awarded and may be exercised without the consent of the holder/creator to prevent others from using them.[1] On the other hand, there are anti-trust regulations that guarantee that purchasing, selling, trading and licencing take place in a free and equal manner and that the market is competitive in a healthy way. "Fresh technical improvements are continually replacing the ones that came before in today's dynamic marketplace, as players in the marketplace compete to innovate existing products and introduce new ones in order to secure and maintain their market share." While competition laws aim to eliminate the accumulation of market power, patent law provides a monopolistic river.[2] [3]

At some extent, the policies found in Antitrust Laws and Intellectual Property Rights overlap, but the aforementioned legal bodies which seem parallel, and this intersection is reached when a patented innovation becomes necessary to achieve a standard, thus invoking the public interest. In comparison to standards, which were meant to be the exact opposite, the

[1] Article 27, Universal Declaration of Human Rights (1948) available at <https://www.un.org/en/universaldeclaration-human-rights/>.
[2] K.C. Shippey, A SHORT COURSE IN INTERNATIONAL INTELLECTUAL PROPERTY RIGHTS, WORLD TRADE PRESS.
[3] U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007) available at <https://www.ftc.gov/sites/default/files/documents/reports/antitrustenforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justiceand-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf>.

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fundamental principle behind the Traditional Vital Patents Scheme ['SEPs'] is mostly to reconcile the interface between patents which are basically 'private' and 'exclusive' through nature.[4]

The standard may be defined as 'a collection of technical specifications aimed at creating a common design for a product or method.' The Standing Committee of the WIPO defines the standard as 'a document drawn up by consensus and endorsed by a responsible body which lays down, for common and repeated use, rules, guidelines or characteristics relating to, or having an impact on, an operation aimed at achieving that objective:[5] [6]

Technical Regulation: "'Report describing the characteristics of the product or its related processes and methods of production, such as all the current regulatory conditions under which compliance is compulsory.' The requirements for terms, labels, packaging, labelling or labelling as applicable to just a product, process or production system may also be included or dealt with entirely."[7]

Standard: "A document approved by a recognised body that also lays down, and is not compulsory to cooperate with, the rules, guidelines or characteristics for products or related processes and production methods for common and repeated use. The requirements for terms, labels, packaging, labelling or labelling as applicable to both a product, process or production system may also be included or dealt with exclusively."[8]

Standards may be de jure or de facto either. 'When a new technology is widely applied by industry participants and embraced by the public, a de facto standard is established such that such a technology becomes a dominant technology in the market, even though it has not been adopted by a formal standard setting body. In general, the de jure standards are set by standard setting organisations such as the Bureau of Indian Standards (BIS), the International Telecommunication Union (ITU), the Indian Development Society of Telecom Standards (TSDSI), etc.[9] The SSOs provide means for a standard setting mechanism in which stakeholders are involved in the decision-making process with regard to a certain product or service who set standards either at a worldwide level or in a specific area. Standards play a vital role in ensuring quality control in the technology industry because there is a lack of competition for any device that does not reach the set level. 'Improved interoperability can be converted into better product utility and streamlined processes and increased choice of complementary goods followed by lower prices (due to competition). In addition, by ensuring the quality and safety of products and services, standards protect consumers from deceptive practises, so that they can place greater trust in the market.[10]

[4] R. Narula, Standard Essential Patents, ROUSE THE MAGAZINE (2015) available at <https://www.rouse.com/magazine/news/standard-essential-patents/?tag=india>.
[5] H. Hovenkamp, M. Janis, M. Lemly, IP and Antitrust: An Analysis of Antitrust Principles applied to Intellectual Property Law, ASPEN LAW & BUSINESS (2003-04), SUPPLEMENT p.35.
[6] Document SCP/13/2, STANDING COMMITTEE ON THE LAW OF PATENTS, WIPO (2009). 7 Annex I, AGREEMENT ON TECHNICAL BARRIERS TO TRADE available at <https://www.wto.org/english/docs_e/legal_e/17-tbt.pdf>.
[7] Annex I, AGREEMENT ON TECHNICAL BARRIERS TO TRADE available <https://www.wto.org/english/docs_e/legal_e/17-tbt.pdf>.
[8] Ibid.
[9] Document SCP/13/2, STANDING COMMITTEE ON THE LAW OF PATENTS, WIPO (2009).
[10] Ibid.

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The Standard Necessary Patent is a patent that covers a standard invention, i.e. a technology that must be used by manufacturers to comply with a certain standard. If the use of the standard involves infringement of the patent, the patent in question is "essential" to either the standard, even if appropriate alternatives to that patent may have been included in the standard. A patent is also necessary if "only an optional part of the standard is read by the patent." In order to be willing to licence the patent on fair terms, the standard setting organisations would have to be able to get the owner of the standard essential patent, failing which, the technology will not become a SEP.[11]

DISCUSSION

Fair, Reasonable and Non-Discriminatory (Frand) Licensing and Ssos:

The Standard Setting Organization members are obligated to issue binding licences to those who are prepared to use the standard in question. Only after the owner has agreed to have it licenced under equal, equitable and non-discriminatory terms will a norm be implemented. "Licensing of Essential Patents Standards (SEPs) on Fair, Reasonable and Non-Discriminatory (FRAND) terms forms the cornerstone of the process of developing standards.[12]

FRAND requires that a technology that is advanced in nature is available for use by manufacturers so that it can be readily made available to the general public. It also guarantees that, because of his possession of a technology that has become a standard, the owner of these kind of standard technology does not misuse his dominant role in the market. This provides a balance between the law of intellectual property and the law of competition. The role of Standard Setting Organizations is to create technical specifications to be complied with by producers dealing in about the same area. SSOs help to encourage the industry's use of the standard, as well as help to reduce the cost of product creation. In the market, SSOs allow healthy competition.

SEPs and Competition Law:

Generally, competition law and Intellectual property laws walk parallel to each other, never intersecting. However, when it comes to SEPs, the Competition law plays a part. Competition authorities intervene if the patent is a standard Essential Patent. “Patents that are considered essential to implement a chosen industry standard cannot be exploited like any other patent, and certainly not to the exclusion of other market participants. The SSOs provide means for a standard setting mechanism in which stakeholders are involved in the decision-making process with regard to a certain product or service who set standards either at a worldwide level or in a specific area. Standards play a vital role in ensuring quality control in the technology industry because there is a lack of competition for any device that does not reach the set level. 'Improved

[11] European Commission Memo, Antitrust Decisions on Standard Essential Patents (SEPs) – Motorola Mobility and Samsung Electronics – Frequently Asked Questions available at <http://europa.eu/rapid/press-release_MEMO-14322_en.htm>.

[12] International Telecommunication Union, Understanding Patents, Competition and Standardization in an Interconnected World (2014) available at <https://www.itu.int/en/ITU-T/ipr/Pages/Understanding-patents,competition-and-standardization-in-an-interconnected-world.aspx>.

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interoperability can be converted into better product utility and streamlined processes and increased choice of complementary goods followed by lower prices (due to competition)." [13]

For Standard setting to be beneficial, it must be checked that the owner of the standard patent is not in a position as to be able to exploit the manufacturers who seek licenses from the owner in order to implement the technology into their products or services. "One of the ways by which this may be achieved is by extracting FRAND commitments, where owners of essential patents commit to make their essential patent available to third parties on FRAND terms. While this appears to be a mutually beneficial solution, with the patent owner benefitting from its patent being widely used by the industry, and the remaining stakeholders being protected from paying exorbitant royalty rates, ultimately, the efficacy of FRAND is determined by its enforceability. In order to benefit from the standard setting, it must be verified that the owner of the standard patent is not in a position to manipulate the manufacturers who are obtaining licences from the owner for the purpose of applying the technology in their goods or services. One of the forms in which this can be done is by the withdrawal of FRAND obligations, where the owners of essential patents undertake to make their essential patents available to third parties on the basis of FRAND terms." [14]

Standard Essential Patents in India:

India's national Standard Setting Organization is the Bureau of Indian Standards. In the IT sector, the Telecom Engineering Centre is the sole formally recognized SSO. These SSOs have been working on implementing IP policies that see to the fact that the standard set by them is accessible to the members of the industry on reasonable basis of licensing. After Ericsson's legal battle with respect to its possession of some Normal Critical Technology, SEPs came to the fore in India. On the grounds of misuse of its proprietary technology in India, Ericsson sued different smartphone manufacturers. Ericsson claimed that, rather than purchasing the licences, it provided these manufacturers to purchase the licences of its SEPs on a FRAND basis. Despite the fact that these manufacturers have used their inventions in their phones, thus violating Ericsson's patents on those technologies. The Court of Delhi held that the manufacturers' actions were, in their essence, infringing and ex parte injunctions will be granted for them.

The aggrieved parties approached the Competition Commission of India claiming that Ericsson did not sell its licenses on FRAND terms and that it had taken undue advantage of its dominant position in the market. The CCI passed an investigative order to which the Delhi High Court held the order to be in conflict with the decision of the court. The High Court held that the order of the CCI was adjudicatory and determinative due to the nature of the order being detailed, as a result of which, the remedy available to Ericsson had been discarded.

The above collection of cases shows the ability of the courts to safeguard the interests of the holders of patents. In fact, without hearing any claims on the merits of the alleged infringers, the courts also issued ex parte injunction orders. Moreover, the courts failed to observe that, in these cases, the patents were ordinary simple patents. This will have important consequences for technological creation and the safety of customers who, owing to such ex-parte injunction orders, may not be given adequate option. The decision of the Delhi High Court concerning

[13] India – Competition Law and FRAND Commitments, CONVENTUS LAW (2014) available at <http://www.conventuslaw.com/ARCHIVE/INDIA-COMPETITION-LAW-AND-FRANDCOMMITMENTS/>.
[14] Ibid.

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the investigative orders of the Competition Commission also shows that the possibility exists in patent cases that the orders of the CCI can conflict with the jurisdiction of the High Courts and give rise to interventions within the jurisdiction of the High Court. Therefore, the CCI's position in patent law cases needs to be clearer. Currently, this case is the first instance in which an order has been issued by the CCI in relation to a patent law dispute.

The decision of the Delhi High Court also varied from the order of the CCI because Intex made conflicting claims before the CCI and the Delhi High Court. On the one hand, Intex argued before the CCI that the patents of Ericsson were important and, subsequently, Ericsson dominated the market, and on the other, Intex argued before the High Court of Delhi that only the patents of Ericsson were not essential. The court also noticed that Intex did not attempt to licence Ericsson's SEPs, but that Ericsson provided its patent portfolio with a FRAND licence.[15]

CONCLUSION

In order to accelerate creativity, the biotechnology industry has time and again demonstrated a great deal of unity and inter-operability by collaborating and exchanging patents. In order to reduce the costs of selling intellectual property, the industry has used approaches such as cross-licensing, patent pools and patent exchanges. The terms of FRAND restrict the right of the patent owner to enjoy ownership of the invention as the greater good of socio-economic growth comes into play. There is an urgent need to amend patent laws in order to provide for a specific set of licencing conditions with regard to standard basic patents. This will describe the recourse available to both licensors and licensees in the event of violation of any of the licence terms.

Special tribunals consisting of members of the Competition Commission, the Intellectual Property Appeals Board and the Judiciary shall rule on the decisions relating to SEPs on the basis of their existence. On the basis of the lawsuit, these tribunals will determine which party has infringed the one's right. It is a sensitive job to decide on the topic of SEPs as it may prevent them from communicating with the SSOs. In a society of knowledge-driven, innovation-dominated and tech-savvy, post-late 20th century, novel and non-obvious innovations come predominantly from university-educated science, engineering and technology practitioners rather than craftsmen. This is in stark contrast to the Elizabethan era in England, when new patent laws were introduced to promote artists and artisans. It is therefore high time for the bar on the grant of patents to be significantly increased, in particular with regard to the novelty and non-obviousness of an invention.

[15] K. Chawla, Ericsson v. Intex, Part I – SEPs, Injunctions, and Gathering Clouds for Software Patenting, SPICYIP (2015) available at <http://spicyip.com/2015/03/ericsson-v-intex-part-1-seps-and-injunctions- anda-new-era-of-softwarepatenting.html>.