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The Troubling Use of Antitrust to Regulate FRAND Licensing

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The Troubling Use of Antitrust to Regulate FRAND Licensing

Judge Douglas H. Ginsburg, Koren W. Wong-Ervin, & Joshua D. Wright[1]

I. INTRODUCTION

In the last year, we have seen a growing—and troubling—trend as courts and competition agencies around the globe propose and impose antitrust sanctions on holders of standard-essential patents ("SEPs") for seeking injunctive relief against alleged infringers and for reneging on their commitment to license their patents on fair, reasonable, and non-discriminatory ("FRAND") terms. These new rules, recently adopted in the European Union and in Korea, proposed in Canada and Japan, and favored by some government officials in the United States, are premised upon the erroneous beliefs that (1) patent "holdup" is a widespread problem that results in significantly adverse consequences for competition and innovation and (2) whatever the magnitude of the problem, it requires an antitrust remedy.

Patent holdup occurs when an SEP holder that has made a commitment to license its patents on FRAND terms instead uses the essential nature of its patent ("standard-lock-in") to charge an unjustifiably higher royalty than would have been possible before its patent was included in the standard. Proponents of the new rules suggest the risk that *ex post* royalty rates will be higher than the *ex ante* rate was or would have been reflects a market failure requiring an antitrust response rather than a problem that could be resolved readily by standard-setting organizations ("SSOs") themselves or by ordinary remedies for breach of contract. In other words, the underlying assumption is that the SSO process in general, and FRAND licensing in particular, is broken and in need of fixing. The assumption is wrong and the proposed antitrust remedy is likely to do more harm than good.

First, as to the assumption, there simply is no empirical evidence to substantiate the claim that patent holdup is a systemic problem for competition and consumers. In fact, evidence from the smartphone market, which may be the most patent- and standard-intensive market, shows no signs of diminished competition or adverse effects upon consumers. In fact, it shows wireless service prices declining, output growing exponentially, innovation continuing at a rapid pace, vigorous dynamic competition among mobile device manufacturers with meaningful entry over time, and diminishing market concentration. In other words, the empirical evidence does not support the notion that FRAND licensing is somehow broken and in need of fixing. Instead, the thriving nature of the wireless market suggests caution prior to disrupting the carefully balanced

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FRAND ecosystem.

Second, as for the remedy, imposing antitrust liability for patent holdup and a patent holder's refusals to issue a license on FRAND terms is not only unnecessary, given that the law of contracts is sufficient to provide optimal deterrence, it is likely to be harmful to both competition and consumers by diminishing the value of patents and hence reducing incentives to innovate and to participate in standard setting.[2]

II. THE NEW ANTITRUST RULES FOR SEP HOLDERS

Within the last year, several jurisdictions have issued final or draft guidelines on SEP issues. For example, in December 2014, the Korea Fair Trade Commission (without providing an opportunity for public comment) issued final guidelines, which are scheduled to be revised in late 2015 or early 2016. In June 2015, the Canadian Bureau of Competition released its revised intellectual property ("IP") guidelines for public comment and the next month the Japan Fair Trade Commission released its draft IP guidelines for public comment. These new antitrust rules would impose an antitrust sanction on SEP holders who either (1) seek an injunction to stop an infringing manufacturer from selling their standardized product, or (2) engage in *ex-post* contractual opportunism by attempting to renegotiate or deviate from the original FRAND commitment in order to obtain higher royalty rates.

Also in July 2015, the European Court of Justice ("ECJ") held that seeking injunctive relief with respect to a FRAND-encumbered SEP may constitute a violation of the European Union's competition law, specifically Article 102 of the Treaty on the Functioning of the European Union .[3] The court created a safe harbor from Article 102 liability, however, for a SEP holder that (1) prior to initiating an infringement action, alerts the alleged infringer of the claimed infringement and specifies the way in which the patent has been infringed; and (2) after the alleged infringer has expressed its willingness to conclude a license agreement on FRAND terms, presents to the alleged infringer a specific, written offer for a license, specifying the royalty and calculation methodology. The ECJ then put the burden on the alleged infringer to "diligently respond" to that offer "in accordance with recognised commercial practices in the field and in good faith," by promptly providing a specific written counter-offer that corresponds to FRAND terms, and by providing appropriate security (e.g., a bond or funds in escrow) from the time at which the counter-offer is rejected and prior to using the teachings of the SEP.[4]

These new rules are premised upon the mistaken belief that holdup is both frequent and results in significant consumer harm. For example, Japan's Draft Amendment to its IP Guidelines concludes that a SEP's holder seeking injunctive relief "generally makes it difficult to research & develop . . . products adopting the standards," which in turn deters widespread adoption of

[2] *See, e.g.*, Bruce H. Kobayashi & Joshua D. Wright, *The Limits of Antitrust and Patent Holdup: A Reply to Cary, et al.*, 78 ANTITRUST L.J. 505 (2012).

[3] Case C-170/13, Huawei Technologies Co. v. ZTE Corp. (July 16, 2015), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=165911&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=603775.

[4] *Id.* ¶¶ 65-67.

standards.[5] This assertion notwithstanding, the empirical evidence does not suggest patent holdup is a frequent or systemic problem and, even if it were, there are substantial weaknesses in the argument that antitrust is the right tool to fine-tune any problems with SEP licensing negotiations or SSOs.

III. NO EMPIRICAL EVIDENCE SUGGESTS A SYSTEMIC PROBLEM WITH HOLDUP

Although there is serious and important scholarly work exploring the theoretical conditions under which patent holdup might occur, this literature merely demonstrates the possibility that an injunction (or the threat of an injunction) against infringement of a patent can in certain circumstances be profitable for the licensor and potentially harmful to consumers. This same theoretical literature has also recognized, with respect both to intellectual and to tangible property, the threat of both reverse holdup and holdout. Holdup requires lock-in, and standard-implementing companies with asset-specific investments can be locked in to the technologies defining the standard. On the other hand, innovators that are contributing to an SSO can also be locked-in, and hence susceptible to holdup, if their technologies have a market only within the standard. Thus, incentives to engage in holdup run in both directions.

There is also the possibility of holdout by an implementer. While reverse holdup refers to the situation in which a licensee uses its leverage to obtain rates and terms below FRAND, holdout refers to a licensee either refusing to take a FRAND license or delaying doing so.

It is important to distinguish the hypotheses generated in the theoretical literature on patent holdup from such empirical evidence as would substantiate those hypotheses. The existing empirical evidence is not consistent with the view that holdup is a prevalent or systemic problem and is causing harm to consumers.[6] The evidence required to support the new antitrust rules requires that there be a probability, not a mere possibility, of higher prices, reduced output, and lower rates of innovation.

In fact, as mentioned above, evidence from the smartphone market is to the contrary: Output has grown exponentially, while market concentration has fallen, and wireless service prices have dropped relative to the overall consumer price index ("CPI").[7] More generally, prices

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[5] Guidelines for the Use of Intellectual Property Under the Antimonopoly Act, Draft Amendment Parts 3(1)(e) and 4(2)(iv), *available at* http://www.jftc.go.jp/en/pressreleases/yearly-2015/July/150708.files/Attachment1.pdf.

[6] *See, e.g.*, J. Gregory Sidak, *The Antitrust Division's Devaluation of Standard-Essential Patents*, 104 GEO. L.J. ONLINE 48, 61 (2015) (collecting studies at n.49) ("By early 2015, more than two dozen economists and lawyers had disapproved or disputed the numerous assumptions and predictions of the patent-holdup and royalty-stacking conjectures."), *available at* https://www.criterioneconomics.com/docs/antitrust-divisions-devaluation-of-standard-essential-patents.pdf; ANNE LAYNE-FARRAR, PATENT HOLDUP AND ROYALTY STACKING THEORY AND EVIDENCE: WHERE DO WE STAND AFTER 15 YEARS OF HISTORY? (Dec. 2014), *available at* http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD%282014%2984&doclanguage=en (surveying the economic literature and concluding that the empirical studies conducted thus far have not shown holdup is a common problem).

[7] According to data from Gartner, worldwide smartphone sales to end-users have increased over 900 percent between 2007 to 2014, and 320 percent between 2010 to 2014. Market concentration in smartphones, as measured by HHIs, went from "highly concentrated" in 2007, as defined by the U.S. Antitrust Agencies' Horizontal Merger Guidelines, to "unconcentrated" by the end of 2012. *See* Keith Mallinson, *Theories of Harm with SEP Licensing Do Not Stack Up*, IP FIN. BLOG (May 24, 2013), *available at* http://ipfinance.blogspot.com/2013/05/theories-of-harm-

in SEP-reliant industries in the United States have declined faster than prices in non-SEP intensive industries.[8] A recent study by the Boston Consulting Group found that globally the cost per megabyte of data declined 99 percent from 2005 to 2013 (reflecting both innovation making data transmission cheaper as well as the healthy state of competition); the cost per megabyte fell 95 percent in the transition from 2G to 3G, and 67 percent in the transition from 3G to 4G; and the global average selling price for smartphones decreased 23% from 2007 through 2014, while prices for the lowest-end phones fell 63 percent over the same period.[9] All of this indicates a thriving mobile market as opposed to a market in need of fixing.

Economic analysis provides the basis upon which to understand the apparent disconnect between holdup theory and the available evidence. As economic theory would predict, patent holders and those seeking to license and implement patented technologies write their contracts so as to minimize the probability of holdup.

In addition, several market mechanisms are available to transactors to mitigate the incidence and likelihood of patent holdup. For example, reputational and business costs may deter repeat players from engaging in holdup and "patent holders that have broad cross-licensing agreements with the SEP-owner may be protected from hold-up."[10] Also, patent holders often enjoy a first-mover advantage if their technology is adopted as the standard. "As a result, patent holders who manufacture products using the standardized technology 'may find it more profitable to offer attractive licensing terms in order to promote the adoption of the product using the standard, increasing demand for its product rather than extracting high royalties'" per unit.[11] This is not surprising. The original economic literature upon which the patent holdup theories are based was focused upon the various ways that market actors use reputation, contracts, and other institutions to mitigate the inefficiencies associated with opportunism in transactions involving tangible property.[12]

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with-sep-licensing-do.html. According to the U.S. Bureau of Labor Statistics, the ratio of the CPI for wireless telephone services to the overall CPI has dropped 34% from 2007 to 2014.

[8] Alexander Galetovic, Stephen Haber, & Ross Levine, *An Empirical Examination of Patent Hold-Up* (Nat'l Bureau of Econ. Research, Working Paper No. 21090, Apr. 2015), *available at* http://www.nber.org/papers/w21090.pdf.

[9] JULIO BEZERRA ET AL., THE MOBILE REVOLUTION: HOW MOBILE TECHNOLOGIES DRIVE A TRILLION DOLLAR IMPACT 3, 9 (The Boston Consulting Group Jan. 15, 2015), *available at* https://www.bcgperspectives.com/content/articles/telecommunications_technology_business_transformation_mobile_revolution/#chapter1.

[10] *See, e.g.*, Prepared Statement of the Federal Trade Commission Before the U.S. Senate Committee on the Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights Concerning "Standard Essential Patent Disputes and Antitrust Law" at 6 (July 30, 2013), *available at* https://www.ftc.gov/sites/default/files/documents/public_statements/prepared-statement-federal-trade-commission-concerning-standard-essential-patent-disputes-and/130730standardessentialpatents.pdf.

[11] *Id.* (citation omitted).

[12] Benjamin Klein, *Why Hold-Ups Occur: The Self-Enforcing Range of Contractual Relationships*, 34 ECON. INQUIRY 444, 449-50 (1996); Benjamin Klein, Robert G. Crawford & Armen A. Alchian, *Vertical Integration, Appropriate Rents, and Competitive Contracting Process*, 21 J.L. & ECON. 297, 303-07 (1978); OLIVER E. WILLIAMSON, MARKETS AND HIERARCHIES: ANALYSIS AND ANTITRUST IMPLICATIONS 26-30 (New York: Free Press 1975); *see also* Joshua D. Wright, Comm'r, Fed. Trade Comm'n, remarks before George Mason University School of Law: SSOs, FRAND, and Antitrust: Lessons Learned from the Economics of Incomplete Contracts at 2-3 (Sept. 12, 2013)

Recognizing the theoretical nature of holdup concerns, the United States Court of Appeals for the Federal Circuit has held that a claim of holdup must be substantiated with "actual evidence," and that the burden is on the accused infringer to show the patent holder used injunctive relief to gain undue leverage and demand supra-FRAND royalties.[13]

IV. AN ANTITRUST SANCTION FOR BREACH OF CONTRACT IS UNNECESSARY AND IS LIKELY TO REDUCE INCENTIVES TO INNOVATE AND DETER PARTICIPATION IN STANDARD SETTING

A FRAND commitment is a contractual commitment.[14] Economists have long understood that a contractual relationship involving asset-specific investments creates the potential for opportunism. Similarly, a patentee participating in the standard-setting process can, once the standard is adopted by an SSO, "holdup" potential licensees by exploiting asset-specific investments to demand a higher royalty rate than would have prevailed in a competitive setting. The view that contractual opportunism alone gives rise to an antitrust problem rather than a contract problem is in tension with substantial economic literature on the subject.[15] Consistent with this view, no United States court has held that seeking injunctive relief on a FRAND-encumbered SEP violates the antitrust laws. Instead, every United States court that has addressed the issue has done so under contract law principles.

With respect to reneging on a FRAND commitment, as the Supreme Court explained in *NYNEX Corp. v. Discon, Inc.*, while the evasion of a pricing constraint may hurt consumers, it

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(explaining that "the economics of hold-up began not as an effort to explain contract failure, but as an effort to explain real world contract terms, performance, and the enforcement decisions starting with the fundamental premise that contracts are necessarily incomplete"), *available at* https://www.ftc.gov/sites/default/files/documents/public_statements/ssos-frand-and-antitrust-lessons-economics-incomplete-contracts/130912cpip.pdf. There is empirical evidence that SSO contract terms vary both across organizations and over time in response to changes in the perceived risk of patent holdup and other factors. *See* Joanna Tsai & Joshua D. Wright, *Standard Setting, Intellectual Property Rights, and the Role of Antitrust in Regulating Incomplete Contracts*, 80 ANTITRUST L.J. 157 (2015).

[13] *See, e.g.*, Ericsson, Inc. v. D-Link Sys., 773 F.3d 1201, 1234 (Fed. Cir. 2014) ("In deciding whether to instruct the jury on patent hold-up and royalty stacking, again, we emphasize that the district court must consider the evidence on the record before it. The district court need not instruct the jury on hold-up or stacking unless the accused infringer presents actual evidence of hold-up or stacking. Certainly something more than a general argument that these phenomena are possibilities is necessary."); *see also* Anne Layne-Farrar & Koren W. Wong-Ervin, *An Analysis of the Federal Circuit's Decision in Ericsson v. D-Link*, CPI ANTITRUST CHRONICLE, Mar. 2015, at 5-7, *available at* http://www.crai.com/sites/default/files/publications/An-Analysis-of-the-Federal-Circuits-Decision-in-Ericsson-v-D-Link.pdf.

[14] *See, e.g.*, Innovatio IP Ventures, LLC Patent Litig., No. 11 C 9308, 2013 WL 5593609, at *4 (N.D. Ill. Oct. 3, 2013); Microsoft Corp. v. Motorola, Inc., No. C10–1823JLR, 2013 WL 2111217, at *1 (W.D. Wash. Apr. 25, 2013), *aff'd* 795 F.3d 1024 (9th Cir. 2015); Apple, Inc. v. Motorola Mobility, Inc., 886 F. Supp. 2d 1061, 1083-84 (W.D. Wis. 2012); Microsoft Corp. v. Motorola, Inc., 854 F. Supp. 2d 993, 999-1001 (W.D. Wash. 2012), *reaffirmed*, 864 F. Supp. 2d 1023, 1030-33 (W.D. Wash. 2012), *aff'd in relevant part*, 696 F.3d 872, 884 (9th Cir. 2012).

[15] *See, e.g.,* Joshua D. Wright & Douglas H. Ginsburg, *Patent Assertion Entities and Antitrust: A Competition Cure for a Litigation Disease*, 79 ANTITRUST L.J. 501, 509 (2014); *see also* Benjamin Klein, *Market Power in Antitrust: Economic Analysis After Kodak*, 3 SUP. CT. ECON. REV. 43, 62-63 (1993) ("Antitrust law should not be used to prevent transactors from voluntarily making specific investments and writing contracts by which they knowingly put themselves in a position where they may face a 'hold-up' in the future . . . . [C]ontract law inherently recognizes the pervasiveness of transactor-specific investments and generally deals with 'hold-up' problems in a subtle way, not by attempting to eliminate every perceived 'hold-up' that may arise.").

does not harm the competitive process.[16] The Court distinguished the mere breach of a pricing commitment from the unlawful exercise of monopoly power by pointing out that, with the breach, the "consumer injury naturally flowed not so much from a less competitive market as . . . from the exercise of market power lawfully in the hands of a monopolist."[17]

Moreover, an antitrust sanction is not only unnecessary to protect consumer welfare given that the law of contracts is sufficient to provide optimal deterrence,[18] but is likely to be harmful.[19] First, significant monetary sanctions are likely to over-deter procompetitive participation in SSOs; FRAND-encumbered SEP holders need the credible threat of an injunction if they are to recoup the value added by their patents and have no other adequate remedy against an infringing user. Indeed, excessive deterrence is particularly likely because, with liability turning upon whether the infringing user was truly a "willing licensee"[20]—a factual determination that may be far from clear in many cases—the outcome of an antitrust case will necessarily be uncertain. The prospect of penalizing a FRAND-encumbered SEP holder for seeking injunctive relief diminishes the value of its patents and hence reduces its incentive to innovate.

Second, the prospect of antitrust liability for a patentee seeking injunctive relief would enable an infringing user to negotiate in bad faith, knowing its exposure is capped at the FRAND royalty rate; in this way, an unscrupulous or a judgment-proof infringing user can force the SEP holder to take a below-FRAND rate. Indeed, when the worst penalty an SEP infringer faces is not an injunction but merely paying, after a neutral adjudication, the FRAND royalty that it should have agreed to pay when first asked, then reverse holdup and holdout give implementers a profitable way to defer payment—or if they are judgment proof, to avoid payment altogether—and puts SEP holders at a disadvantage that reduces the rewards from, and can only discourage innovation and participation in, standard setting.[21]

Third, antitrust liability is likely to deter patent holders from contributing their technology to an SSO under FRAND terms if doing so will require them to forfeit their right to protect their intellectual property by seeking an injunction against infringing users. These possibilities, far from protecting the public interest in competition and innovation, actually threaten to reduce the gains from innovation and standardization.

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[16] NYNEX Corp. v. Discon, Inc., 525 U.S. 128, 135-37 (1998). *See also* Kobayashi & Wright at 519-20, *supra* note 2.

[17] *NYNEX Corp.*, 525 U.S. at 129.

[18] Douglas H. Ginsburg, Taylor M. Owings & Joshua D. Wright, *Enjoining Injunctions: The Case Against Antitrust Liability for Standard Essential Patent Holders Who Seek Injunctions*, ANTITRUST SOURCEat 5-6 (Oct. 2014).

[19] *Id.*; *see also* Kobayashi & Wright, *supra* note 2.

[20] *See, e.g.*, Case C-170/13, Huawei Technologies Co. v. ZTE Corp., ¶ 77 (July 16, 2015), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=165911&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=603775; Analysis of Proposed Consent Order to Aid Public Comment, In the Matter of Motorola Mobility LLC and Google, Inc., File No. 121-0120, at 2, 6 (F.T.C. Jan. 3, 2013), *available at* http://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaanalysis.pdf.

[21] The effect of such delaying tactics is magnified when the patent owner has a large worldwide portfolio of SEPs requiring it to file lawsuits around the world in order to adjudicate a FRAND royalty on a patent-by-patent basis. In that circumstance, international arbitration on a portfolio basis would appear to be the most efficient and realistic means of resolving a FRAND dispute.

V. CONCLUSION

The new antitrust rules are troubling not only because they are wholly unsupported by empirical evidence, but also because they threaten to deter participation in standard setting and reduce the incentive to innovate. Antitrust enforcers around the globe should be wary of upsetting the carefully balanced FRAND-ecosystem, and should consider the unintended consequences of their proposed solution to the largely theoretical problem of patent holdup.

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Injunctive Relief for Infringement of FRAND-Assured Standard-Essential Patents: Japan and Canada Propose New Antitrust Guidance

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Injunctive Relief for Infringement of FRAND-Assured Standard-Essential Patents: Japan and Canada Propose New Antitrust Guidance

Lisa Kimmel[1]

I. INTRODUCTION

Courts and antitrust agencies across the globe continue to evaluate the role of antitrust enforcement in patent-licensing disputes between technology users and firms that have made commitments to provide access to patents essential to implement industry standards ("SEPs") on fair, reasonable, and nondiscriminatory ("FRAND") terms. In recent years, enforcement agencies have focused in particular on the scenario where, typically after efforts to conclude a license fail, the SEP owner seeks to enforce its patent rights by filing an infringement claim that includes a request for an injunction as a remedy.

Recently, both the Japanese Fair Trade Commission ("JFTC") and the Canadian Competition Bureau ("CCB") have issued draft antitrust guidelines for intellectual property that include first-time guidance on how each jurisdiction will evaluate whether a SEP owner violates the antitrust laws by seeking an injunction against a firm implementing the standard. As discussed below, while the CCB envisages that antitrust liability be grounded in a showing of at least likely to harm competition, the JFTC contemplates a standard of *per se* liability for seeking an injunction against a firm that is "willing to take a license" on FRAND terms.

In this note, I describe the two proposals and argue that if antitrust law has any role to play in SEP licensing disputes in foreign jurisdictions, the risk of liability should hinge on more than a determination of whether a putative licensee is—or is not—willing to accept a license on FRAND terms, or even more broadly whether the SEP owner has met its FRAND obligation.[2] That commercial dispute alone should not implicate the antitrust laws. Instead, agencies should require proof that the SEP-owner's conduct had an actual or likely anticompetitive effect. Otherwise, the threat of antitrust liability risks harm to incentives to innovate and contribute technology to standards, with no offsetting benefits to competition.

II. THE JFTC AND CCB PROPOSALS

On July 8, 2015, the JFTC issued a notice seeking public comment on proposed

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[2] In the United States, SEP owners are immune from antitrust liability for seeking relief in court under the *Noerr-Pennington* doctrine. Apple, Inc. v. Motorola Mobility Inc., 886 F. Supp. 2d 1061 (W.D. Wisc. 2012).

amendments to its Guidelines for the Use of Intellectual Property under the Antimonopoly Act.[3] The amendments focus on "refusal to license or claim for injunction to a party who is willing to take a license…" According to the proposed amendments, such conduct may be both an act of private monopolization and an unfair trade practice. Most problematic, the JFTC states that seeking an injunction against a party willing to take a license can be an unfair trade practice "even if the acts do not substantially restrict competition…" The JFTC defines a willing licensee by reference to only a single factor, whether the alleged infringer shows an intention to "determine the license conditions at court or through arbitration procedures…."

The CCB issued its notice seeking comment on an updated draft version of its Intellectual Property Enforcement Guidelines on June 9, 2015.[4] The CCB proposals cover a broader range of issues, including additional conduct related to SEPs, such as deception during the standard-development process. The CCB also describes its proposed enforcement policy towards firms that seek injunctions for infringement of SEPs that are subject to a FRAND commitment.

Like the JFTC, the CCB recognizes that seeking an injunction for infringement of a FRAND-assured SEP is appropriate and legitimate in certain circumstances. But it provides somewhat more guidance on the facts that it will consider to determine whether the conduct was appropriate. These include, but do not appear to be limited to, whether the firm implementing the standard has failed to engage in licensing negotiations or has refused to pay a royalty that a court determined was FRAND. A case-by-case determination is preferable. The JFTC's single-factor approach permits the alleged infringer to use the adjudicatory process itself merely to delay payments over the course of lengthy litigation and appeals.

Moreover, in addition to looking at the behavior of the parties, the CCB will also look at the impact that the conduct is likely to have on competition. However, while adding the requirement that antitrust liability rest on evidence of likely competitive harm is an improvement over the JFTC amendment, the CCB's discussion of harm is extremely broad, covering everything from potential exclusion to harm to incentives to participate in standard setting. Unless the CCB requires meaningful evidence of actual or likely harm, including this additional step adds little to assure that action will benefit competition on balance.

III. *PER SE* RULES SHOULD NOT APPLY TO SEEKING INJUNCTIONS

A FRAND commitment is a contractual commitment between the declarant and the particular standard-development organization ("SDO") to which the declaration was made. Firms implementing the standard are third-party beneficiaries, with standing to sue for breach. Courts in the United States have recognized that the contractual nature of the FRAND commitment requires a fact-specific analysis to determine compliance or breach.[5]

As the CCB correctly acknowledges, there is room for opportunism on both sides of the table. While SEP owners may, in some circumstances, have the incentive to leverage the

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[3] Guidelines for the Use of Intellectual Property under the Antimonopoly Act (draft), July 8, 2015, *available at* http://www.jftc.go.jp/en/pressreleases/yearly-2015/July/150708.files/Attachment1.pdf.

[4] Competition Bureau, Intellectual Property Enforcement Guidelines, Draft for Public Consultation, June 9, 2015, *available at* http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03935.html.

[5] *See e.g. In re Innovatio IP Ventures, LLC Patent Litig.*, 2013 WL 5593609 at *4 (N.D. Ill. Oct. 3, 2013).

switching costs that may be associated with the adoption of a standard to evade a FRAND commitment, "potential licensees may seek to take advantage of FRAND commitments by 'holding out' for very low royalties or simply by not undertaking licensing negotiations in good faith."[6] Absent the risk of an injunction, the infringer merely faces the prospect that sometime down the road, it will be required to pay the FRAND rate it should have paid to begin with, thus creating no urgency to bargain in good faith. In advice to courts and other adjudicative bodies, the U.S. Department of Justice Antitrust Division also recognized the relationship between reducing access to injunctions and the incentives to engage in hold-out ("the risk of a refusal to license…increases where the putative licensee believes its worst case outcome after the litigation is to pay the amount it would have paid earlier for a license").[7] Thus, limiting a SEP owner's ability to pursue an injunction exacerbates the risk of patent hold-out, depressing incentives to innovate and contribute cutting-edge technology to standards.

However, despite the recognition, antitrust regulators have tended to focus far more narrowly on the risk of hold-up than the risk of hold-out in both policy and enforcement activity. Some argue that focus is natural because hold-out is not always an exercise of market power. However, even in cases where the party engaged in hold-out does not possess market power on the technology buyer side, the risk of hold-out is relevant to whether there is a pro-competitive justification for seeking an injunction. At least in the United States, the antitrust analysis of unilateral conduct under the rule of reason depends critically on whether the conduct has a pro-competitive justification. That same standard should apply when the unilateral conduct involves SEPs. Antitrust regulators cannot simply disregard the risk of hold-out when formulating antitrust enforcement policy on conduct related to SEPs.

The narrow emphasis on hold-up is particularly unjustified given the absence of evidence that hold-up is prevalent or that the risk of hold-up is a competitive problem. If that risk were meaningful, one would expect to see lackluster investment in standards and sluggish growth in markets for standard-compliant products. That does not describe the information and communications technology markets that are at the center of many FRAND disputes and the associated regulatory attention. Markets for 3G and 4G wireless products have grown at exponential rates, and markets for Wi-Fi-enabled products compliant with the popular IEEE 802.11 family of standards have also experienced rapid growth. The widespread adoption and investment in implementing these standards suggests that the market itself does not perceive a meaningful risk of patent hold-up.[8]

Antitrust liability that turns only on a regulator's analysis of whether the SEP-owner has

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[6] Bureau Proposed Guidelines at 36.

[7] U.S. DEP'T OF JUSTICE & U.S. PATENT & TRADEMARK OFFICE, POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS (2013) at 15.

[8] Boston Consulting Group, The Mobile Revolution: How Mobile Technologies Drive a Trillion-Dollar Impact (Jan. 15, 2015), *available at* https://www.bcgperspectives.com/content/articles/telecommunications_technology_business_transformation_mobile_revolution, IDC, *Worldwide WLAN Market Shows Continued Growth in Second Quarter of 2014,* (Sept. 3, 2014), *available at* http://www.idc.com/getdoc.jsp?containerId=prUS25077714.

met its FRAND obligation is tantamount to a *per se* rule.[9] It requires no analysis of competitive effects. As courts in the United States recognize, *per se* rules are appropriate only in circumstances where the conduct at issue is almost always anticompetitive, making the administrative costs of a fact-specific, case-by-case analysis unwarranted. Neither theory nor evidence suggests that is the case in licensing disputes between SEP owners and firms implementing standards.

On the relationship between antitrust and intellectual property rights, the U.S. antitrust agencies have recognized that "condemning efficient activity involving intellectual property rights could undermine [the] incentive to innovate and thus slow the engine that drives economic growth…."[10] Injecting the risk of antitrust liability into private licensing disputes threatens to exacerbate the risk of patent hold-out, with associated harm to innovation and the quality of standards. That risk requires that regulators look beyond *per se* rules if they insert the threat of antitrust liability into private licensing disputes between SEP owners and firms implementing standards. Absent a threat of genuine competitive harm, the risk is not justified. Consequently, regulators across the globe should ensure that any antitrust restrictions that constrain the ability of SEP owners to enforce their rights be grounded in a case-specific analysis of competitive effects.

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[9] *See* Maureen Ohlhausen, "Antitrust Oversight of Standard-Essential Patents: The Role of Injunctions." Remarks at the 2015 IP and Antitrust Forum, China Intellectual Property Law Association, Beijing, China, Sept. 12, 2015, *available at* https://www.ftc.gov/system/files/documents/public_statements/800951/150912antitrustoversight-1.pdf.

[10] Fed. Trade Comm'n & U.S. Dept. of Justice, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION, April 2007, at 2.

CPI COMPETITION POLICY INTERNATIONAL

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Canada's Updated Draft Intellectual Property Enforcement Guidelines and the Pharmaceutical Industry

Anita Banicevic & Mark Katz
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Canada's Updated Draft Intellectual Property Enforcement Guidelines and the Pharmaceutical Industry

Anita Banicevic & Mark Katz[1]

I. INTRODUCTION

In June 2015, Canada's Competition Bureau released its updated draft of the Intellectual Property Enforcement Guidelines ("Draft IPEGs") for public review and consultation.[2] The Draft IPEGs are intended to reflect the 2009 amendments to the Competition Act (the "Act"), including the changes to the criminal conspiracy provisions and the introduction of a new civil competitor collaboration provision. The Draft IPEGs are also designed to ensure consistency with other Bureau guidelines that have been released since the 2009 amendments (such as the Bureau's Competitor Collaboration Guidelines).

The other principal objective of the Draft IPEGs is to set out the Bureau's initial enforcement positions regarding several issues involving the nexus between competition law and intellectual property law that have attracted considerable attention recently. These include two topics that are of particular interest to the pharmaceutical industry: patent litigation settlement agreements and "product switching."

The Bureau has addressed both of these issues in recent speeches, workshops, and a white paper but the Draft IPEGs are its first attempt to formulate enforcement principles in a systematic fashion. In this article, we describe and discuss the Bureau's views as reflected in the Draft IPEGs as well as the practical implications for the pharmaceutical industry in Canada.

II. PATENT SETTLEMENT AGREEMENTS

In Canada, patent settlement agreements typically arise as a result of a generic's challenge to an innovator's patent under the Patented Medicines (Notice of Compliance) Regulations ("PMNOC Regulations"). Pursuant to the PMNOC Regulations, a generic may apply for a Notice of Compliance or "NOC" and serve a Notice of Allegation on the innovator either challenging the innovator's patent or taking the position that the generic will not infringe the patent. If ultimately the innovator is not successful in defending its patent under the PMNOC process, Section 8 of the PMNOC Regulations provides that the innovator will be liable to the generic entrant for any losses it sustained during the period it was excluded from the market.

The possibility that an innovator could be required to pay monetary damages to a generic entrant is a significant difference from the U.S. regulatory scheme and may inform the rationale for an innovator to enter into a settlement agreement as well as the rationale for including a

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[2] Competition Bureau, Intellectual Property Enforcement Guidelines – Draft for Public Consultation (June 9, 2015), http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03935.html.

monetary payment as part of such a settlement.

Although patent settlement agreements have been a hot topic in other jurisdictions, the Bureau has not had occasion yet to deal with the issue from an enforcement perspective. That said, the Bureau signaled its interest in patent settlements by hosting a workshop in November 2013 that focused on the potential competition law implications of certain strategies and practices employed by pharmaceutical firms, including patent settlement agreements (also known more pejoratively as "pay-for-delay" settlements). The workshop attracted approximately 100 participants from both Canada and abroad, including representatives from the Bureau, Health Canada, the U.S. Federal Trade Commission, the pharmaceutical sector, the legal community, and academia.[3] Following its November 2013 workshop, the Bureau issued a White Paper on Patent Settlements in September 2014 (the "White Paper").[4]

In what was regarded as a controversial and aggressive position, the White Paper indicated that the Bureau would consider using the Act's criminal conspiracy offense (section 45)[5] to pursue patent settlements where the generic agreed not to enter the market before a certain date and there was compensation (i.e., a "payment") from the brand to the generic (e.g., cash, a promise not to launch an authorized generic, or provision of services). The White Paper stated that factors the Bureau would consider in this regard include, in general terms: the type and value of consideration flowing from the brand to the generic for an agreed upon generic entry date, the amount of time until generic entry, and any other available evidence.

The Draft IPEGs take a significantly less aggressive approach to patent settlement agreements than the Bureau's White Paper. While the Bureau continues to reserve the right to apply section 45 to patent settlement agreements in certain limited circumstances, the Draft IPEGs clearly state that the application of section 45 would occur "only where the intent of the payment was to fix prices, allocate markets or restrict output." As a result, the draft IPEGs reflect a significant (and helpful) departure from the previously suggested approach of applying the criminal conspiracy provisions to such settlements in a potentially broad manner. This position is also more consistent with the enforcement approach in other jurisdictions such as the United States.

The Draft IPEGs also provide the following additional guidance regarding the application of the Act to patent settlement agreements:

- an entry-split settlement pursuant to which the generic firm enters the market prior to patent expiry will not pose an issue under the Act;
- not every settlement that involves a payment (whether in monetary form or via the provision of services) will be actionable under the Act. Instead, the Bureau would likely

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[3] The Bureau's summary of the workshop's highlights is *available at* http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03728.html).

[4] *See* Competition Bureau, Patent Litigation Settlement Agreements: A Canadian Perspective (Sept. 23, 2014), http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03816.html.

[5] Section 45 prohibits any agreement between competitors to "allocate sales, territories, customers or markets for the production or supply of the product" or any agreement "to fix, maintain, control, prevent, lessen or eliminate the production or supply of the product."

conclude that settlement does not raise issues under the Act if the payment represents a reasonable estimate of: (i) the fair market value of any goods or services provided by the generic firm, (ii) the magnitude of the brand company's section 8 damages exposure under the PMNOC regulations, and (iii) the brand company's expected litigation costs absent settlement;

- the Bureau would likely view any settlement that involves an agreement to enter the market **after** patent expiry as contravening the criminal conspiracy provisions found in section 45 of the Act; and
- the Bureau would view any settlement that is accompanied by direct evidence of market allocation (e.g., documentary evidence that the parties recognized that the patent was not valid) as actionable under section 45 of the Act.

The Bureau has provided helpful guidance by recognizing that entry split settlements, as well as payments that represent a reasonable assessment of the damages and costs associated with a successful challenge, should not pose issues under the Act. That said, the fact that the Bureau continues to reserve the right to apply the criminal provisions to this area remains troubling and likely to draw adverse comments. However, from a practical perspective, such challenges are likely to be extremely rare given the limited fact scenarios where the criminal provisions could apply as well as the legal burden associated with bringing a successful prosecution.

III. PRODUCT SWITCHING

Product switching" (also sometimes referred to as "product hopping") was another topic explored by the Bureau at its November 2013 workshop on competition issues affecting the pharmaceutical industry. "Product switching" refers to a strategy whereby an innovator or branded pharmaceutical firm, when faced with the prospect of generic entry, obtains one or more additional patents for variations on the same general medicinal compound while the drug is still covered by one or more pre-existing patents.

Critics of this strategy contend that the additional patents are sometimes for very minor reformulations—such as the switching from a capsule to a tablet—which are of little therapeutic benefit, but which allow the branded firm to extend its exclusivity over the therapeutic compound. In contrast, proponents argue that firms are under no obligation to promote old products or refrain from promoting new products to the benefit of competitors, and that the new patents protect reformulations that provide real therapeutic benefits.

In 2012, the Bureau commenced an inquiry into "product-switching" by Alcon Canada Inc. ("Alcon"), a branded or innovator pharmaceutical firm. The matter involved allegations that Alcon had, among other acts, intentionally disrupted the supply of its prescription anti-allergy drug Patanol as part of a conversion strategy meant to forcibly switch patients to a reformulated version of the drug and discourage or delay the entry of a generic version. The Bureau investigated the conduct under the abuse of dominance section of the Act (section 79). The investigation was ultimately discontinued as Alcon resumed the supply of Patanol and generics were able to enter and capture a significant share of the market.[6]

Under Canadian legislation and jurisprudence, it is widely accepted that the "mere exercise of an IP right and nothing else" will not constitute anticompetitive conduct under the abuse of dominance provisions of the Act. In the prior version of the IPEGs, the Bureau stated that it "views an IP owner's **use or non-use** of the IP … as being the mere exercise of an IP right"[7] (emphasis added). In the Draft IPEGs, this phrase has been changed to: "[t]he Bureau views an IP owner's use of the IP… as being the mere exercise of an IP right."[8]

The removal of the words "or non-use" is a more aggressive position that is likely related to the Bureau's interest in pursuing life-cycle management/"product hopping" under the Act. That is, the Bureau appears to be reserving the right to argue that the "non-use" of a patent right could in and of itself be considered anticompetitive conduct under the Act. Whether the Bureau's proposed approach would hold up in a contested case before the courts remains to be seen, particularly in light of the existing Canadian jurisprudence. However, it is a clear signal of the direction that the Bureau intends to pursue.

To further illustrate its intentions in the "product-hopping" area, the Bureau has also included an example in the Draft IPEGs involving a "hard switch" (the removal of branded product "A" from the market prior to a pending expiry in patent protection) and subsequent introduction of a new branded product "B" (that treats the same affliction). In example #9 of the Draft IPEGs, the Bureau takes the position that such a "hard switch" could potentially give rise to concerns under the Act's abuse of dominance provisions. Relevant factors include (i) an assessment of whether the branded company is in fact dominant in a relevant market (or whether there are sufficient alternatives/substitutes), (ii) whether the product withdrawal is accompanied by any valid business justification and (iii) whether the branded company's conduct has caused a substantial lessening or prevention of competition. With respect to the latter consideration, the Bureau states that it would "likely examine the difference between the price of Product B and the price at which generic A would have been expected to have been sold if it had not been delayed or foreclosed," and whether Product A's withdrawal would limit "physician/patent choice for prescription drugs."[9]

In light of the existing jurisprudence, the outcome of any product-hopping case in Canada is likely to turn at least in part on a court's evaluation of whether a unilateral decision to remove a patented product can in and of itself be considered to be anticompetitive. That judgment, in turn, could depend significantly on whether the innovator offers a clear and

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[6] In May, 2014, the Bureau issued a press release regarding the discontinuance of its product-hopping investigation and explained the basis for its decision as follows: "Alcon ceased engaging in the conduct that raised concerns for the Bureau shortly after the Bureau began its investigation. As a result of Alcon resupplying Patanol, and the subsequent entry by competing generic drug companies, competitive dynamics in the market appear to have been restored." *See* http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03736.html

[7] Competition Bureau, Intellectual Property Enforcement Guidelines (Sept. 2000), http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/01286.html#Part_4.

[8] Competition Bureau, *supra* note 4 at http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03935.html#section4_2_1.

[9] *Id.*

cogent business justification for the "product switching."

IV. CONCLUSION

The consultation period for the Draft IPEGs ended on August 10. Although not all of the comments have been made public yet,[10] the Draft IPEGs attracted an unusual degree of attention, including from the American Bar Association's Section of Antitrust Law as well as from former FTC Commissioner Joshua Wright and Justice Douglas Ginsburg of the Court of Appeals for the D.C. Circuit.[11]

It is not clear yet when the Bureau will issue its final version of the IPEGs and its final views on patent settlements and product switching. When it does, however, pharmaceutical companies operating in Canada will undoubtedly have much to consider when designing future strategies.

[10] In its call for consultation, the Bureau noted that the comments would be made public, unless accompanied by a request for confidentiality.

[11] In their joint commentary, former Commissioner Wright and Justice Ginsburg provided their views on five issues addressed in the Draft IPEGS including the Bureau's proposed treatment of product switching and patent settlement agreements. In particular, Wright and Ginsburg heavily criticized the Bureau's suggestion that the criminal conspiracy provisions could ever apply to patent settlement agreements and recommended "against imposing criminal liability (and against the use of a per se approach) for reverse-payment settlements because such an approach threatens to over-deter procompetitive conduct." *See* https://www.ftc.gov/public-statements/2015/08/comment-commissioner-joshua-d-wright-judge-douglas-h-ginsburg-canadian.

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Canada's New Intellectual Property Enforcement Guidelines—New Rules for SEPs in Canada

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Canada's New Intellectual Property Enforcement Guidelines—New Rules for SEPs in Canada

David Rosner[1]

I. INTRODUCTION

In 2014, the Canadian Competition Bureau embarked on a multi-phase process to update its Intellectual Property Enforcement Guidelines ("IPEGs"). The update was needed to reflect legislative and policy developments that had occurred since the IPEGs were first issued in 2000.

The IPEGs are important because they are the only meaningful Canadian guidance available to patent holders and users about how the *Competition Act* applies to the exercise of intellectual property rights; this is particularly true in the area of standard-essential patents ("SEPS"), which have never been the subject of an antitrust decision from a Canadian court.

This article briefly summarizes the updated IPEGs, with an emphasis on (i) how the IPEGs create policy for the application of the *Competition Act* in the area of SEPs, and (ii) how the IPEGs may differ from the established law and policy in the United States and European Union regarding the application of competition law in the area of SEPs.

II. BACKGROUND TO THE UPDATED IPEGS

The Competition Bureau first issued guidance on the application of the *Competition Act* to the use of intellectual property in its first iteration of the IPEGS, published in 2000.[2] This initial guidance enshrined as Bureau policy the now familiar "scope of the patent" test—that is, conduct involving a patent could only be subject to the *Competition Act* if that conduct was something more than the "mere exercise" of the rights associated with the grant of the patent.

There have been significant changes in both law and policy since 2000, and the IPEGs were in need of an update. In 2014, the Bureau announced its intention to update IPEGs; this process has occurred in three main phases:

- First, the Bureau updated the IPEGs to reflect the significant changes to Canada's *Competition Act* that have been implemented since 2000, including the de-criminalization of certain types of unilateral conduct and the introduction of a provision making non-criminal agreements among competitors that prevent or lessen competition substantially subject to civil prohibition. This update did not result in significant substantive changes to the prior iteration of the IPEGs. The Bureau published an updated draft of the IPEGs that

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[2] The 2000 version of the Bureau's IPEGS is *available at* http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/01286.html.

implemented these changes in April 2014;[3] following a period of public consultation, the Bureau published the final iteration of the IPEGs that implemented these changes in September 2014.[4]

- Second, the Bureau issued a "White Paper" and the Commissioner delivered a speech that outlined how the Bureau intended to apply the *Competition Act* to settlements of patent infringement litigation among brand name and generic pharmaceutical companies.[5] The White Paper expressed the Commissioner's intention to prosecute, both criminally and on a *per se* standard, parties to settlements of patent litigation in the pharmaceutical industry in certain situations (this was an enforcement position that differed significantly from the civil rule of reason approach adopted in the United States). The Commissioner's position on this issue was to be incorporated into the next version of the IPEGs.
- Third, the Bureau published a further updated version of the IPEGs in draft for public consultation in June 2015.[6] The updated draft reflects (i) the initial update to the IPEGs, (ii) a significantly moderated version of the Commissioner's position with regard to how the *Competition Act* applies to settlements of patent litigation in the pharmaceutical industry and so-called "product hoping" efforts, and (iii) the Commissioner's position as to how the *Competition Act* applies to the conduct of patent holders whose patents are essential to a standard or that were made subject to a licensing commitment as part of the process of being included a standard. The consultation period on the most recent update to the IPEGs closed in August, and a final version of the IPEGs is expected later in 2015 or early in 2016.

III. UPDATED IPEGS AND SEPS

The most recent draft IPEGs set out for the first time the Commissioner's policy regarding the application of the *Competition Act* to conduct involving SEPs. Among other things, the IPEGs explain (i) which section of *Competition Act* will be applied by the Bureau to patent holders that attempt to obtain injunctions for FRAND-encumbered SEPs, and (ii) what factors and evidence the Bureau will consider probative in determining whether to enforce the *Competition Act* against patent holders. In particular:

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[3] *See* "Competition Bureau Seeks Input on the Updated Intellectual Property Enforcement Guidelines," Competition Bureau press release (April 2, 2014) *available at* http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03715.html.

[4] *See* "Competition Bureau Releases Updated Intellectual Property Enforcement Guidelines," Competition Bureau press release (September 18, 2014) *available at* http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03814.html.

[5] *See* "Remarks by John Pecman," presented at the George Mason University Pharma Conference (September 23, 2014) *available at* http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03817.html; and "Patent Litigation Settlement Agreements: A Canadian Perspective," September 23, 2014, *available at* http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03816.html.

[6] *See* "Competition Bureau seeks input on its updated Intellectual Property Enforcement Guidelines," Competition Bureau press release (June 9, 2015) *available at* http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03959.html.

- **Abuse of Dominance:** The Bureau will assess whether attempts to obtain injunctions for FRAND-encumbered SEPs constitute an abuse of dominance under section 79 of the *Competition Act*.
    - Section 79 is a civil provision. It requires that the Commissioner satisfy the Competition Tribunal that the defendant company (i) has a dominant position in a market, (ii) has engaged in an anticompetitive practice without objective justification, and (iii) that the anticompetitive practice has the effect of preventing or lessening competition substantially in a market.
    - However, section 79 provides an important exception; namely, that "an act engaged in pursuant only to the exercise of any right" under the *Patent Act* "is not an anti-competitive act."
    - If the Tribunal concludes that an abuse of dominance has been committed, it may make an order prohibiting the defendant from engaging in the anticompetitive practice or, if that order would not restore competition in the market, make any other order directing the defendant to take such actions as are reasonable and necessary to overcome the effects of the anticompetitive practice in the market. The Tribunal may also impose an administrative monetary penalty against the defendant of up to C $10 million (C $15 million in the case of recidivists).
- **"Scope of the Patent" Test:** The IPEGs take the position that when a patent holder makes a commitment to license a patent to a standard-setting organization and then seeks an injunction in respect of those patents against potentially willing licensees, the patent holder is engaged in "something more" than the mere exercise of patent rights, and the exception contained in section 79 does not apply. As a legal matter, this position is untested, and while there are antitrust reasons that support it, there are contra arguments that could be advanced. For example, there is no suggestion in the IPEGs that the mere seeking of an injunction against potential willing licensees (absent a FRAND commitment) would be anything but the mere exercise of patent rights; why the characterization of the attempt to obtain an injunction should change as a result of a prior FRAND commitment is not obvious as a matter of statutory interpretation.
- **Dominance:** The IPEGs take the position that patent holders obtain market power when their patents are incorporated in a standard in exchange for a FRAND commitment and other firms make investments in the standard in reliance upon that FRAND commitment. The IPEGs suggest that the mere fact of standardization and the making of FRAND commitment are sufficient for the Bureau to conclude that a dominant position exists. For the purposes of determining whether market power exists, the IPEGS do not discuss whether the Bureau might examine other factors—such as the existence of competing standards or the level of investment potential licensees have made—to determine whether the potential licensees are truly "locked in." Instead, the IPEGS suggest these factors will only be considered at a later stage, where competitive effects are assessed.
- **Anticompetitive Practice:** The IPEGs recognize that the mere seeking of an injunction for a FRAND-encumbered SEP is not necessarily undertaken for an anticompetitive purpose in every instance, and instead there may be legitimate justifications for patent

holders to seek injunctions. This is particularly the case where licensees are not actually willing to enter into negotiations and pay a FRAND rate. The IPEGs provide that, in determining whether an effort to obtain an injunction is an anticompetitive practice, the Bureau will consider whether a licensee is not willing to engage into licensing negotiations or pay a rate determined to be FRAND by a court or arbitrator.

- **Effect on Competition:** The IPEGs acknowledge the Commissioner's obligation to establish that the seeking of an injunction is not an abuse of dominance unless it is or is likely to prevent or lessen competition substantially; in other words, the mere seeking of an injunction for a FRAND-encumbered SEP is not an abuse of dominance *per se*.
  - In assessing the competitive effects of an attempt to obtain an injunction, the Bureau will assess whether the patent holder's conduct "created, preserved or enhanced its market power in technology markets that included its patented technologies due to those patented technologies being necessary to implement the standard." In other words, the Bureau will examine how the conduct impacts the patent holder's market power in the downstream markets that implement the patent. As a matter of Canadian law, it is not necessary that the patent holder participate in the downstream market in order to have market power in those downstream markets; merely having a mechanism of "control"—such as ownership of a patent that is included in a standard—is arguably sufficient for the Tribunal to find that a patent holder has market power in a downstream market.[7]
  - The Bureau will also assess for these purposes (i) whether there exist substitutable technical standards and (ii) if so, the costs associated with a licensee switching to those alternatives. If such alternatives exist and switching is not cost-prohibitive, the Bureau is less likely to conclude that the attempt to obtain an injunction for FRAND-encumbered SEPs maintained or increased the market power of the patent holder and prevented or lessened competition substantially.
  - The Bureau will also assess for these purposes the effect on competition in downstream markets that implement the standard. If there is evidence that an injunction would result in higher prices for downstream products (because of the effect of royalty rates on downstream prices and the inability of customers to switch to alternative products in response to a price increase), then it is more likely to conclude that the conduct has prevented or lessened competition substantially. Establishing an effect on competition on this basis seems challenging given, among other things, the need to establish that the high royalty rates of one single patent holder (out of many holders of patents in a standard) are being passed through to downstream customers such that competition is lessened substantially in the downstream market. In addition, since mere high prices are not recognized as an anticompetitive practice under Canadian law, the Bureau would likely be obligated to show that the high prices are the causal result of some

[7] *See*, *The Commissioner of Competition v. The Toronto Real Estate Board*, 2013 Comp. Trib. 9; rev 2014 FCA 29.

underlying exclusionary conduct, which may be challenging as a matter of evidence.

- **Other Features:** Under Canadian law, if the Commissioner has reason to believe that a company has violated section 79 of the Act (among other provisions), he can resolve his concerns by entering into an agreement upon consent with the defendant company. That consent agreement can be registered with the Competition Tribunal as of right; upon registration, the consent agreement has the same force and effect as if it were an order of the Competition Tribunal. The right of private parties to challenge a consent agreement is extremely limited.[8] The IPEGs provide that, where the Commissioner has reason to believe that an attempt to obtain an injunction for a FRAND-encumbered SEP contravenes section 79, the Commissioner will first attempt to negotiate a consent agreement with the defendant; only if those negotiations fail will the Commissioner bring proceedings before the Tribunal.

IV. IPEGS AND STANDARDS IN OTHER JURISDICTIONS AND NEXT STEPS

There are similarities and differences in how the IPEGs propose to treat holders of FRAND-encumbered SEPs that seek injunctions as compared to standards established in the United States and European Union. For example, unlike the recent decision of the Court of Justice of the European Union in *Huawei v. ZTE*,[9] the IPEGs do not prescribe any process that patent holders must first adhere to when dealing with licensees and before seeking an injunction. Instead, the IPEGs are much closer to the broad guidance set out in the joint *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* of the U.S. Department of Justice and the U.S. Patent & Trademark Office.[10]

As a result, the main effects of the IPEGs in the area of SEPS are to confirm that (i) the *Competition Act* is capable of applying to patent holders that seek injunctions for their FRAND-encumbered patents, and (ii) because patent holders have made FRAND commitments to standard-setting organizations, their efforts to obtain injunctions are not exempt from the application of the *Competition Act*. Additional guidance as to how the Bureau will apply the *Competition Act* in such situations will need to come from actual cases.

Canada, however, is a much smaller jurisdiction than either the United States or the European Union, and there is no ability in Canada to bring private abuse of dominance claims (like in the United States) or have very significant fines imposed for abuse of dominance (like in the European Union). This dynamic (i) reduces the likelihood that holders of FRAND-encumbered SEPs would seek injunctions in Canadian courts (as opposed to U.S. courts or courts of the Member States), and (ii) reduces the likelihood that a potential licensee would complain

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[8] *See*, *Kobo Inc. v. The Commissioner of Competition*, 2014 CACT 14 (CanLII), leave to appeal to the Supreme Court of Canada pending at the time of writing.

[9] *See* Case C-170/13 Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH.

[10] *See* joint statement of the U.S. Department of Justice and the U.S. Patent & Trademark Office, "*Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments,*" (January 8, 2013) *available at* http://www.uspto.gov/about/offices/ogc/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf.

about a patent holder's conduct to the Competition Bureau (as opposed to bringing private proceedings in the United States or a Member State or bringing a complaint before the European Commission). In turn, this reduces the likelihood that the Bureau will have actual cases to investigate and bring forward in the near term.

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Competition Law and FRAND: Developments and Challenges in India

Samir R. Gandhi, Fadi Metanios, & Hemangini Dadwal

AZB & Partners

Competition Law and FRAND: Developments and Challenges in India

Samir R. Gandhi, Fadi Metanios, & Hemangini Dadwal[1]

I. INTRODUCTION

Enforcement of antitrust rules in India is comparatively recent, having only commenced in May 2009. Likewise, significant amendments to update India's patent regime only took place 10 years ago.[2] Nonetheless, India may soon become a key jurisdiction in determining the balance between intellectual property laws and competition laws that will continue to capture the attention of lawyers, economists and academics.

In recent years, tensions between those seeking to enforce their intellectual property rights ("IPR") and those seeking access to essential inputs have arisen in technology-driven industries such as the telecommunications and mobile devices industries. This is increasingly likely in India, which is expected to have the second largest user base of smartphones by 2016, second only to China and ahead of the United States.[3] India is also expected to grow into a major manufacturer of smartphones in the near future, with companies such as Samsung, HTC, Xiomi, and Lenovo (including Lenovo's Motorola unit) shifting manufacturing capacity to India.[4] Despite significant developments in relation to both IPRs and competition laws in India, it remains to be seen whether Indian courts and the Competition Commission of India ("CCI") will navigate the regulatory waters to facilitate the continued growth of these industries in India.

While IPRs, by their very nature, are exclusionary (in the sense that an IPR holder can legitimately exclude others from using or exploiting their proprietary product or technology), competition laws typically view exclusionary conduct with suspicion. The underlying tension between the two is particularly palpable in the case of standard essential patents ("SEPs")—patents that claim an invention that must be used to comply with a chosen industry standard. In this article, we analyze the latest developments and challenges in India in relation to SEPs, including the limits of an SEP holder's right to exploit their intellectual property on account of it constituting an abuse of a dominant position.

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[2] The Patents (Amendment) Act, 2005 made significant amendments to India's patent regime.

[2] *See* http://dazeinfo.com/2014/12/18/worldwide-smartphone-users-2014-2018-forecast-india-china-usa-report/, last accessed on October 7, 2015.

[4] *See* http://indianexpress.com/article/technology/mobile-tabs/lenovo-motorola-start-smartphone-manufacturing-in-india-with-moto-e/ and http://economictimes.indiatimes.com/tech/hardware/make-in-india-after-samsung-htc-to-manufacture-mobile-handsets-in-the-country/articleshow/47873827.cms, last accessed on October 7, 2015.

When it comes to SEPs[5] competition authorities, who otherwise may be hesitant to interfere with IPR-protected technology, feel more compelled to intervene. Ordinarily, the grant of exclusive rights is recognized as an essential factor for fostering innovation. Since innovation is a contributor to competitiveness, it is often argued that, but for IPR protection, enterprises would lose the incentive to innovate, a process which entails significant investments with no certainty of recoupment. In recognition of this, for example, the (Indian) Competition Act, 2002 ("Competition Act") grants a limited carve out for restrictions necessary to protect a legitimately accorded IPR, incorporated in agreements, without casting a "duty to deal."[6]

However, the rules change when it comes to SEPs, which cannot be exploited like any other patent. Once a standard is selected, competitors and downstream market participants typically invest heavily to ensure that their production processes and devices comply with the relevant standard. The adoption of a standard usually requires the use of particular (patented) technology that is compatible with the standard, resulting in industry stakeholders being "locked in." This means that certain patents are essential for compliance with the relevant standard, and vest SEP holders with market power.

In particular, an outright failure to license to a competitor could result in the SEP holder being liable for abuse of dominant position by denying market access (contravention of Sections 4(2)(c)), or using its dominant position in one market to protect another (contravention of Section or 4(2)(e) of the Competition Act). Alternatively, asserting an excessively high royalty rate for use of a SEP could result in the SEP holder being liable for abuse of dominant position by imposing an unfair or discriminatory price in contravention of Section 4(2)(a)(ii) of the Competition Act.

There may be several advantages to adopting an industry standard, such as enabling products and services offered by different vendors to interoperate. However, where adopting a standard involves the incorporation of a patent, it is important to ensure that the patent holder does not unjustly exploit its market power. One of the ways in which this may be prevented is by securing "FRAND" commitments, where owners of SEPs commit to make them available to third parties on "fair, reasonable and non-discriminatory" ("FRAND") terms. FRAND terms are typically made to standard-setting organizations such as the European Telecommunications Standards Institute.

Adoption of FRAND terms appears to be a mutually beneficial solution. Patent owners benefit from their SEPs being widely used and remaining stakeholders ensure they are able to license the relevant SEPs and are protected from paying exorbitant royalty rates. However, the efficacy of FRAND terms is determined by their enforceability. As a result, the often asked (yet unsatisfactorily answered) question is: What are the best methods and institutions to determine and enforce FRAND terms?

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[5] A patent is deemed essential if an independent evaluator concludes that the patent is essential to the practice of a technical standard.

[6] Section 3(5)(ii) of the Competition Act.

II. CHALLENGES IN ENFORCING FRAND TERMS IN INDIA

The rapid development of technology-based industries and growth of the smartphone user base in India increases the likelihood of industry participants choosing India as a jurisdiction in which to challenge FRAND commitments. This is a role that Indian courts and regulators rarely take on. In the United States, FRAND breaches are litigated before courts that are typically well versed with the economic and legal underpinnings of both intellectual property and antitrust laws.[7] In contrast, in several jurisdictions, including India, competition authorities are specialist regulators tasked first and foremost with ensuring "freedom of trade carried on by other participants in markets."[8]

Under the Competition Act, while there is a limited carve out accorded to IPR holders to enforce restrictions to protect their intellectual property in respect of horizontal or vertical agreements, Section 4 of the Competition Act—intended to prevent abuses of dominance—does not contain a similar dispensation. This means that in the context of a FRAND dispute, the CCI may examine the royalty rates being demanded for SEPs as a possible abuse of dominance. On the other hand, a breakdown of licensing negotiations sometimes results in a SEP holder instituting infringement proceedings in a common law court against the prospective licensee for patent infringement under the (Indian) Patents Act, 1970 ("Patents Act"). In such a case, where the courts are arguably in a position to grant and enforce a license under FRAND terms, jurisdictional conflicts are likely to arise.

Case in point: India's first ever FRAND litigation is currently being played out before the Delhi High Court. Telefonaktiebolaget LM Ericsson (Publ) ("Ericsson"), as the registered owner of eight valid and existing patents in India referred to as AMR Patents, 3G Patents, and EDGE Patents, filed an infringement suit against Micromax Informatics Limited ("Micromax") for using Ericsson's patented technology in the handsets imported into India. This occurred after Micromax failed to accept the terms of the FRAND license agreement proposed by Ericsson. The Delhi High Court granted an interim injunction in favor of Ericsson and directed the customs authority to notify Ericsson whenever Micromax imported a consignment of handsets into India.[9] By way of an interim arrangement, the Delhi High Court directed Micromax to pay the royalty rates demanded by Ericsson and directed the parties to enter into mediation. When the mediation talks failed, in November 2013, Micromax approached the CCI[10] alleging that Ericsson had abused its dominant position by imposing exorbitant royalty rates for its SEPs.[11]

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[7] While the United States Department of Justice Antitrust Division and the Federal Trade Commission share responsibility for investigating and litigating cases under the Sherman Act, 1890, decisions *re* antitrust violations are taken by federal courts that entertain disputes under all laws, specialized and general.

[8] Recital to the Competition Act, 2002.

[9] Relevantly, as a holder of an SEP, Ericsson had given FRAND commitments to European Telecommunications Standards Institute ("ETSI"), which would have included not seeking an injunction against the use of its patent; the DHC completely failed to take note of this fact and granted an injunction in favor of Ericsson on the very first day of hearing.

[10] Ericsson by Micromax Case no. 50 of 2013.

[11] It was contended that Ericsson was not charging product-based royalty, i.e. it was charging royalty not for the patented product (technology) but the end product in which the patented product was being used (phone), which increased the royalty rates by an exorbitant margin.

The CCI took a *prima facie* view that when royalty rates are based on the cost of the final product rather than the patent itself,[12] such terms cannot be considered to be "FRAND" terms. Accordingly, the CCI found Ericsson to have *prima facie* violated its FRAND commitments by licensing its essential patents for 3G and 4G technologies on unfair terms in contravention of Section 4(2) of the Competition Act. The CCI directed its investigative arm, the Director General, to conduct a detailed investigation.

Ericsson challenged the decision of the CCI before the Delhi High Court as being one without jurisdiction, as the very same issues were being deliberated before the Delhi High Court. By way of an interim order, the Delhi High Court prohibited the CCI from passing any final orders until it determined whether the CCI has jurisdiction over this matter. A decision is pending and is expected in the next few months. Several similar complaints have now been filed against Ericsson[13] before the CCI making similar allegations against Ericsson's refusal to grant licenses on FRAND terms.

The jurisdictional tussle between the Delhi High Court and the CCI assumes significance in India primarily because disputes in respect of the Patents Act have traditionally been in the domain of civil courts (for the limited purpose of infringement suits). However, since the Patents Act does not distinguish between regular patents and SEPs—the question of its applicability to SEPs is moot. While a licensee may apply to the Controller of Patents under the Patents Act[14] to obtain a license to use the patented product on reasonable terms, in order to approach the Controller of Patents, the licensee is required to have an existing license or patent which it cannot use/effect without access to the patent in question. This effectively limits the scope of the Patents Act and does not apply to parties seeking a remedy based on the patent holder's FRAND commitment.

Equally, there exist reservations on the appropriateness of the CCI to effectively resolve FRAND disputes. Given that the CCI is a competition authority rather than a price regulator,[15] its role in settling FRAND disputes, particularly those involving allegations of price exploitation, may be short of effective. While the CCI may reach a conclusion that the prevailing royalty rates are "excessive" so as to constitute an abuse of dominance, the CCI may be hesitant to actually determine the FRAND rate—more often the primary issue in FRAND disputes. However, the CCI could garner guidance from other leading jurisdictions. Several principles of determining a FRAND rate have been set out in jurisdictions outside India—for instance, guidance on determining a FRAND rate range is set out in *Microsoft v. Motorola*[16] and guidance on setting a

[12] An allegation against Ericsson by Micromax.

[13] Case no. 4/2015 and Case no. 76/2013 by Intex Technologies (India) Limited and Best IT World (India) Private Limited (iBall) respectively.

[14] While the Patents Act makes no distinction between SEPs and regular patents, Section 91 of the Patent Act allows a person who has a right to use a patented invention, but is prevented from doing so due to non-access of another patent, to approach the Controller of Patents to request that it grant a license to use the second patent, on reasonable terms.

[15] CCI has shown reluctance to play the role of a price regulator in the past in *Manjit Singh Sachdeva v. DGCA*, Case no. 68/2012; and *Citizens Grievance Foundation v. Mumbai Airport Authority Limited and another*, Case no. 51/2013

[16] W.D.Wash, Case no. C10-1823-JLR.

specific FRAND rate is set out in *Huawei v. InterDigital.*[17]

No matter whether the courts or the CCI are ultimately the arbiter, Indian industry would benefit greater from the setting of economically sound principles to determine a FRAND range or FRAND rate, rather than the actual determination of a FRAND rate.

III. CONCLUSION

Given the role played by competition agencies in relation to the alleged abuse of dominance through the refusal to license SEPs or excessive prices demanded in respect of SEPs, it appears unlikely that the CCI would freely relinquish its jurisdiction. As such, it will be interesting to see how the Delhi High Court decides the question of the CCI's jurisdiction with respect to FRAND disputes.

What is not in question is that the existing jurisdictional and substantive legal uncertainty will hinder India's ability to emerge as a key jurisdiction where FRAND disputes arise in the foreseeable future. Independent of whether the Indian courts or the CCI are the arbiter of disputes relating to FRAND rates, it becomes all the more imperative for Indian courts or the CCI to set out principles for determining FRAND rates or ranges based on economically sound principles.

[17] As was done by the Guangdong High Court of China in *Huawei v. InterDigital.* These include the "ex-ante competitive rate" where FRAND royalty rates are based on the competitive rate for such technology prior to its inclusion in a standard or royalties charged by licensors for the previous generation of the technology or royalties charged by the same licensor for patents that are essential to other comparable standards.

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FRAND Developments—An Indian Competition Law Perspective

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FRAND Developments—An Indian Competition Law Perspective

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I. INTRODUCTION

The antitrust/competition law regime of India has gained considerable importance as a result of India's opening up of its economy commencing in early 1990s, moving towards becoming a liberalized and globally competitive economy. Given the wide ambit of antitrust law, there may arise a conflict with other laws in force in India, particularly intellectual property ("IP") laws. Globally, there has always been a turf war in the implementation of IP laws vis-à-vis competition law, which has further intensified given the short comings in the paradoxes between these two laws, both globally and in India.[2] The primary cause for this inconsistency is that IP laws are, by definition, exclusionary in nature, whereas competition law tends to mandate fair, equitable, and just treatment to all stakeholders.

Given the paramount importance of information technology ("IT") sector to the Indian economy, the world is carefully watching how India's competition regulator, namely the Competition Commission of India ("CCI"), will balance the potentially conflicting goals of Indian IP laws with the relatively new Indian competition law regime.

II. SEPS & STANDARDIZATION IN THE INDIAN COMPETITION LAW CONTEXT

A simple example of this tension can arise when the holder of an IP right exercises its pricing rights granted under the IP laws, which may be perfectly acceptable under those laws; however, under competition law, the same pricing conduct may amount to abuse of dominance by a monopolist. A more specific example of the intersection of IP and competition laws is when they interject each other and affect public interest by way of Standard Essential Patents ("SEPs"), which are patents that must be used to comply with a technical standard.[3] The licensing of SEPs on fair, reasonable, and non-discriminatory ("FRAND") terms for their use is the pillar of the standards-development process involving SEPs.

Standard-setting is usually beneficial and enables market access, increase in market efficiency, quality assurance, promotion, and equitable use of a new technology or innovation. In the Indian context, setting of standards is essential to attract Foreign Direct Investment ("FDI") and particularly so in light of the recent "Make in India" and "Digital India" initiatives launched by the Government of India. These initiatives are critical for Indian economic growth and, if effective, will allow the Indian IT industry to flourish. In this regard, India has the requisite intellectual wealth and institutional capability which, if channeled in the right direction, can be

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[2] *Available at* http://www.fosspatents.com/2013/03/standard-essential-patent-litigation.html.

[3] Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting*, (I) INNOVATION POLICY AND THE ECONOMY, VOLUME I, 2001.

beneficial to these initiatives.

However, the exercise of SEP IP rights will have to achieve a balance under the new Indian competition laws, so that there is neither a chilling of the spirit of innovation by over-enforcement or the negative effects that can ensue from under-enforcement. How this tension will play out in India within the concept of FRAND for SEPs is of particular interest.

The basic rationale behind FRAND is that it benefits the inclusion of patented technology in technical standards, while ensuring that the SEP holder cannot abuse its dominant position in the market that it gains from widespread adoption of a voluntary technical standard.[4] In spite of the importance attached to setting standards in terms of both licensing practices and securing the business interests of foreign entities in India, Indian jurisprudence and guidance from Indian courts on FRAND licensing practices for SEPs are at an embryonic stage. This, in turn, arises primarily because the enforcement provisions of the (Indian) Competition Act, 2002 (as amended) ("Competition Act"), which are under the sole primary jurisdiction of the CCI, have only been in effect for a little more than six years.

The first FRAND/SEP cases are only beginning their journey through the Indian competition law regime. Globally, there are many instances where companies are troubled by the protectionist concerns on the part of the various jurisdictions and their respective authorities. Antitrust matters relating to patent licensing are increasingly posing a threat to companies doing business worldwide. China, for instance, has moved aggressively to try to curb FRAND abuse. Similarly, there have been cases such as *Motorola v. Microsoft* and *Samsung v. Apple* in Germany, wherein temporary injunctions were granted in respect of violation of SEPs.

These types of complaints are now surfacing in India too. For example, IP right holders have complained about a strong protectionist stance with regard to patents in the pharmaceutical sector. These issues are vital in the Indian context, and India has a unique opportunity to learn and adapt from these experiences from across the globe. In short, there is limited guidance thus far, with only three *prima facie* orders of the CCI[5] and ongoing related litigation in the Delhi High Court.

FRAND-based competition issues in India gained momentum as a result of litigation in the Delhi High Court and the Director General ("DG") investigation ordered by the CCI concerning Telefonaktiebolaget LM Ericsson (Publ) ("Ericsson"). More specifically, Ericsson has been subject to three separate complaints (or "information" in the Indian competition law parlance) filed before the CCI for alleged abuses of dominant position under Section 4 of the Competition Act by Micromax Informatics Limited[6] ("Micromax"), Intex Technologies (India) Limited[7] ("Intex"), and M/s Best IT World (India) Private Limited[8] ("iBall") (collectively referred

[4] *Dore Antoine, Limiting the Abuse of Market Dominance by Standards-Essential Patents. Retrieved from -* http://itu4u.wordpress.com/2013/02/06/limiting-the-abuse-of-market-dominance-conferred-by-standards-essential-patents/.

[5] Case No. 50 of 2013, 76 of 2013 and 04 of 2015.

[6] Case No. 50 of 2013.

[7] Case No. 76 of 2013.

[8] Case No. 04 of 2015.

to as the "Informants").

The facts of all three cases are roughly similar. The Informants have basically alleged that Ericsson has abused its dominant position in the relevant market of 2G, 3G, and 4G technologies in GSM standard compliant mobile communication devices in India. The Informants allege that Ericsson, *inter alia*, has imposed exorbitant royalty rates for licensing its GSM technology under FRAND terms, while refusing to share the terms of FRAND licenses given to licensees similarly placed.

The Informants have claimed that Ericsson was imposing discriminatory and non-uniform terms on similarly and uniformly placed players. Further, it was alleged that each user of Ericsson's SEPs was made to sign a Non-Disclosure Agreement. This meant that users of such SEPs would not be in a position to find out the royalty terms given to other users. This reduced transparency and was contrary to the spirit of "applying FRAND terms fairly and uniformly to similarly placed players."

Ericsson was also alleged to have imposed a jurisdiction clause preventing a party from having disputes adjudicated in India (where both parties carry on business) and vested jurisdiction in other places like Sweden and Singapore. According to the Informants, these kinds of ouster of jurisdiction also violate FRAND principles, as they contend that FRAND licensing issues should be resolved locally as a foreign jurisdiction clause may lead to distortion of competition due to hold-ups.

In each of the Ericsson cases, the CCI has formed a *prima facie* view under Section 26(1) of the Competition Act that Ericsson was dominant and directed a full investigation based on each of these complaints. The investigation in the *Micromax* and *Intex* cases has been joined, whereas the investigation in the *iBall* case is being conducted separately.

The *Micromax* case is a landmark case in the Indian context and is the first instance where the CCI has dealt with FRAND terms. To further understand the context of the CCI cases in India, it must be noted that the CCI tends to take a lot of guidance from the European Commission ("EC"). The EC, in its recent *Motorola* and *Samsung* decisions, held that a SEP holder can be held to contravene competition laws if the SEP holder tries to exclude competitors from the market by threatening injunctions on the basis of SEPs.

The EC has also held that the various acts of a SEP holder—such as imposing unreasonable royalty demands, refusal to license SEP according to FRAND terms, or charging royalties based on the price of the final product versus the smallest saleable unit, etc.—may also be in violation of competition provisions. Such conduct may lead to distorting licensing negotiations and thus lead to unfair licensing terms, with a negative impact on consumer choice and prices.[9]

Separately, but intimately related to the CCI cases, Ericsson has also filed three writ petitions in the Delhi High Court, challenging the CCI's jurisdiction to investigate its actions.[10] In its *prima facie* orders, the CCI, which is the sole first instance adjudicator in India under the

[9] *EU Competition Policy Brief*, Issue 8, June 2014.

[10] W.P. (C) 464 of 2014; W.P. (C) 1006 of 2014; and W.P. (C) 5604 of 2015.

Competition Act, with the Indian judicial courts having no direct power, observes that it has complete jurisdiction to investigate the matter with respect to anticompetitive practices, regardless of contemporaneous proceedings of IP infringement in the Delhi High Court.

Importantly, the CCI cited Section 62 of the Competition Act, making it clear that the provisions of the Competition Act are in addition to, and not in derogation of, other existing laws. Thus, the CCI decided that it was obligated to, and had the jurisdiction to, visit the issues of competition law, and the pendency of a civil suit in any other forum—including a High Court—does not take away the CCI's jurisdiction to proceed under the Competition Act.

In a contrasting *prima facie* observation the Delhi High Court noted that there is a substantial question of jurisdiction that arises from the CCI proceedings. Upon perusal of the CCI's orders, the Delhi High Court, in making a negative observation, believed that the CCI had entered into an adjudicatory and determinative role by recording a detailed and substantial reasoning at a *prima facie* stage itself.

Interestingly, the CCI, in May 2015, ordered the DG to investigate the *iBall* case relying heavily on its previous orders in both *Micromax* and *Intex* but failing to take note of the orders of the Delhi High Court that followed the CCI's orders from 2013. These conflicting CCI orders vis-à-vis the orders of the Delhi High Court mystify the application and use of FRAND to set standards in India.

Apart from the CCI-based litigation in the Delhi High Court, as mentioned above, Ericsson has also filed additional civil suits in the Delhi High Court, which are also *sub judice*. against each of the Informants for enforcing a permanent injunction to prevent the mobile telephone manufacturers from using Ericsson's patents. In light of the multiple legal proceedings, the Delhi High Court has restrained the CCI and DG from passing any final orders until the completion of proceedings before the Delhi High Court itself.

III. CONCLUSION

The CCI's *prima facie* orders have received mix reviews from various quarters of the Indian economy, specifically due to the observations made by the Delhi High Court on the jurisdictional issue. Thus, there has been considerable debate in Indian legal circles to determine the appropriate legal forum to decide the FRAND-related issues given that it involves a question of deciding on patents as well.

The decisions of the Delhi High Court signal that Indian courts may be responsive to the judicial and industrial trends across the globe; by contrast, the CCI's order in the *iBall* case[11] has increased the ambiguity of FRAND jurisprudence in India and does not give a clear and precise opinion. The position of India law and the imposition of FRAND terms or the protection of SEPs from a competition law perspective presently suffer because all legal proceedings regarding these issues are still underway, causing a lack in clarity.

Further, it is likely that clarity on FRAND principles in the Indian context and from a competition law perspective will be in line with the Digital India initiative which seeks to lay

[11] Case No. 04 of 2015.

emphasis on setting of standards to transform India into a digitally empowered society. Thus, development of FRAND guidelines in the backdrop of the Digital India initiative are extremely important to lay down the basic framework. Similarly, adoption and recognition of these principles will benefit India's Make in India campaign giving some much needed comfort to foreign licensors while protecting the interests of local licensees.

By adopting these balanced principles, India will do much to accelerate the development of critical standards that are enablers of technology and that play to India's strengths as an information technology innovator. Once adopted by Indian standard-setting operators, any breach of these principles can be consistently enforced. However, the cross roads at which the enforcement of these standards under contract and IP laws meet the competition law mandated to check the abuse of market power of SEP holders is yet to be seen.