

Standard Essential Patents

Forming a Policy Framework for SEPs in India – Lessons from a comparative study of International Regulatory Regimes

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Abstract

In this paper, we are looking at the guidelines issued by regulatory authorities across the world to enable judiciaries to deal with cases involving Standard Essential Patents. Standard Essential Patents present a unique challenge to judiciaries wherein they have to balance principles of intellectual property law with competition policy. We shall be looking in depth at the different guidelines issued by the United States, Japan, the European Union, Canada and Republic of Korea. We shall also attempt to identify differences between the guidelines and understand the reasons for these differences. Additionally, we will also be looking at the best practices that can be drawn from these varying guidelines so that they may be used as guideposts for policymakers and regulators in India to adjudicate the increasing number of disputes involving SEPs in India.

Introduction

Intellectual property has been accorded special protection under law so as to allow the people who create it or generate it to be able to gain financially through the use of the property provided the innovators/creators of the intellectual property place the innovations in the public domain. The law is formulated in a fashion as to strike a balance between the rights and responsibilities of innovators as well as the greater public good generated from the

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dissemination of the knowledge (created by the innovators). As a result, while at the same time protecting the innovators from other imitators seeking to gain off of the inventions, the law also requires that these innovators to make the complete details of the innovation public. This is done so that the generation of knowledge can continue with new inventions being based on the previous generation whose details were made public by the inventors when seeking intellectual property protection.

As described above, the protections offered by intellectual property laws provide the innovators with a set of specific rights. These rights are negative in nature meaning that the rights holder can prevent others from performing certain actions which includes exploiting commercially or otherwise the underlying assets which are protected by these rights. In the case of intellectual property rights, they can be the right to prevent commercialization, to copy, to print, to distribute copies of, etc. By providing negative rights, intellectual property rights essentially give the rights holder a monopoly power over the product for a specific period of time. While this may appear to be contrary to statutes that seek to promote competition and curb monopolistic tendencies, both intellectual property laws and competition/antitrust laws share common goals – to promote innovation, enable efficient allocation of resources by the economy and to improve consumer welfare. These common goals are also recognized by regulatory agencies and the judiciary. In *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990), the court pointed out that “[T]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition” (*Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990) c.f. U.S. Department of Justice, Federal Trade Commission, 2017, p. 2).

Although both intellectual property laws and competition laws have similar goals, intellectual property can in some cases give the IP rights owner market power which can be abused by the rights holders. This is especially true in the case of standard essential patents. Standard Essential Patents (SEPs) are patents which are essential to the implementation of a standard. Most standards involve multiple patents, some of which may have technically and commercially viable alternatives. However, some of the patents involved in standards may not have any technical or commercially feasible alternatives. As a result, if a company wants to build products/services that are compatible with these standards, they have no alternative but to license these patents. The latter category of patents which form part of the standard and which do not have any technical or commercially feasible alternatives are called Standard Essential Patents. In simpler words, an SEP is a patent without infringing (assuming the patent holder doesn't license the patent) on which the standard cannot be implemented. SEPs provide a unique challenge to competition authorities because the holder of an SEP is left with market power that is not representative of the value of the patent on its own. While the holder of an SEP legally has a right to stop others from infringing on his patent, sometimes such actions might run afoul of competitive policy. The challenges involving SEPs has been brought into stark focus with recent cases involving Apple and Qualcomm (Porter, 2019) as well as FTC and Qualcomm (Mickle, Kendall and Fitch, 2019) along with industry actions involving Standard Setting Organizations (Huawei barred by both the SD Association and the Wi-Fi Alliance both of which are Standard Setting Organizations. Huawei's membership in both the organizations was restored later in the week) (Keane, 2019; Gartenberg, 2019; Gonzalez, 2019). The settlement arrived at between Apple and Qualcomm in their lawsuit directly resulted in one of Qualcomm's competitors (Intel) deciding to exit an industry (Gartenberg, 2019). This example shows the possible effect that cases involving standards can have on competition and ultimately on consumer welfare.

The unique challenges that Standard Essential Patents pose to promote the efficient allocation of resources is being recognized by countries across the world. Several countries have come out with policy documents and/or guidelines to serve as markers for companies to navigate the issues of licensing and anti-trust when it comes to Standard Essential Patents. These guidelines also aide policymakers and regulators in determining if the actions of companies are violating any of the IP laws or competition laws. In this paper we shall be looking at IP rights and competition policies concerning intellectual property rights (particularly Standard Essential Patents) from five different jurisdictions – the United States, Japan, the European Union, Canada and South Korea. We will be analysing these guidelines and policy statements to identify potential best practices which can then be used as a template for the competition authorities and patents offices in other countries around the world. Finally, we shall highlight some of the issues that have been raised in cases involving SEPs in India and try to see if the guidelines issued in these five countries could help resolve some of the questions raised in these cases.

United States

The United States was the first major economy to come out with policy guidelines concerning antitrust issues in licensing of intellectual property (U.S. Department of Justice, Federal Trade Commission, 2017) as well as guidelines covering issues with respect to the licensing of Standard Essential Patents (U.S. Department of Justice, U.S. Patent & Trademark Office, 2013).

Antitrust Guidelines for the Licensing of Intellectual Property

In *Antitrust Guidelines for the Licensing of Intellectual Property* (these guidelines which were issued in 2017 were meant to replace the earlier “Antitrust Guidelines for the Licensing of Intellectual Property” guidelines issued on April 6, 1995) the United States Department of Justice and the Federal Trade Commission lay out some basic principles before looking at the unique issues that may involve intellectual property. Most importantly they affirm that both “intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare” (U.S. Department of Justice, Federal Trade Commission, 2017, p. 2). The purpose of intellectual property laws is to provide innovators with several rights including the right to exploit the innovation commercially as well as to prevent others from performing certain actions including copying, profiting from the innovation, etc. These rights are granted to innovators both for engaging in the process of innovation as well as for making public the innovation which leads to the increase of our cumulative knowledge. Without the innovators being granted these rights, it is highly likely that imitators would be able to rapidly exploit the innovations by copying them thus reducing the incentive for creators and innovators to engage in innovation. In the long run, this is detrimental to consumer welfare. Similarly, “antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers” (U.S. Department of Justice, Federal Trade Commission, 2017, p. 2).

While recognizing that the possession of intellectual property might create market power, both the agencies argue that by itself this does not raise antitrust issues. At the same time, they also state that because intellectual property is governed under separate statutes, it does not exempt them “from scrutiny under the antitrust laws” (U.S. Department of Justice, Federal Trade

Commission, 2017, p. 3) (nor does it mean that they are more likely to be scrutinised). The agencies argue that although some characteristics of intellectual property might be different from other forms of property, the fundamental principles of antitrust analysis are robust enough to deal with these differences with minor modifications to the framework of analysis. One of the most important contributions of the *Antitrust Guidelines for the Licensing of Intellectual Property* is the recognition that licensing deals involving intellectual property can have effects on markets beyond those involving the goods and services that use the intellectual property. The guidelines go into detail about the effect on technology markets as well as research and development markets due to the licensing deals and the antitrust concerns that can be raised as a result. The guidelines lay down directions to help one understand if a particular scenario will be treated as per se anticompetitive or not (called the rule of reason treatment in the guidelines). Finally these guidelines list several possible broad scenarios and indicators of how the Department of Justice and/or the Federal Trade Commission might handle these scenarios.

[Policy Statement on Remedies for Standard Essential Patents](#)

In 2013, the United States Department of Justice and the United States Patent & Trademark Office issued a joint policy statement on remedies for standard-essential patents subject to voluntary F/RAND (Fair/Reasonable and Non-Discriminatory) commitments. This policy statement sought to address a particular issue in cases involving standard essential patents – whether injunctions or other similar exclusion orders can be issued in cases involving standard essential patents especially when these patents are covered by a voluntary F/RAND commitment given by the patent holder.

Similar to the antitrust guidelines for the licensing of intellectual property, the United States Department of Justice (DoJ) and the United States Patent & Trademark Office (USPTO) affirm

the importance of innovation and the patent system to foster innovation, economic growth, consumer welfare and the efficient allocation of resources in the economy. They also recognise that exclusion has historically been an appropriate remedy available to the patent holder when a good infringed on the patent held by them.

The policy statement then looks at the importance of standards, particularly those set by Standard Setting Organizations (called voluntary consensus standards in the statement). It also points out the challenges raised by implementing standards like increase in switching costs and the potential gain in market power by the owner of the patented technology (which may then be misused) along with the resulting impact of consumers due to this increased market power. The organizations (DoJ and USPTO) point out that standard setting organizations have tried to address these challenges by requiring the owners of patented technology to commit to licensing their patents on a F/RAND basis failing which they (the technology) are not included in the standard. It is the impact of this F/RAND commitment that the agencies are trying to address through this policy statement particularly in “cases where an exclusion order based on a F/RAND-encumbered patent appears to be incompatible with the terms of a patent holder’s existing F/RAND licensing commitment to” (U.S. Department of Justice, U.S. Patent & Trademark Office, 2013, p. 6) a standard setting organization. The action of the patent holder to seek an injunction or an exclusion order can be seen as an attempt to coerce a potential licensee to accept terms which are more favourable to the licensor.

However, despite acknowledging that there is a possibility of misuse of exclusion orders being sought by the patent holder, the Department of Justice and the US Patent & Trademark Office conclude that injunctions and exclusion orders are an appropriate remedy that are available to

innovators and patent holders to exercise their rights. At the same time, they also recommend caution in the process of granting these orders

Although it was one of the first countries to come out with policy statements covering the antitrust issues surrounding the licensing of intellectual property as well as concerning standard essential patents, the guidelines from United States do not address some of the issues that have risen during cases involving standard essential patents – issues like patent hold-up by the patent holder, patent hold-out by a potential licensee (or the case of an unwilling licensee), appropriate formula for calculating royalties (Entire Market Value method vis-à-vis the Small but Saleable Patent Practicing Unit method), etc. Guidelines issued by jurisdictions like Japan and the European Union in later years covered these issues to a greater extent.

Japan

Like in the case of United States, Japanese regulators also issued two documents with guidelines on the use of intellectual property rights and licensing negotiations involving standard essential patents. These guidelines were issued by the Japan Fair Trade Commission and the Japan Patent Office respectively (The Japan Fair Trade Commission, 2016) (Japan Patent Office, 2018).

Guidelines for the Use of Intellectual Property under the Antimonopoly Act

We shall first look at the guidelines issued regarding the use of intellectual property. These guidelines are applicable to all aspects of technology (defined under the guidelines as “any technology protected under the Patent Act, the Utility Model Act, the Act Concerning the Circuit Layout of a Semiconductor Integrated Circuit, the Plant Variety Protection and Seed

Act, the Copyright Act and the Design Act . . . and to any technology protected as know-how”
(The Japan Fair Trade Commission, 2016, p. 3).

Similar to the antitrust guidelines for the licensing of intellectual property in the United States, these guidelines re-affirm the importance of intellectual property for entrepreneurs to engage in research and development as well as the procompetitive effects of intellectual property. However, these guidelines also caution users that sometimes these intellectual property rights may also end up curbing competition. It then goes onto define the scope of the guidelines –

- i. If the conduct arising from the exercise of intellectual property rights were to inhibit any other party from using technology
- ii. If the holder of the intellectual property were to license the technology with a very restricted scope
- iii. If the holder of the intellectual property imposes restrictions/conditions on activities of the entities which take a license to use the technology

The guidelines also authorize the regulator to look into complaints irrespective of whether the firms involved were operating within or outside Japan (as long as the relevant activities affect the market in Japan).

To help users of the guidelines in evaluating if a particular use of intellectual property violates the Antimonopoly Act, the guidelines lays down steps to assist in the same – from determining the relevant market to identifying if a particular action can be seen simply as the exercise of rights granted by ownership of the intellectual property or not. In identifying the market, the commission does not limit itself to just the product or services market where the goods and services involving the technology is traded. It also looks at markets where the technology is traded as well as effect on research and development as well.

Finally, the guidelines also contain several examples that were developed on the basis of actual cases that were brought before the Japan Fair Trade Commission to help the users understand the logic behind the decisions taken in these cases. These examples are given after points of discussion which were applied in these cases to help the users understand how particular actions can run afoul of the Antimonopoly Act.

[Guide to Licensing Negotiations involving Standard Essential Patents](#)

The guidelines for licensing negotiations involving SEPs were published by the Japan Patent Office in 2018 with a view to help companies involved in these negotiations to engage in good faith negotiations. This would help the companies, both SEP holders and potential licensees, avoid making missteps during the negotiation process as well as help them build documentary evidence in case the negotiations break down to show that they took part in the negotiations in good faith. The latter aspect is especially important if disputes end up in court or in arbitration as it would strengthen the case of the good faith negotiator.

These guidelines begin by giving a very brief history of the evolution of importance of SEPs and the two biggest challenges faced by companies involved in SEP license negotiations – patent ‘hold-up’ and patent ‘hold-out’. Patent ‘hold-up’ happens when “businesses providing key social infrastructure or services using SEPs that are essential to the operation of those businesses are faced with the threat of injunction” (Japan Patent Office, 2018, p. 1) from SEP holders. On the other hand, patent ‘hold-out’ is a scenario where “whereby the implementer receives an offer for licensing negotiations from the rights holder, but fails to engage in negotiations in good faith in anticipation that an injunction will be denied on SEPs” (Japan Patent Office, 2018, p. 1).

The guidelines argue that Standard Setting Organizations were able to address the issues of ‘hold-up’ to a certain extent by requiring companies which own the patents to commit to licensing them in a Fair, Reasonable and Non-Discriminatory (FRAND) fashion which has in turn “encouraged companies and other parties participating in standardization to propose high-quality technologies to SSOs and has made a substantial contribution to the widespread adoption of standard technologies” (Japan Patent Office, 2018, p. 2). However, this has also led to new issues cropping up where companies have deliberately overstated the essentiality of their patents when asked to by the SSOs. This is partly blamed on industry practices where the amount of royalty is determined by the portfolio of SEPs held by a company as well as the fact that SSOs do not have the resources to check the claims made by companies either during the process of standard formation or afterwards.

The guidelines by the Japan Patent Office are also unique in realizing the importance of SEP licensing beyond the traditional sectors of information and communication technology (ICT). They recognize the increasing role played by SEPs in other industries owing to the rise of the connected economy as well as the Internet of Things. The regulator states that in the ICT industry the traditional practice was for companies to resolve issues by cross-licensing intellectual property to each other with negotiations usually happening after the start of a service. Since companies belonged to the same sector, it was easier for them to understand the scope of the patents involved, their essentiality as well as value which allowed negotiations to proceed in a smoother fashion. However, with the rise of the connected economy and the Internet of Things, companies from different sectors are starting to use technologies in products and services in ways not envisioned before. As a result, companies from these sectors would also be negotiating for these licenses with SEP holders. These potential licensees would not

have the expertise and experience to understand the scope, validity, essentiality and value of the patents involved. We are already seeing examples of these disputes in courts around the world brought by companies not traditionally a part of the ICT industries accusing SEP owners of patent 'hold-up'.

The regulator claims that in the recent history, there has been increasing convergence in jurisprudence with respect to how parties engaged in SEP licensing negotiations ought to behave "based on the dedication to a factual inquiry into good faith negotiations" (Japan Patent Office, 2018, p. 4). The purpose of the guidelines according to Japan Patent Office is to help companies "to be recognized as negotiating in good faith" (Japan Patent Office, 2018, p. 4). However, the guidelines also caution the user against viewing the steps and factors used to determine royalty as a formula to automatically calculate royalty arguing that each case is unique and requires royalties to be calculated appropriately.

When elaborating on the licensing negotiation methods, the regulator puts forward two important factors that play a role in negotiations. One is good faith and the other is efficiency. The guidelines state that when a license is sought on FRAND terms, the phrase "Fair, Reasonable and Non-Discriminatory" applies not just to the rate of royalty but also to the behavior of the parties during the negotiation. The guidelines also lay down the steps in an ideal good faith negotiation (although it cautions that not every negotiation needs to have all the steps in the process or in the same order) –

- i. "Licensing Negotiation Offer from Rights Holder
- ii. Expression from Implementer of Willingness to Obtain a License
- iii. Specific Offer from Rights Holder on FRAND Terms
- iv. Specific Counteroffer from Implementer on FRAND Terms

- v. Rejection by Rights Holder of Counteroffer/Settlement of Dispute in Court or through ADR” (Japan Patent Office, 2018, p. 7)

Each of these steps are explained in detail by the guidelines with specific examples of good faith behavior and bad faith behavior being given by the regulator to help the users of the document.

The guidelines are also comprehensive in examining the jurisprudence across the world in explaining each of the steps involved in a negotiation process. For example, they clarify that competition regulators in Japan and the European View see the act of “demanding an injunction against an entity that is willing to obtain a license on FRAND terms may be a violation of competition law” (Japan Patent Office, 2018, p. 22). However, the competition regulators in the United States do not see this as an example of antitrust violation (Japan Patent Office, 2018).

Similar to the steps highlighted by the Japan Patent Office for a negotiation to be seen as a good faith negotiation, the guidelines also lay down some key factors to be considered for the negotiations to be conducted efficiently. These are –

- i. “Notification of a Timeframe
- ii. Parties to Negotiation in Supply Chain
- iii. Protecting Confidential Information
- iv. Choice of Patents subject to Negotiation
- v. Geographic Scope of License Agreement
- vi. Patent Pool Licensing
- vii. Greater Transparency of SEPs” (Japan Patent Office, 2018, p. 22-23)

The guidelines finally describe the different royalty calculation methods – reasonable royalties, non-discriminatory royalties and other ways of calculating royalties – as well as some additional factors that need to be considered in the calculation of royalties (number of licensees that have agreed to the royalty rate, scope of the license, essentiality/validity/infringement of patent, value of the individual patents, negotiating history and volume discounts) (Japan Patent Office, 2018). Within each broad method of determining royalties, several other methods are talked about.

European Union

The European Commission released its *Communication from the Commission to the European Parliament, The Council and the European Economic and Social Committee* setting out the EU approach to the Standard Essential Patents on 29 November 2017. Like the guidelines issued by the Japan Patent Office, this document seeks “to set out key principles that foster a balanced, smooth and predictable framework for SEPs” (European Commission, 2017, p. 2).

The document sets out its two main objectives to do this –

- i. “incentivising the development and inclusion of top technologies in standards, by preserving fair and adequate return for these contributions
- ii. ensuring smooth and wide dissemination of standardised technologies based on fair access conditions” (European Commission, 2017, p. 2)

To achieve these objectives, the Commission calls on all the Standard Setting Organizations to make sure that their databases have increased transparency through more precise declarations by the patent holders (which are kept up-to-date) and also through essentiality checks. The Commission also calls on the SSOs to develop information tools which will increase the accessibility of this information and as a result improve the licensing negotiations. It suggests

that SSOs incentivize patent holders and potential implementers alike to value increased transparency.

The Commission also lays down some general principles for parties engaging in taking FRAND licenses for SEPs. It calls on all parties to the negotiation to engage in the process in good faith. While determining the royalty rates for the SEPs involved, the Commission argues that what constitutes fair, reasonable and non-discriminatory would depend on the sector involved (of both the SEP holder and the potential licensee). It calls on the parties to consider the following factors while valuing patents –

- i. “Licensing terms have to bear a clear relationship to the economic value of the patented technology” (European Commission, 2017, p. 6)
- ii. “Determining a FRAND value should require taking into account the present value added of the patented technology” (European Commission, 2017, p. 7)
- iii. “FRAND valuation should ensure continued incentives for SEP holders to contribute their best available technology to standards” (European Commission, 2017, p. 7)
- iv. To “avoid royalty stacking, in defining a FRAND value, an individual SEP cannot be considered in isolation. Parties need to take into account a reasonable aggregate rate for the standard, assessing the overall added value of the technology” (European Commission, 2017, p. 7)

While clarifying the non-discriminatory aspect of the phrase *Fair, Reasonable and Non-Discriminatory*, the Commission explains that the term non-discriminatory only applies when comparing implementers who are ‘similarly situated’. The Commission also seeks to encourage the formation of patent pools and other licensing platforms as it is of the view that these platforms can better address some of the challenges involving SEPs “by offering better scrutiny

on essentiality, more clarity on aggregate licensing fees and one-stop shop solutions” (European Commission, 2017, p. 7)

In this policy document, the Commission also suggests that “for products with a global circulation, SEP licences granted on a worldwide basis may contribute to a more efficient approach and therefore can be compatible with FRAND” (European Commission, 2017, p. 8). While this may be more efficient in the case of licenses granted which are a result of successful negotiation, implementing global licenses that are determined as the outcome of arbitration/lawsuits between companies might face challenges if regulators/courts in other countries arrive at a different order/judgement.

Citing the judgement in the Huawei vs ZTE case (Case C-170/13 Huawei Technologies, EU:C:2015:477 c.f. European Commission, 2017), the Commission is of the opinion that SEP holders should “not seek injunctions against users willing to enter into a licence on FRAND terms” (European Commission, 2017, p. 9). The Commission also lays down guidelines to determine when a potential licensee can be viewed as a willing potential licensee. In scenarios where the courts determine that granting an injunction is appropriate, the Commission requires the injunctive relief granted to be “effective, proportionate and dissuasive” (European Commission, 2017, p. 10). The Commission also encourages companies which are parties to a negotiation to consider alternative dispute resolution mechanisms rather than approaching the judiciary for disputes involving SEPs as these mechanisms “can offer swifter and less costly dispute resolution” (European Commission, 2017, p. 11).

Canada

The Competition Bureau of Canada published the Intellectual Property Enforcement Guidelines to “articulate how the Bureau approaches the interface between competition policy and IP rights” (Competition Bureau Canada, 2016, p. 2). These guidelines help the users to understand the circumstances in which the bureau would initiate action to investigate conduct involving IP rights and the circumstances where it would recommend/initiate legal action. Like in the case of the previous guidelines/policy documents that were discussed, these guidelines also begin by reiterating the importance of innovation in the economy today. The guidelines also highlight the importance of intellectual property laws and competition laws to promote an efficient economy. Before going into detail of the analysis that the bureau would undertake, the guidelines clarify that the circumstance under which the bureau would investigate actions would fall into two broad categories – actions involving just the exercise of IP rights, and actions involving “more than mere exercise of the IP right” (Competition Bureau Canada, 2016, p. 6). The guidelines also clarify that the bureau would not presume that the actions would violate the Competition Act in either of the cases mentioned above. Finally, the guidelines state that the bureau uses the same analytical framework to analyze conduct involving intellectual property as it does in the case of conduct that does not involve intellectual property. Before looking at the framework in detail, the guidelines delve into intellectual property law, competition law and the interface between them.

The analytical framework used by the bureau consists of the following steps –

- i. “Identifying the conduct” (Competition Bureau Canada, 2016, p. 12)
- ii. “Defining the relevant market” (Competition Bureau Canada, 2016, p. 12)
- iii. “Determining if the firm or firms under scrutiny possess market power” (Competition Bureau Canada, 2016, p. 13) – this would require the bureau to determine other factors

like market concentration, ease of entry into the market, horizontal effects of the arrangement between the firms, etc.

- iv. “Determining if the conduct would substantially lessen or prevent competition in the relevant market(s)” (Competition Bureau Canada, 2016, p. 13)
- v. “Considering, when appropriate, any relevant efficiency rationales or valid business justifications” (Competition Bureau Canada, 2016, p. 13)

The bureau (through these guidelines) also lays down the enforcement principles which guide it in determining if action needs to be taken in situations involving intellectual property. While doing this, the bureau uses its framework to determine if there are any anti-competitive effects of the action being investigated along with looking at probable efficiency considerations and other business justifications.

The guidelines finally look at eighteen different examples (some of them containing variations within themselves). These examples also look at two unique categories of agreements/patents. The first is with respect to settlements of proceedings under the Patented Medicines Notice of Compliance Regulations (Competition Bureau Canada, 2016). The second category (and more relevant to this paper) is collaborative standard setting and standard essential patents (Competition Bureau Canada, 2016). Before discussing conduct SEPs where it would deem action appropriate, the bureau gives its views regarding the importance of standards to the economy and the challenges that may be faced by companies in licensing SEPs (‘hold-up’ and ‘hold-out’). It also briefly outlines the approaches taken by Standard Setting Organizations to address some of these challenges and the pitfalls arising therefrom. Finally, the guidelines discuss the different situations where the bureau thinks it is appropriate for the SEP holder to

be granted an injunction against potential licensees and the situations where the grant of such an injunction is not warranted.

South Korea

The Fair Trade Commission of the Republic of Korea came out with Review Guidelines on Unfair Exercise of Intellectual Property Rights in 2016 (Korea Fair Trade Commission, 2016). These guidelines became effective on 23 March 2016 and their purpose was to provide a framework that can be used by the commission to regulate action by intellectual property rights holders (both domestic and foreign enterprises as long as the actions/contracts of these enterprises affected the Korean market).

The guidelines seek to help the commission develop criteria which would enable it to determine if the exercise of intellectual property rights by enterprises constitutes abuse of dominance of market power or cartelization by a group of companies. The commission clearly states that the guidelines shall only be applicable when a company with market dominance exercises its intellectual property rights (“In particular, refusal to trade, discriminations, and imposition of considerably excessive amount of royalty all by a company alone is, in principle, subject to this guideline only when the company has overwhelming market dominance”) (Korea Fair Trade Commission, 2016, p. 5). This criterion of market dominance is extended by the commission to holders of standard essential patents as the holder is likely to have market dominance in the relevant market. However, the commission cautions that the mere possession of market dominance does not by itself constitute a violation of the Monopoly Regulations and Fair Trade Act. The guidelines also state that when evaluating actions of enterprises, the anti-competitive nature of these actions needs to be compared to the increase in efficiency as a result (if any). Only if the anti-competitive effect outweighs the efficiency increases does the action

violate provisions of the fair trade act. When looking at the anti-competitive effect of the actions being investigated, the guidelines state that one should look at the relevant markets in goods/services which contain (or make use of) the patented technologies, technology markets as well as research and development markets. They also call on the users of the document to look at the effect the actions can have on existing market players as well as on future market players.

Before determining the anti-competitive nature, the guidelines require the users to first define the relevant market to apply the framework of analysis. These relevant markets can be goods and services markets, technology markets (where technology is traded), and research and development markets. Once the relevant markets have been determined, the next steps involve analysis the effects that the exercise of intellectual property rights can have on these relevant markets. These effects include (but not limited to) “price increase, reduction in output, restriction on diversity of goods and services, hampered innovation, foreclosure effect, increase of costs shouldered by competitors” (Korea Fair Trade Commission, 2016, p. 10). Finally, the guidelines require the users to check for increases in efficiency as a result of the exercise of the intellectual property rights and to compare the increase in efficiency against the anti-competitive effects. Since both intellectual property laws and competition laws share a common goal of increasing the efficiency in allocation of resources (and as a result of the economy as a whole), if the efficiency gains outweigh the anti-competitive effects, the exercise of the intellectual property rights is ruled not to violate the fair trade act.

The guidelines then look at specific actions which involve exercise of intellectual property rights so as to give some indications as to how the commission would proceed in different cases. Some of the actions analyzed are –

- i. acquisition of patent rights
- ii. licensing of patent rights conditioned on grantback of rights for improvements made to the patented technologies
- iii. filing lawsuits to exercise patent rights
- iv. excessive cost demanded for licensing of patents (or otherwise trying to unfairly influence the licensing cost)
- v. refusal to license
- vi. restriction on scope of the licenses
- vii. imposing various conditions while granting licenses e.g. conditions on resale price maintenance (of both the technology as well as products and services manufactured using the technology), limiting the markets where the licensee can sell the output, conditions regarding sourcing of raw materials, etc.

The guidelines also look in detail on patent pool formation as well as cross licensing practices of intellectual property rights holders and on exercise of patent rights as applicable to technology standards. When evaluating if the actions of a patent pool are violating the fair trade act, the guidelines call on the users to consider the technologies which are included in the patent pool, the type of licensing practices followed by the patent pool and management practices of the pool. A similar analysis can be performed in the case of cross licensing practices with minor modifications made to differentiate for the nature of cross licensing.

In the case of patents which are applicable to technology standards the guidelines highlight specific behavior which are likely to be viewed as violating the fair trade act (Korea Fair Trade Commission, 2016). These are –

- i. Unfairly agreeing to conditions limiting price, volumes, regions, etc. during the formation of the standard
- ii. “Unfairly not disclosing information of patents applied for or registered” (Korea Fair Trade Commission, 2016, p. 30) so as to increase the chances of the technology which contains the patents to be adopted as standard
- iii. Avoiding or trying to circumvent FRAND commitments made
- iv. Refusing to grant license for a standard essential patent
- v. Imposing discriminatory conditions for granting licenses to standard essential patents
- vi. Imposing other restrictive conditions on use of the license, exercise of patent rights already held by the licensee or attempting to tie the licensing of standard essential patents with licensing for non-essential patents

With respect to the rights of the SEP holder to seek injunctions against infringement of its patents, the guidelines support the right of the SEP holder to seek such a remedy as the commission is of the view that just the award of monetary damages might not be a sufficient deterrent to discourage infringement of patents. However, the commission also cautions SEP holders from indiscriminately filing injunctions as such action can be viewed as patent ‘hold-up’ by the SEP holder.

Finally, the guidelines briefly look at agreements made by enterprises in the process of settlement in patent disputes as well as patent rights being exercised by non-practicing entities.

Best Practices and Lessons for India

There have been numerous cases filed in India involving Standard Essential Patents in the last decade (15 lawsuits have been filed by SEP holders against companies alleging infringement. This is not counting the cross complaints filed by the alleged infringing companies against the SEP holders in courts as well as with the Competition Commission of India). While these cases have raised several issues with respect to whether or not the actions of the implementing companies actually amount to infringement of the SEP holders' rights, there are several other issues which the authors feel are more systemic and which can be addressed partly by looking at the points raised in the guidelines and policy documents discussed so far.

The most important question is the jurisdiction of the Competition Commission of India (the statutory regulator tasked with implementing the competition laws in India) in adjudicating complaints with respect to exercise of intellectual property rights. In three of the cases filed by Ericsson against Indian mobile handset manufacturers, the defendants approached the Competition Commission of India (CCI) alleging anti-competitive behavior by Ericsson (Competition Commission of India, 2013; Competition Commission of India, 2014; Competition Commission of India, 2015). Ericsson, in turn pleaded in the Delhi High Court that the CCI lacked jurisdiction to look into these complaints (High Court of Delhi at New Delhi, 2016a; High Court of Delhi at New Delhi, 2016b). This argument of Ericsson however was struck down by the Delhi High Court in its order dated 30 March 2016 in which the judge declared that the CCI could investigate actions involving the exercise of intellectual property rights to see if they were anti-competitive in nature. The guidelines issued by USA, Japan, Canada and Republic of Korea which were analyzed in this paper all state unequivocally that the antitrust regulators of the countries had jurisdiction to investigate actions of enterprises even if they were a result of exercise of intellectual property rights. Although these documents

are not legal in nature, they help clarify the position of the antitrust agencies as well as the logic/framework that could be used by the agencies in analyzing enterprises' actions. Such a document would also help the enterprises as it would remove uncertainty with respect to policy as well as implementation of the same in the country.

In addition to issuing policy documents, the antitrust agencies in the countries studied came out with these guidelines (and others) in cooperation with the respective intellectual property agencies. This inter-agency cooperation would further help in reducing policy uncertainty as well as assist the judiciary in understanding the logic behind the provisions of these guidelines. Such cooperation would also prevent dissonance between the views of the regulatory agencies.

Finally, enterprises involved in SEP license negotiations would also benefit greatly if the guidelines were to lay down the best practices that enterprises can follow during the negotiation process. These best practices could include the factors to be considered by the enterprises to engage in good faith negotiations, factors to be considered when efficiency in negotiation is of more importance, etc. These best practices would also help the enterprises understand how long they need to attempt negotiations before seeking judicial remedies and/or arbitration to resolve the disputes.

The matter of calculating royalties was only considered by the *Guide to Licensing negotiations involving Standard Essential Patents* (Japan Patent Office, 2018). However, even these guidelines only consider the pros and cons of each of the methods of calculating royalties briefly. The methodology of the royalty determination is one of the issues raised by the counter complaints filed by the Indian mobile handset manufacturers with the CCI (Competition Commission of India, 2013; Competition Commission of India, 2014; Competition

Commission of India, 2015). The royalty pricing methodology was also one of the issues at the heart of the lawsuit filed by the US Federal Trade Commission against Qualcomm. This question – bases for different methods of calculating royalties, pros and cons of each, and applicability of different methods – needs further research to be resolved and proactive action by the regulatory agencies will help us gain clarity in this regard sooner.

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