

# Standard Essential Patents

## An Analysis of Evolving Jurisprudence and Insights for Policymakers & Companies

Keerti Pendyal (Reg. No.: FP/11/14), FPM student in Public Policy & Management group

Thesis Advisory Committee: Prof. V. K. Unni (Chairperson), Prof. V. C. Vivekanandan, Prof. Rajesh Babu, Prof. Palash Deb

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Intellectual property has been accorded special protection under the law 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. Policy makers have tried to strike a balance between protecting the needs of the public at large (through the dissemination of knowledge) while at the same time protecting the rights of the innovators. Trying to balance these two interests means striking a fine balance between public and private interests. Intellectual property rights achieve this balance by trying to compensate innovators and creators for the immense cost of development of new ideas and innovations as well as the time invested by the innovators/creators in developing their work in exchange for making the work public. Compensating the innovators is essential because the rate of failure in research or arts is very high and only a very small portion of the time & effort put into the innovative/creative processes results in a successful product.

In this thesis, we shall be focused on one type of intellectual property protections viz. patents. The patent system is one of the two main systems for promoting innovation with the other system being the prize or grant-based system. Each of these systems has their advantages and disadvantages and are suitable for different scenarios, which we shall look into in detail in the thesis. Each of these systems also gives rise to their own set of problems when implemented. However, over the course of several decades, the patent system has slowly come to become the dominant system for promoting and incentivising innovators in research & development.

Despite emerging as the chosen method of incentivising innovators, the system of patents has suffered from many disadvantages – some of which have been addressed while more needs to be achieved for others. One of the disadvantages of the patent system, which has been resolved, is the issue of submarine patents. An example of a persistent problem which is still being researched by academicians and researchers the world over is the problem of hold-up in patents. Within the broad

area of patents, we shall be looking to address some of the concerns about patent hold-up in general and Standard Essential Patents in particular in this thesis.

The issue of patent hold-up is particularly prevalent in the fields of technology where any technological system is based on several patents which are typically held by more than one company (often competitors). As a result, the owner of a patent can refuse to license their patent to others or seek exorbitant royalties failing which the entire operations of the potential licensee can be stopped. This problem becomes all the more acute when the potential licensees have no alternative except to use the patent belonging to the licensor (who is doing the patent hold-up) like in the case of Standard Essential Patents. A Standard Essential Patent (SEP) is a patent which is essential to the implementation of a standard agreed upon by the industry body or the Standard Setting Organization. This means that the potential licensee has no alternative but to use the technology which is covered by the SEP if it wants to comply with the standard. An example would be 3G mobile telephony. To be able to brand their handsets as being 3G network compatible, handset manufacturers have to comply with a particular standard defined by the European Telecommunications Standards Institute (ETSI). The standard defined by ETSI consists of multiple pieces of technology, each of which is patented by some corporation/body. As a result, if a handset manufacturer wants to comply with the 3G standard, it has to license all these patents from their respective owners. Given this situation, the bargaining power (and the market power) of the owner of a SEP is magnified many times compared to a situation where its patent is not classified as a SEP thus allowing it to demand vastly higher royalties or put forward other such demands before licensing.

The increased market power enjoyed by the owner of an SEP requires us to look into the issues of violation of anti-trust laws in these cases. Any such investigation will also have to bear in mind not to violate the rights of the SEP holder in favour of maintaining competition. It is only recently (in the last two decades) that courts in different countries have been asked to look at these issues of SEPs vis-à-vis competition policy. In India, disputes on these matters have arisen only in the previous decade with several cases being filed by Ericsson, Philips and Vringo in the Delhi High Court only after 2009. The defendants in some of these cases have filed counter complaints with the Competition Commission of India alleging anti-competitive behaviour by the SEP holders. There are a total of 15 company pairs (unique pairs of plaintiff-defendant) who have engaged in suits in the Indian judicial system with numerous cases filed by each of the sides. The author has

studied all the orders, judgements and court hearings in each of these cases and analysed the same to better understand the issues that are the focal points in each of these cases.

While there is very limited jurisprudence in India in these matters (with some of the judgements differing from the others), courts overseas have had more experience dealing with these matters. We look at the evolving jurisprudence from these countries to identify common threads in the judgements which can then help the policymakers and the judiciary system of India in dealing with such cases going forward. We have gone through the landmark judgments involving Standard Essential Patents from the United States, the European Union and Japan – a total of 45 judgments. Studying the orders, court hearing notes, and judgements has helped in identifying the common issues that span across the cases. Identifying the common issues in these Indian cases would then help us to compare them with common issues that come up in cases filed in foreign jurisdictions. Such a comparative analysis is helpful for policy makers and regulators to develop an appropriate method of dealing with the prickly issues that arise from the area of Standard Essential Patents. Such an analysis is also essential from the perspective of companies (both for SEP holders as well as potential licensees) so that they may develop a strategy accordingly.

We have also looked at how regulators in other major economies are handling the issues arising from Standard Essential Patents, especially since some of these economies have had a head start of over a decade in dealing with these issues when compared with India. Towards this end, we studied the policy guidelines and documents issued by the Department of Justice, the Federal Trade Commission and the United States Patent & Trademark Office of the United States, guidelines issued by the Competition Bureau of Canada, European Commission, Korea Free Trade Commission, Japan Free Trade Commission and Japan Patent Office. Through this process, we have been able to identify the best practices that are adopted by the regulators in these economies to address some of the tricky issues surrounding Standard Essential Patents. However, despite exhaustive study of the landmark cases as well as policy documents from major economies, there are still some challenges concerning Standard Essential Patents which will need a concerted effort from the big economies to address. While developing a framework for such an effort is beyond the current scope of the thesis, the work done towards the thesis would lay the foundation for such a framework to be developed in the future.