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# STANDARD ESSENTIAL PATENTS IN INDIA: A COMPARATIVE ANALYSIS IN LIGHT OF THE LANDMARK RAMBUS CASE

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## Abstract

*Standard Essential Patents are an extremely important aspect of modern technological advancement. These are the technological aspects which allow for major reforms and the adoption of new technologies. This concept is at the intersection of Intellectual Property and Competition Law, it is highly lucrative with the technologies involved and is extremely necessary for the progression of our society. This article aims to highlight the current condition and stance of India on this issue by highlighting the lack of any laws on this issue. This article also goes into detail about the Rambus case which was a landmark case on this topic which was simultaneously fought in the US and the European Union. By highlighting the Rambus case, this article aims to give a background of this field, the anti-competitive practices that exist and the need for laws in India to deal with such scenarios.*

## Standard Essential Patents: An Introduction

Standard essential patents (**SEPs**) are patents that cover technology that is considered essential to a particular industry standard. Industry standards are technical specifications that have been agreed upon by a particular industry to ensure that products and services are interoperable and compatible with one another.SEP corresponds to a patent consolidation claim for the use of a technology that is essential to industry practices. It focuses on the implementation of specific industry standards for congruity in designs, materials, procedures, services, and processes for common goods manufacturers; Companies undertaking the production of mobile phones, tablets,

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and other electronic devices must comply with such industry standards and disclosure requirements. Examples of industry standards include the Wi-Fi standard for wireless networking and the MPEG-4 standard for video compression.

SEPs typically cover technology that is necessary to implement the standard, and the owner of a SEP is required to license the patent on fair, reasonable, and non-discriminatory (FRAND) terms to any interested party. This means that the owner of a SEP cannot refuse to license the patent, and they cannot charge excessive or discriminatory fees for the license.The goal of FRAND is to prevent the owner of a SEP from using their patent as a means of monopolizing a particular market, and to ensure that the technology covered by the patent is widely available to all interested parties.

SEPs are important for the development and growth of many industries, as they allow different companies to develop products and services that are compatible with one another. This helps to drive innovation, increase competition, and promote greater choices for consumers. However, there are also concerns that some companies abuse their SEP portfolios by charging exorbitant fees, engaging in anti-competitive practices and using them to impede competition.

## SEPs in India

Standard Setting Organizations (**SSOs**) perform the task to maintain discovery, selection, credibility formation and the eventual regulation of patents which hold indispensable contribution to their industry, also known as the standard-essential patents.[2]

The owners of such SEP's are required to follow due disclosure processes and grant licensing regulations as directed by the SSO, on certain fair, reasonable and non-discriminatory (FRAND) terms.

The concept of SEP's gained significance through the case of *Microsoft Corp. v. Motorola Mobility, Inc.* in the United States where the definition of the 'essentiality' of a standard patent was presented. When a standard product is incapable of formation without the use of a

[2] Josh Lerner, Jean Tirole, 'Standard Essential Patents', National Bureau of Economic Research, 2013. https://www.nber.org/system/files/working_papers/w19664/w19664.pdf

technological concept for a SEP, it is said to be an 'essential patent'.[3] This judicial precedent couple with the recognition from the Standing Committee on the law of Patents at World Intellectual Property Organization (WIPO) propelled the establishment of international self-regulatory on standard systems (SSO's). It is revered that in the view of globalization and increased economic competitiveness, it is imperative to set essential standard to avoid monopoly lead price discrimination and exploitation.[4]

In India, the concept of SEP's has evolved from the case of *Micromax Informatics Ltd v Telefonaktiebolaget LM Ericsson*[5], Micromax contended that Ericsson violated the Competition Act, 2002 by using its dominant position in the market to set excessive royalties for the use of its SEPs. The Competition Commission of India (CCI) realised the absence of alternative technology in the market as a cause of this exploitation and submitted that Ericsson threatened the integrity of standard setting activities and the FRAND licensing standards by causing hold-up of patents and curtail competitive selection[6].

There are no certain laws or rules governing the standardisation processes and titles in India, however the regime to protect such SEP stems from the value of ownership accreditation under IP Laws and the provisions on anti-competitive transactions and unfair dominance under the Competition Act. The CCI has over the years participated in several intellectual property matters and has adjudicated in relation to anti-competitive practices corresponding to SEPs.

The Department of Industrial Policy and Promotion (**DIPP**) had introduced a recommendations paper on the use and terms of SEPs and suggestions towards the FRAND principle. Critiques proposed the idea to create a special regulatory policy on SEPs for the guidance of existing SSO's and reference to the public, discussions were also laid for strict royalty policies and introduction of non-disclosure policies. DIPP also launched a Centre for IRP Promotion and Management (**CIPAM**) in 2016 for public awareness on commercial use of patents and other laws.

[3]*Microsoft Corp. v. Motorola Mobility, Inc.*, 696 F.3d 872
[4] Standards & Patents, Standing Committee on the law of Patents, WIPO. 2009https://www.wipo.int/edocs/mdocs/scp/en/scp_13/scp_13_2.pdf
[5]*Telefonaktiebolaget LM Ericsson v. Competition Commission of* India (W.P.(C) 464/2014)
[6] id

The Competition Law Review Committee in July 2019 released its report on Competition Law. This report was taken into consideration and after some deliberation, it was followed by the introduction of the Draft (Competition) Amendment Bill 2020. The bill tabled in parliament proposed some changes relevant to SEPs,it proposed to inserts Section 4A, which expands the protection afforded earlier by Section 3(5) on anti-competitive agreements to IP holders against lawsuits alleging abuse of dominance. This protection is not total, but it does acknowledge the significance of IPR in the area where IPR and competition law converge. The adoption of such a clause is considered controversial, especially under an impression that many market leaders use IP protection to hide their actions and positions of dominance. This worry is significantly more pressing in the situation of SEPs since the proposed provision offers SEP holders more power to avoid consolidations.

Such amendments also come in light with the Delhi High Court's recent judgment in 2020 on *Monsanto Holdings Pvt. Ltd. and Ors. vs. Competition Commission of India and Ors*[7]. It was contended by the appellant that because the Patents Act permits patent owners to establish limits to the use of their mechanism, it would be inappropriate to determine whether the additional requirements placed on the use of such property are "necessary" and "fair." The Delhi High Court ruled that such properties are governed fall under the purview of the Patents Act, 1970 as well as the Competition Act, 2002. It also held that it is required for a patent holder to be complacent with both laws. The functions and remedies that the CCI is permitted to perform are different from those of a specialized regulator under the Patents Act, therefore the CCI is enabled to hold jurisdiction over any investigation of anti-competitive behavior that may come from the use of intellectual property. The body at CCI is thus placed with the role of maintaining competitive market conditions while also securing Intellectual Property rights.[8]

SEPs are recommended by scholars and industry practitioners because of its propensity to promote interoperability among common products and services. Patent creation requires enormous capital investment in research and development, licensing such patent is a great way to

[7](2020) PL (Comp. L) July 61

[8] https://www.scconline.com/blog/post/2020/08/21/more-power-to-cci-the-delhi-hc-upholds-the-ccis-jurisdiction-to-probe-against-monsantos-abusive-practices/

create a return on investment and boost financial returns. Along with certain financial benefits Standard settings also services the following roles.

- facilitates knowledge sharing
- ratifies the market demand of technology and products
- Reinforces customers confidence and provides quality assurance to customers
- Promotes healthy competition and development of enhanced mechanisms.
- Integral to International trade and escalates a productive market cycle.[9]

While SEPs are adopted to foster compatibility among competing creators and enhance consumer satisfaction SEP's come with certain difficulties. Even when licensing and royalty for SEP follows the FRAND method, the documentation and tight clauses in the deal still contribute to a delay in the patent application which leads to Patent Holdup; snickering competition and greed induces Royalty Stacking and evasion of Infringement laws, and lastly the adherent FRAND standards and shift in SSO regulations leads to breach of privacy due to over-disclosures.[10]

India has been one of the largest beneficiaries of the Standardization processes. According to numerous studies, India ranks 2nd in the world in mobile telephony and 4th across Asia in mobile phone infrastructure[11]. However, India lacks any legislative framework to deal with SEPs and this is a major oversight, especially with the rapid growth of technology in the modern world.

## The Landmark Rambus Case

*Rambus v FTC*(**"*Rambus* case")** is an instrumental case in the upcoming jurisprudence on the overlap between anti-trust and intellectual property laws. It also brings to the forefront the divergence in competition law practice in the US and EU. Moreover, it also manifests the procedure adopted by the Federal Trade Commission **("FTC")**, European Commission **("EC")**

[9]Pohlmann, Tim, Peter Neuhäusler, and Knut Blind. "Standard essential patents to boost financial returns." *R&D Management* 46.S2 (2016): 612-630.

[10]Josh Lerner, Jean Tirole, "Standard-Essential Patents", *Journal of Political Economy*

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[11] Signal research group, 'The essential of IP', from 3G through LTE release, 12/05/2015

and the D.C. Circuit Court **("Court")** on such matters. The *Rambus* case has a very peculiar and interesting set of facts, and the same has been provided below.

Rambus, an American technology company, is a designer, developer and licenser of high-end chip-to-chip interface technology. Chips licensed by Rambus were extensively used to upgrade efficiency and cost-effectiveness of electronic products. Between 1991-1996, Rambus was affiliated to Joint Electron Device Engineering Council **("JEDEC")** as a member, and during this phase, JEDEC was working on establishing Standards for Dynamic Random-Access Technology **("DRAM")**. As per the rules effectuated by JEDEC in 1993, all its members were mandated to disclose patents and patent applications relating to a technology, related to DRAM, being standardized **("SDRAM")**.[12] Such data would then be used by JEDEC to potentially require its members to license its proprietary data on Reasonable and Non-Discriminatory terms **("RAND")**.

Importantly, Rambus's disclosures to JEDEC did not include any patents relevant to DRAM standards. Later in 1996, Rambus withdrew from JEDEC with the understanding that it would not be involved in the standard setting process of the said SSO. However, even after Rambus's withdrawal from JEDEC post 1996, it continued to gather information from working group meetings, amended pending patent claims and filed for divisional applications to ensure coverage of the standards. The situation intensified in 1998, when JEDEC came out with a new standard for double rate SDRAM **("DDR-SDRAM")**. It incorporated new technology, four of which were already patented by Rambus. As this technology gathered pace and was widely adopted, Rambus asserted its patent rights and demanded royalties from all the implementers of the SDRAM and DDR-SDRAM technologies. Consequentially, there were various claims and counterclaims filled between Rambus and these implementers, and the ensuing conflict attracted the attention of FTC.[13]

## Procedural History

[12] Rambus Incorporated v. Federal Trade Commission, F. 3d 456 DC Cir. 2, 22 (2008).
[13] Id, 21.

In 2002, the FTC opened investigation into the alleged anti-competitive conduct by Rambus and the allegations levelled against it. In 2004, the Administrative Law judge initially dismissed the comprehensive complaint lodged by the FTC, this decision was then successfully appealed by the FTC and Rambus was found guilty in 2006. Rambus dissatisfied with the judgement filed an appeal before the DC Circuit court, the DC Circuit Court undertook a different approach to FTC and held in favor of Rambus by declaring it not guilty in its decision in 2008. Simultaneously, in 2007 proceedings also took place before the EC when an antitrust investigation was initiated against Rambus.[14] The EC considered all evidence with respect to available alternatives and JEDEC standards, and building on the ruling of FTC, it held Rambus guilty of anticompetitive conduct, in 2009. Rambus agreed to settle the investigation being conducted by the EC by agreeing to certain terms that limited its power.[15]

**Analysis**

**Investigation by FTC**

The FTC filed a complaint in 2002, alleging that Rambus engaged in unfair trade practice which were deceptive and anti-competitive in nature while it was a JEDEC member and further attempted to monopolize the memory chip market in violation with Section 5 of the FTC Act and Section 2 of the Sherman Act. The Administrative Law Judge stated that Rambus did not withhold 'material' information about its patent applications which were essential for the standard being set and did not breach the disclosure policy of JEDEC, dismissing the complaint.

The ALJ's decision was appealed to the Commission which reopened the case to review the record and receive additional evidence. The Commission in order to determine whether Rambus's conduct lead to monopolization of technology, needed to determine whether Rambus engaged in exclusionary conduct and whether the same resulted in acquisition of monopoly power. The commission scrutinized the patent disclosure policies of JEDEC which were, "not a model of clarity"[16] however, expected member to disclose relevant patent and patent application material to technologies being considered for standardization. The commission decided that

[14] See supra, at.1.
[15] Case COMP/38.636—Rambus, Comm'n Decision, (Dec. 9, 2009)
[16] Rambus Incorporated v. Federal Trade Commission, F. 3d 456 DC Cir. 2, 22 (2008).

Rambus's conduct led to misrepresentations and omissions of 'highly material' information essential to the standard setting process and that it intentionally adopted this conduct to deceive JEDEC and its members. It further added that in order to invoke violation of Section 2 of the Sherman Act, it should also be proved that apart from Rambus's conduct of willful acquisition of monopoly power their conduct should also harm competition "in a manner disproportionate to any pro-competitive benefit."[17] The commission forbade Rambus from charging higher royalty rates from the implementors by limiting its royalties.

From an objective perspective, we agree with the judgement given by the FTC as it rightly analyzes the disclosure policies of JEDEC which broadcasts the cooperative spirit and nature of SSO, where even if the policies are not very clear, explains its intention of disclosing relevant information mutually shared amongst its members. It was very clear that Rambus's conduct indicated towards a pre-meditated strategy of deceiving JEDEC as even after its withdrawal it continued to get information regarding the process and kept amending its patent applications, patent portfolio to gain fraudulent advantages. The court correctly deduced that this was a classic case of Patent Ambush, wherein the patent holder by not disclosing information important for the development of a Standard, was trying to gain an economically advantageous position by asserting patent rights once the standard had been set.

**Appeal before the D.C. Circuit**

Rambus challenged the commission's decision before the D.C. Circuit on two grounds, one, that the commission erred in law in finding that Rambus had violated JEDEC's disclosure policies resulting in antitrust exploits and second, that even if the first ground is held in negative, its non-disclosure in the alternative – only prevented JEDEC from securing either a RAND commitment from Rambus or adopting a non-proprietary standard which does not involve antitrust violation.

In what was an interesting ruling, the Court ruled in favor of Rambus's appeal and overturned the decision of FTC. The Court opined that the investigation of the FTC was not conclusive and the use of the phrase 'but for' by the FTC, in its report, was an admission of uncertainty. The

[17] Robert Tallman, *U.S and E.U. Antitrust Enforcement Efforts in The Rambus Matter: A Patent Law Perspective,* 52 (1) INTELLUCTUAL PROPERTY LAW REVIEW 31 (2012).

Court concluded that the evidence provided by FTC was inconclusive and did not prove that JEDEC would have selected an alternative or non-proprietary technology in the event that the relevant disclosures were made by Rambus. Rambus's technology was superior to that of all alternatives, the superiority was of such a degree that having Rambus's technology as part of the standard became a technical necessity for JEDEC. The Court stated that because JEDEC would have incorporated Rambus's technology in its standard, even if Rambus disclosed all relevant patents at the appropriate stage, no anticompetitive conduct had happened. The court said that anti-competitive conduct only took place when there was an actual loss to the market or other competitors but since no competitor was ever going to be considered by JEDEC, it could not hold Rambus guilty of Anti-competitive conduct. The court relied on *NYNEX Corp. v. Discon, Inc, Microsoft and Conwood Co. v. U.S. Tobacco Co* as relevant examples of deception and misrepresentation which resulted in anti-competitive behavior where the scrutiny is placed is on "the resulting harms to competition rather than the deception itself."[18] The Court agreed that Rambus had acted maliciously and breached the "IPR Policy" of JEDEC, but it said that a mere breach of a contract could not be considered anti-competitive. This decision manifests a difference in competition law practice in the US and EU. The mere loss of RAND commitment, in the absence of actual proof of loss, was not considered as anticompetitive in US.

We agree that alternatives are a very important factor when it comes to the standard setting process and factors like technical and economical superiority are important aspects of this process. However, we feel that this decision is very a problematic one because rather than giving importance to availability of alternatives and technical superiority as factors, the court has solely relied on them to give its decision. This leaves no room for any leeway to be granted to the SSO and the implementers. A patent in itself is very unique and has a very high threshold of distinctiveness, taking this component into consideration is imperative because more often than not technical superiority will be a factor and most SSO's will go ahead with the best possible technology to be used in their standard. If in such a scenario the availability and use of alternatives becomes the sole criterion for deciding whether a SEP holder engaged in anti-competitive conduct or not, the court would indirectly be encouraging more cases of patent

[18] See Rambus Inc v. FTC., supra, at 1.

ambush. The necessary wriggle room has not been granted to the SSO and the implementers in this case. This precedent is extremely dangerous with regards to the future as it leaves gaps for SEP Holders to get away with patent ambush and under disclosure.

**Investigation by EC**

EC ruled that Rambus charged unreasonable royalties on the back of its wrongful non-disclosure to JEDEC about its patented technology. The view of EC was that Rambus's conduct was in violation of Article 102 of TFEU, i.e., for abuse of dominant position. Such deception, also known as patent ambush, allowed Rambus to arbitrarily gain a dominant position by acting maliciously and in bad faith. The EC, similar to the view of the FTC also concluded that Rambus had actively tried to conceal its patents from JEDEC and was in breach of its 'IPR Policy'. Although, the EC also stressed upon the fact that the breach of an SSO's IPR Policy was not necessary to prove that one had acted in an anti-competitive manner, the mere knowledge that certain acts were done in bad faith with personal gain at the expense of others in mind, meaning that suppression of relevant information had affected the standard setting process was enough to consider these acts as anti-competitive. The EC was only concerned with the fact that Rambus had come into a dominant position in the market in an unnatural and that in itself was in breach of Article 102 of the TFEU. After Rambus agreed to settle the case and discontinue the investigation certain sanctions were put on Rambus. Rambus agreed the terms with EC and was prohibited to misrepresent patent information in future, and the maximum royalty rate allowed was capped at a more nominal rate, thus bringing an end to its dominant position in the market.

It is important to see how different the approach of the EC is compared to that of the US courts,[19] the US courts have gone for a very rigid interpretation of anti-competitive conduct whereas the EC has decided to deal with things more practically and try to eradicate all forms of malicious activity from the markets. The EC was convinced that Rambus had acted in an anti-competitive manner upon preliminary investigation whereas in the US the court was not convinced of the same even after comprehensive investigation into the matter by the FTC. The difference between these two approaches can easily be highlighted when we consider the fact that the DC Circuit

[19] See supra, at 6.

Court, in its decision, said that a mere breach of a contract was not enough to prove anti-competitive conduct when no clear disadvantage levied on competitors could be proven. On the other hand, the EC stressed upon the fact that even the breach of the IPR policy contract wasn't necessary to prove anti-competitive conduct. This shows how unreasonably high the threshold to prove anti-competitive conduct has been put in the United States. The fact that both the FTC as well as the EC reached on more or less the same conclusion after their investigation also highlights that the laws which exist in these jurisdictions are similar, but it is the stark contrast between their interpretation which leads to their different implementation.

## Conclusion

The whole standard setting process is reliant on terms like good faith, RAND and FRAND, without the existence of good faith between the organizations coming together to roll out a new standard, a mutually beneficial scenario is impossible. This is why we agree with the stance taken up by the EC with regards to the malicious actions undertaken by RAMBUS as well as their position on patent ambush and their interpretation & implementation of antitrust laws. We also believe that the rigid interpretation of anti-competitive law in the US can render antitrust laws in the country redundant with regards to patent ambush and standard setting process because they heavily lean towards the SEP Holders. It is impractical to carry out essentiality checks by SSO's when trying to introduce a new standard technology in the markets. So, in the current circumstance, the existence of good faith when carrying out the disclosure and licensing requirements has become imperative. The scales are heavily imbalanced, and the SEP holders are already in a very dominant position and can easily use this position to under disclose their patents. They, then take advantage of the fact that these patents have become a part of the standard to charge high royalty rates that aren't consistent with RAND/FRAND. In such a situation cases of Patent Ambush will not be uncommon, which is why it is extremely important to crack down on the SEP holders that partake in Patent Ambush to try and balance the scales between parties.

It is important that India too comes up with a comprehensive framework for SEPs rather than trying to inculcate the same into a few provisions. This is a highly sensitive and nuanced field that is extremely relevant for a developing nation. With the entry of multiple foreign investors in the Indian markets and the progression of ease of doing business, it is important that this glaring gap in the Indian IP and Competition law regimes is filled immediately.