THE JOHN MARSHALL
REVIEW OF INTELLECTUAL PROPERTY LAW

FAILURE IS NOT FALLING DOWN BUT REFUSING TO GET UP: IMPLICATION OF HUAWEI/ZTE FRAMEWORK (CJEU 2015) IN EUROPE

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ABSTRACT

The jurisprudence on standard-essential patents (SEPs) has evolved substantially in the last few years, particularly in the European jurisdictions, where EU courts have dealt with certain FRAND and antitrust issues in an unambiguous and novel manner. The 2015 landmark judgement in Huawei v. ZTE by the Court of Justice of the European Union brought clarity in understanding 'unwilling licensee' and laid down terms under which the holder of a FRAND-compliant SEP can seek injunctive relief that does not amount to an abuse of its dominant position. Four important judgements in Germany followed, where the regional courts have applied the CJEU principles laid down in Huawei and brought further clarity on the same. This paper analyzes the contentious issue of injunctive relief as a remedy for infringement of standard essential patents under FRAND licensing terms. In this direction, the first part of this paper evaluates four cases in which the EU courts granted injunctions for SEPs compliant with FRAND royalty obligations under the Huawei framework. The second half of this paper updates the reader about developments in the Indian FRAND jurisprudence, and offers an analysis, along with some suggestions.

Cite as Ashish Bharadwaj and Dipinn Verma, *Failure is Not Falling Down But Refusing to Get Up: Implication of Huawei/ZTE Framework (CJEU 2015) in Europe*, 17 J. MARSHALL REV. INTELL. PROP. L. 326 (2018).

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I. INTRODUCTION

On September 22nd 2016, Maureen K. Ohlhausen, then US Federal Trade Commissioner, asked in a keynote speech, "What are we talking about when we talk about Antitrust?" She clarified that "antitrust violation should be the elimination or dilution of a demand – or supply – side market constraint on a firm's power" instead of the "imperfect market outcomes" such as high prices, low output, reduced quality, limited choice, and compromised innovation incentives. Commissioner Ohlhausen stressed that "simply condemning a high price, a refusal to deal, or the use of a SEP without showing harm to supply – and demand – side limits on market power is not antitrust . . . it is a regulatory action meant to reengineer market outcomes to reflect enforcers' preferences."[1] Competition agencies around the world generally prevent collaborations among competitions, but they are not hostile of voluntary standard settings in technologies that rely on principles of interoperability and compatibility. Standards involve risk of anti-competitive abuse since the adoption of a standard eliminates competition between competing technologies, which could lead to consumer harm. To mitigate this risk, patent holders, especially in high technology industries, typically provide an assurance that they will license patents on fair, reasonable and non-discriminatory (FRAND) terms.[2] This is subject to inclusion of their declared patents as 'essential' to working of the standard. A legal consequence of making such declaration is that it obliges the patent owner to license only on FRAND terms to underline their willingness to do so. The licensing parties – patent holder and the implementer – are expected to apply an objective consideration whenever they are negotiating the terms of the agreement.

Contemporary standards are becoming ubiquitous in today's markets. Expansion of international commerce, especially in ICT, and a surge in litigation concerning SEPs, are reverberations from the continuous evolution of global

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[1] Excerpt from the keynote address delivered by US FTC Commissioner Maureen Ohlhausen on September 22, 2016 in New York in a private dinner hosted in her honor by Concurrences Review. Synthesis available at https://www.concurrences.com/events/dinner-in-honor-of-commissioner-maureen-ohlhausen-new-york-22-september-2016/ (last visited Jan. 24, 2017).

[2] IEEE-SA Standards Board Bylaws, § 6.1 (2018), and Rules of Procedure ETSI, § 6.1 (2017).

standards. Significant jurisprudence has emerged in the US and EU in the past decade, several countries, including India, China, and South Korea, are grappling with issues ranging from alleged abuse of dominance by SEP holders, to determination on the right royalty base for calculating FRAND royalties, and seeking damages and injunctive relief in case of patent infringement, among others.[3] Amidst rapid changes in development, diffusion and adoption of technologies, propelled by proliferation of patents, actions of technology developers (contributors to standards) and technology adopters (implementers of standards), have enormous implications for firms, growth of industries and growth of economies.

In *eBay v. MercExchange* (2006), the 'general rule' which entitled the prevailing patentee to an injunction, was rejected by the US Supreme Court.[4] In addition, it provided a four-factor test, to be applied by lower courts before granting such injunctions. The plaintiff, as per the test, has to demonstrate that: 1) it has suffered irreparable injury; 2) remedies available at law are inadequate to compensate for that injury; 3) the balance of hardships between the plaintiff and the defendant have been considered; and 4) the public interest would not be disserved by a permanent injunction.[5]

Germany has been a preferred litigation forum in Europe, bringing it to the center of gravity for smartphone litigation. Since German courts have historically been rather lenient in granting injunctions in patent infringement, the burden of proof lies mainly on the defendants when they invoke a competition law defence. Three recent decisions of the Courts in Germany developed case law on the granting of injunctive relief in cases dealing with infringement of standard essential patents, applying the rules established by the European Court of Justice in its *Huawei v. ZTE* decision.[6] The CJEU decision in *Huawei* has provided clarity in interpreting Article 102 TFEU (abuse of dominant position) of the EU competition law.[7] One of the key questions was regarding the circumstances under which seeking a claim for an injunction would amount to an abuse of dominance. This question was answered by CJEU in *Huawei v. ZTE* after years of prolonged ambiguity and diverging opinions of

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[3] J. Gregory Sidak, *FRAND in India: The Delhi High Court's Emerging Jurisprudence on Royalties for Standard-Essential Patents*, 10 J. INTELL. PROP. LAW & PRACTICE 609-618 (2015).

[4] eBay v. MercExchange, L.L.C., 547 U.S. 388 (2006).

[5] Christopher B. Seaman, *Permanent Injunctions in Patent Litigation After eBay: An Empirical Study*, 101 IOWA LAW REVIEW 1949 (2016). An original empirical study looked into the impact of the *eBay* judgment on the permanent injunction decisions of district courts post-*eBay*. The study showed a bifurcated regime in cases of patent remedies between competing and non-competing (also non-practicing) entities. It finds that companies competing against an infringer still obtained injunctions in most cases which were successfully litigated to judgment. However, it's the opposite in cases of non-competing companies, which generally have failed to secure injunctions. Kirti Gupta & Jay P. Kesan, *Studying the impact of eBay on Injunctive relief in Patent cases*, UNIVERSITY OF ILLINOIS COLLEGE OF LAW LEGAL STUDIES Research Paper No. 17-03 (2016). Another study found that the *eBay* decision dramatically reduced the number of injunctions sought and the rate at which they were sought, especially preliminary injunctions.

[6] Huawei Technologies Co. Ltd. v. ZTE Corp., C-170/13 ECJ (2015) (hereinafter Huawei v. ZTE).

[7] *See* Haris Tsilikas, *Huawei v. ZTE in context – EU Competition Policy and Collaborative Standardization in Wireless Telecommunications,* INT. REV. OF INTELL. PROP. AND COMP. L. 48-2, 151-178 (2017).

the German Federal Court of Justice (BGH).[8] The decision primarily laid down terms under which the holder of a FRAND-compliant SEP can seek injunctive relief and further removes some vagueness in understanding what constitutes an 'unwilling licensee'. It is now up to the national courts of individual member states of the EU to apply CJEU's general framework and implement their guidelines to resolve questions that have been left unanswered by the CJEU. After this decision, an SEP holder seeking an injunction is obliged to convincingly prove that it pursued licensing negotiations with the infringer by offering FRAND royalty rates. However, the admissibility of a claim for injunctive relief by the SEP holder is contingent on the compliance of the license offer with FRAND royalty terms that the SEP holder has committed to the SSO.[9] Determining whether the offer is FRAND-complaint is still contentious and is largely undecided by the court. The Regional Courts of Dusseldorf and Mannheim in Germany addressed some of these questions in *Sisvel v. Haier,*[10] *SLC v. Deutsche Telekom*,[11] and *NTT DoCoMo v. HTC GmbH.*[12] Although these decisions are currently under appeal, they throw light on application of the *Huawei v. ZTE* decision in admissibility of FRAND defence in SEP infringement cases. Competition law of the European Union has taken a prominent role in the ICT sector that has always been more patent and SEP-intensive.[13] Even though the litigants in these cases are global, but non-European companies, the fact that Europe was chosen as the forum for patent litigation highlights the importance of EU cases and decisions in matters of SEPs. This paper analyses the contentious issue of injunctive relief as a remedy for infringement of standard essential patents under FRAND licensing terms, and seeks to contribute to the debate by examining the developments in different jurisdictions, subsequent to the decision of CJEU in *Huawei v. ZTE,* in disputes where the SEP holder that has made a FRAND commitment to the SSO has sought injunctive relief against alleged infringers of standard essential patents. This paper evaluates four cases in which the EU courts granted injunctions for SEPs compliant with FRAND royalty obligations after applying steps laid out in *Huawei v. ZTE*. This section will analyse each case with a view to identify the unique features that influenced the courts to grant injunctions.

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[8] In its *Orange Book Standard* judgment (Orange-Book-Standard, KZR 39/06 Bundesgerichtshof (BGH) Federal Supreme Court (May 6, 2009)); *see also* the European Commission in its investigations into Samsung (European Commission, *Case AT.39939 – Samsung – Enforcement of UMTS Standard Essential Patents*, Decision No. AT.39939, O.J. (C 350/08) (2014)) and Motorola (European Commission, *Case AT.39985 - Motorola – Enforcement of GPRS Standard Essential Patents*, Decision No. AT.39985, O.J. (C 344/06) (2014)).

[9] The implications are that if the initial FRAND assertion by the SEP holder is contested, perhaps based on a different methodology or final rate of royalty, there is likely to be a significant delay in proceedings because an expert will have to be appointed, and, in the meantime, an injunction may not be granted.

[10] Sisvel v. Haier, Regional Court of Düsseldorf, 4a O 93/14, 4a O 144/14 (2015).

[11] Saint Lawrence Communications v. Deutsche Telekom, Regional Court of Mannheim, 2 O 106/14 (2015).

[12] Sisvel, and Saint Lawrence Communications (hereinafter SLC) are non-practising entities.

[13] European Commission, *EU Commission publishes Landscaping study on SEPs by IPlytics*, IPLYTICS, 18 (2016), available at http://www.iplytics.com/general/eu-commission-publishes-landscaping-study-seps-iplytics/ (Study commissioned by DG GROW Unit F. 5, European Commission).

In *eBay v. MercExchange* (2006), the 'general rule' which entitled the prevailing patentee to an injunction, was rejected by the US Supreme Court.[14] In addition, it provided a four-factor test, to be applied by lower courts before granting such injunctions. The plaintiff, as per the test, has to demonstrate that: 1) it has suffered irreparable injury; 2) remedies available at law are inadequate to compensate for that injury; 3) the balance of hardships between the plaintiff and the defendant have been considered; and 4) the public interest would not be disserved by a permanent injunction.[15]

Under Directive 2004/48/European Commission on the enforcement of intellectual property law, Art. 2: (1) on the scope states,

> Without prejudice to the means which are . . . provided for in . . . national legislation, in so far as those means may be more favourable for right-holders, the . . . remedies provided for by this Directive shall apply . . . to any infringement of intellectual property rights.

Art. 3 (2) on general obligation, "remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive . . . shall also be effective, proportionate and dissuasive", and Art. 11 on injunctions, "Member States shall ensure that, where a judicial decision is taken finding an infringement of intellectual property rights, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement."[16]

Under the German Code of Civil Procedure *Zivilprozessordnung* (ZPO),[17] a motion for preliminary injunction can be filed under §§ 935 and 940. Injunction regarding the subject matter of the litigation is an available remedy given the concern that a change of the status quo might frustrate the realization of the right enjoyed by a party, or might make its realization significantly more difficult.[18]

> Injunctions are also admissible for the purpose of providing for a temporary status concerning a legal relationship that is in dispute, to the extent this provision is deemed to be necessary in order to avert significant disadvantages, to prevent impending force, or for other reasons, in particular in the case of legal relationships of a long-term nature existing,

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[14] *eBay, supra* note 5.

[15] Seaman, *supra* note 6. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2632834An original empirical study looked into the impact of the *eBay* judgment on the permanent injunction decisions of district courts post-*eBay*. The study showed a bifurcated regime in cases of patent remedies between competing and non-competing (also non-practicing) entities. It finds that companies competing against an infringer still obtain injunctions in most cases which are successfully litigated to judgment. However, it's the opposite in cases of non-competing companies, which generally have failed to secure injunctions. Gupta et. al., *supra* note 6. http://ssrn.com/abstract=2816701Another study found that the *eBay* decision dramatically reduced the number of injunctions sought and the rate at which they were sought, especially preliminary injunctions.

[16] EUROPEAN PARLIAMENT AND OF THE COUNCIL, Directive 2004/48/EC, OJ L 157, 30.4.2004 (Apr. 29, 2004) (on the enforcement of intellectual property rights).

[17] Bundesgesetzblatt (BGBl) FEDERAL LAW GAZETTE, Code of Civil Procedure, I at 3202; 2006 I at 431; 2007 I at 1781 (Dec. 5, 2005), last amended by Article 1 of the Act, FEDERAL LAW GAZETTE, I at 3786 (Oct. 10, 2013).

[18] *Zivilprozessordnung*, German Code Civ. Pro. § 935 (2017); hereinafter (ZPO).

Zivilprozessordnung, German Code of Civil Procedure (ZPO), § 940. Section 139 (1) of the German Patent Act says, "Any person who uses a patented invention in contravention of Sections 9 through 13 may, if there is a danger of repetition, be sued by the injured party for injunctive relief. This claim shall also apply if there is a danger of first perpetration."[19]

II. HUAWEI V. ZTE

A functional market for technology balances the interests of innovators, who rely on incentives to further develop technologies that enhance industrial capabilities, and the interests of implementers, who rely on these technologies to make standard-compliant devices. This balance is disturbed when the incentives for innovators are constrained in ways that are commercially unviable, or when access to technologies is hindered by strategic and opportunistic behavior of the patent owner.[20] Either way, an environment is created where innovation is at a suboptimal level. If an implementer chooses to reject a 'reasonable' license offer from a SEP holder, it leaves the SEP holder with no choice other than suing the potential licensee to effectively enforce the standard essential patent. Injunctive relief as a statutory remedy may be justified in cases where breach of promise to charge fair, reasonable, and non-discriminatory (FRAND) royalties as a defence cannot be proved by the licensee.[21] FRAND terms, in essence, are a range of royalty rates calculated on the basis of reciprocity and a royalty base, keeping in mind the duration, scope and geographic markets that can be encompassed as part of the agreement. Competition concerns in cases of SEPs emerged in Europe in 2009 when the German Federal Court of Justice in *Orange Book* laid the groundwork for subsequent FRAND cases in Europe.[22] The court in *Orange Book Standard* held that to prevent a grant of injunction, an alleged infringer of SEPs could rely on a competition law-based defence *in exceptional cases*.[23] The court ruled that determination of abuse of the dominant position by the SEP holder rests on the alleged infringer fulfilling two conditions. The burden of fulfilling the two conditions would be on the defendant as well.[24] The *first* condition, to enter into a licensing agreement with the SEP holder unconditionally by offering royalties that either the SEP holder could not reasonably decline, or at a plaintiff-determined value that will be reviewed by the court. *Second*, to render an account of activities concerning use of the SEP and pay royalties as if a license agreement was already in place, (i.e. waive all non-infringement and invalidity defences).[25] In April 2014, the

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[19] ZPO § 242. "An obligator has a duty to perform according to the requirements of good faith, taking customary practice into consideration.".

[20] *See* Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1992–93 (2007).

[21] J. Gregory Sidak, *The Meaning of Frand, Part II: Injunctions,* 11 J. COMP. LAW AND ECONOMICS 200, 201-269 (2015).

[22] Orange-Book-Standard, KZR 39/06 Bundesgerichtshof (BGH) Federal Supreme Court (May 6, 2009) (hereinafter FCJ Orange-Book Decision); translated in IPEG BLOG, https://perma.cc/LW9B-28KM (last visited Feb. 24, 2018).

[23] *Id.* at 11.

[24] *Id.* at 13 ¶ (b).

[25] *Id.*

EC in its *Samsung* and *Motorola Mobility* decisions clarified that a SEP holder's action of seeking injunction against a willing licensee would tantamount to an abuse of a dominant position.[26] Further, the European Commission advanced a safe harbor approach for an alleged infringer who was considered a "willing licensee" against whom no injunction should be granted if the infringer agreed to enter into a license agreement and considered a court-determined FRAND royalty to be binding.[27] Further, the alleged infringer would remain free to challenge essentiality and validity of the underlying SEP[28] since "it is in the public interest to allow challenges to the validity of patents and to ensure that royalties are not unduly paid."[29] In 2013 in *Huawei Technologies v. ZTE Corp*.,[30] the Landgericht Düsseldorf (Düsseldorf Regional Court) opined that, "a mere willingness on the part of the infringer to negotiate in a highly vague and non-binding fashion cannot, in any circumstances, be sufficient to limit the SEP-holder's right to bring an action for a prohibitory injunction".[31] However, the European Commission and the German Federal Court of Justice held contrasting views on the conditions that had to be met by alleged infringers of SEPs in order to have a competition law defense when negotiations for FRAND licensing had failed to yield an outcome.[32] Consequently, the Dusseldorf Regional Court sought clarification from the CJEU on five questions. On July 16, 2015, in *Huawei v ZTE*, the CJEU held that a patent holder must initiate by notifying the prospective licensee of the infringement, mentioning the SEP being infringed, and the way it is being infringed. The patent holder is obligated to make a written license offer on FRAND terms (specifying the royalty amount and methodology adopted to calculate it), after the prospective licensee has clearly

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[26] European Commission, *Case AT.39985 - Motorola – Enforcement of GPRS Standard Essential Patents*, Decision No. AT.39985, O.J. (C 344/06) (2014) (hereinafter EC Motorola Decision); European Commission, *Case AT.39939 – Samsung – Enforcement of UMTS Standard Essential Patents*, Decision No. AT.39939, O.J. (C 350/08) (2014) (hereinafter EC Samsung Decision).

[27] EC Motorola Decision at ¶¶ 427 and 437.

[28] EC Samsung Decision at ¶¶ 99 and 107. In particular, in Samsung the EC held that the applicable rules on burden of proof in litigation regarding challenges of the patent licensing agreement will not be altered and that "the court will be requested by the parties, and the arbitration tribunal shall take into account issues of validity, infringement and essentiality.".

[29] EC Motorola Decision at ¶ 491. This ensures that "*companies, and ultimately consumers, are not obliged to pay for patents that are not infringed.*" (emphasis added) (*see also* European Commission MEMO, *Antitrust decisions on standard essential patents (SEPs) - Motorola Mobility and Samsung Electronics - Frequently asked questions*, RAPID PRESS RELEASE (Apr. 29, 2014), http://europa.eu/rapid/press-release_MEMO-14-322_en.htm; At the time the Düsseldorf court referred to the CJEU, final decisions on *Motorola* and *Samsung* were not made public, and only EC press releases were available.

[30] Huawei had declared its European patent in Germany (E.U. Patent No. EP2090050B1 (filed Apr. 29, 2008)) as essential to the long-term evolution (LTE) telecommunication standard of ETSI, and undertook to grant licenses to third parties on FRAND terms. When discussions between the parties to conclude a license of FRAND terms could not be reached, Huawei sued ZTE before the Dusseldorf Regional Court for infringement of this patent without paying royalties. Huawei sought an injunction, product recall, rendering of accounts, and award of damages.

[31] Huawei, at ¶ 50.

[32] In *Huawei v. ZTE*, the Düsseldorf court found that an injunction would be granted against ZTE if the court would have applied *Orange-Book-Standard*. However, the court would have dismissed Huawei's action for an injunction if the court would have applied the guidelines set out in the *Samsung* press release of the EC that was based on the competition law defense under Article 102 TFEU (depending on what was considered sufficient to be a willing licensee).

indicated their willingness to enter into a licensing agreement on FRAND terms.[33] The court said that the prospective licensee has to then "diligently" respond to the offer, in accordance with "recognized commercial practices in the field and in good faith".[34] In case the offer is unacceptable, the licensee should "promptly" propose a counter offer. Due diligence by licensing parties that are expected to act in good faith implies that they will not engage in conduct that is "tactical and/or dilatory and/or not serious" and can delay the process of negotiation, and defer the execution of a licensing agreement.[35] The CJEU, in the *Huawei v. ZTE* decision held that for a SEP holder to not observe the specificities of the process, after committing to license on FRAND terms, while pursuing an injunction, would amount to an abuse of dominant position, pursuant to Article 102 TFEU, resulting in a denial of injunctive relief. According to the court, indispensability of said SEP (essentiality)[36] and SEP holders irrevocable undertaking to the SSO (FRAND commitment)[37] "create[s] legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licences on such terms," and "a refusal […] to grant a licence on those terms" may, amount to an abuse of dominant position under Article 102 TFEU. This can very well be a defense in actions seeking injunctive relief.[38] Further, in an attempt to weigh the interests of both parties, the court now requires both parties to take specific and concrete steps within a procedural framework.[39]

The opinion of the CJEU was that action of a holder of FRAND-committed SEPs on bringing an action for infringement, seeking an injunction or product recall, would not amount to an abuse of dominant position, if (1) (a) prior to bringing the action, the SEP holder alerts the alleged infringer of the infringement by designating the patent in question and providing details of the infringement; and (b) the SEP holder presents a specific written offer to licence – after the infringer expresses a willingness to execute a licensing agreement on FRAND terms – with clear specifications of how the royalty was calculated.[40] Under (2) the alleged infringer continues to infringe on the said patent and does not diligently reciprocate to the licence offer proposed by the SEP holder, as per established commercial practices and in good faith, or adopts delaying tactics.[41] CJEU also imposed requirements on the SEP implementer. The alleged infringer who chooses to not accept the initial offer can invoke Article 102 TFEU defense only if the infringer submits to the SEP holder, promptly and in writing, a counteroffer on FRAND terms. The decision essentially enhances the restrictions already placed on the alleged infringer's behavior in

[33] *Huawei*, at 9 ¶ 63.
[34] *Id.* at ¶ 65.
[35] *Id.* at ¶ 50.
[36] *Huawei*, at ¶¶ 49-57.
[37] *Id.* at ¶¶ 51 and 52.
[38] *Id.* at ¶¶ 53 and 54.
[39] *Id.* at ¶ 42

> Court must strike a balance between maintaining free competition — in respect of which primary law and, in particular, Article 102 TFEU prohibit abuses of a dominant position — and the requirement to safeguard that proprietor's intellectual-property rights and its right to effective judicial protection, guaranteed by Article 17(2) and Article 47 of the Charter [of Fundamental Rights of the European Union] respectively.

[40] *Huawei*, at 10 ¶ 71.
[41] *Id.*

FRAND negotiations by applying EC's safe harbor provision, striking a bargain between the *Orange Book* decision of the Federal Court of Justice and the *Samsung* and *Motorola* decisions of the European Commission.[42]

The decisions in recent SEP cases of Germany's regional and higher courts apply CJEU's *Huawei v. ZTE* framework. Some questions are answered in the affirmative, while some are left unanswered. Each of these cases are briefly analyzed with a view to identify the unique features that influenced the courts to grant injunctions in infringement of FRAND encumbered SEPs.

III. SISVEL V. HAIER

Sisvel v. Haier[43] is Germany's first SEP-related case since the CJEU issued its decision in *Huawei v. ZTE*.[44] In stating facts and preliminary decisions, Sisvel made a successful injunction application in the Regional Court of Dusseldorf against Haier Deutschland GmbH and Haier Europe Trading SRL – subsidiaries of the Chinese Qingdao Haier Group ("Haier"). Sisvel had issued a FRAND declaration to ETSI for a portfolio of patents essential to UMTS and GPRS standards, also consisting of patents that Nokia had assigned to Sisvel in 2012.[45] In 2014, Haier wrote to Sisvel indicating its intention to license one of the patents in the portfolio. Haier rejected all license offers sent by Sisvel (royalties ranged from $0.5 per unit to $0.15 per unit) and put forward counter offers that it believed were reasonable. Haier communicated the first counter offer immediately after Sisvel instituted the case in September 2014 and the second counteroffer came before the oral hearing on Sisvel's injunction application against Haier. In addition to making these counteroffers, Haier asked the Dusseldorf court to reject Sisvel's injunction application because the patent that was the subject of the latter company's infringement claim and was part of a FRAND declaration. The court rejected Haier's arguments and granted Sisvel's motion for injunction against German and European distributors of Haier from selling infringing products in Germany that were UMTS and GPRS compliant. The court did not decide whether Sisvel abused its dominant position pursuant to Article 102 TFEU, it concurred that Sisvel seeking injunctive relief would not constitute abuse of dominant position under the *Huawei v. ZTE* decision of CJEU. It is worth mentioning that the court acknowledged that although Sisvel had not given a notice of infringement to Haier before filing its complaint, Sisvel's complaint was filed before the CJEU's judgment in *Huawei v. ZTE*, making the case transitional in nature.[46] Therefore, Sisvel was not required to notify Haier before filing the complaint, and the complaint itself was considered to be sufficient warning under the

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[42] FCJ Orange-Book Decision; EC Samsung Decision; EC Motorola Decision.

[43] Sisvel Wireless Patent Portfolio v. Qingdao Haier Group, Regional Court of Landgericht Dusseldorf, 4a O 93/14, 4a O 144/14 (Nov. 3, 2015).

[44] *Huawei*, *supra* note 7.

[45] Sisvel has signed patent licensing deals based on its patents (including more than 300 patens acquired from Nokia) that Sisvel claims it has declared essential to functioning of 2G, 3G and 4G wireless standards. *See generally* SISVEL, http://sisvel.com/wireless.

[46] According to principles set out by CJEU in *Huawei v. ZTE*, the plaintiff is required to give a notice of infringement with sufficient details about the underlying patents and the way they are being infringed before seeking injunction.

circumstances. An analysis of the ruling demonstrates that three factors influenced the court to grant the injunction against Haier. The first factor was Haier's decision to use the offers and counteroffers as a delaying tactic. The court evaluated the circumstances of the case and discovered that Sisvel responded to Haier's licensing request in a swift manner, but Haier deployed delaying tactics in its counteroffers, and hence Haier's FRAND defense could not stand. The evidence suggested that Haier made its first counteroffer in September 2014 after learning about Sisvel's decision to institute a case against it for patent infringement. Further, the evidence indicated that Haier made the second counteroffer prior to the commencement of the oral hearings on Sisvel's injunction application. The conduct of both parties became material in the court's analysis on the merits of Sisvel's injunction application. The second factor that contributed to the success of Sisvel's preliminary injunction application was Haier's failure to provide a record on its past use of the invention. The court argued that Haier had a duty to provide security and present an accurate report on all of the accrued royalty immediately after it decided to reject Sisvel's licensing offers. The court added that Haier, as the licensee, had a legal duty to demonstrate that it was a willing licensee. The third factor was that the court did not decide whether the license offer from Sisvel met FRAND requirements because Haier's counteroffer failed to meet the requirement laid down in *Huawei v. ZTE*. The court did not see a need to decide whether Sisvel's license offer was FRAND compliant because defendant's counteroffer failed to meet the *Huawei v. ZTE* requirements.

Haier appealed the lower court's decision to the Düsseldorf Upper District Court (Oberlandesgericht (OLG) Düsseldorf), which issued an interim order suspending the injunction originally issued by the lower court in *Sisvel v. Haier*.[47] The appeals court's decision was based on evident flaws in the application of the *Huawei v. ZTE* requirements by the lower court. It was decided that the lower court wrongly assumed that the initial offer from the SEP holder was FRAND compliant. The appeals court held that the initial offer by the SEP holder must be FRAND compliant to oblige the alleged infringer to make a counteroffer. It should be noted that the Düsseldorf Court of Appeals confirmed in its decisions that it's,

> prima facie the District Court had correctly found infringement and a sufficient likelihood of validity of the Sisvel patents. The Court of Appeals confirmed that Sisvel is entitled to enforce these judgments regarding the claims for rendering accounts and damages. However, it stayed the enforcement in view of the injunctive relief.[48]

IV. SAINT LAWRENCE COMMUNICATIONS (SLC) V. DEUTSCHE TELEKOM

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[47] Sisvel Wireless Patent Portfolio v. Qingdao Haier Group, Oberlandesgericht Düsseldorf Court of Appeals, 15 U 65/15 (Jan. 13, 2016). This is an interim order and OLG Dusseldorf will hear full appeal proceedings.

[48] SISVEL, *Düsseldorf Court Of Appeal Hands Down First Decision On Frand,* http://www.sisvel.com/news-events/news/duesseldorf-court-of-appeal-hands-down-first-decision-on-frand (Jan. 22, 2016)**;** Sisvel official press release on January 22, 2016.http://www.sisvel.com/news-events/news/duesseldorf-court-of-appeal-hands-down-first-decision-on-frand

Soon after the *Sisvel* decisions of the lower court of Dusseldorf, the Regional Court of Mannheim granted an injunction in *SLC v. Deutsche Telekom*[49] against the implementer, Deutsche Telekom, whose FRAND and Article 102 TFEU defenses were rejected. SLC approached Deutsche Telekom offering a license on its SEP, along with a copy of the complaint (that was filed by SLC but had not been served), after filing for infringement.[50] HTC offered to accept a license from SLC on FRAND terms on two conditions: that it should be limited to Germany, and the royalties should be assessed by the High Court of England and Wales.[51] HTC and Deutsche Telekom alleged that SLC did not comply with the requirements under *Huawei v. ZTE* and, therefore, SLC's action seeking injunction amounts to an abuse of dominant position.[52] Specifically, it was alleged that SLC breached its FRAND commitment by calculating the royalty rates on the basis of global sales, rather than sales in Germany.[53] It was held by the court that SLC's action did not amount to abuse of dominance.[54] An analysis of the ruling demonstrates that two factors influenced the court to deny Deutsche Telekom a *Huawei* defense. First, SLC brought an action for an injunction after notifying the alleged infringer who did not express willingness to take a license from SLC. An analysis of the ruling suggests that the application of requirements in *Huawei v. ZTE* by the Mannheim Regional Court was divergent from that of the Dusseldorf Regional Court in *Sisvel v. Haier*.[55] The sequential ordering of the requirements was strictly followed in the latter, while Mannheim court's order was inexact in its interpretation of the procedural steps laid by CJEU (discussed in the earlier section). Another interesting aspect that arises from *SLC v. Deutsche Telekom* relates to the actual targets of the lawsuit. In many of these cases, courts will only issue an injunction after the affirmation of the infringement. In the case of *Philips v. SK-Kassetten,*[56] a Dutch court underlined its commitment to focusing on the party's patent infringements rather than the list of extraneous issues that may block the ability to access the injunction. In that case, the judge issued an injunction to the holder of the SEP because of its belief that the patent owner's FRAND commitments did not undermine the ability to enforce patent rights by seeking an injunction against a licensee.[57] The arguments of the court in the *Philips* case is that FRAND commitments do not foreclose the patent owner's right to seek an injunction when the licensee violates the terms of that license. Further, the case suggests that the judge will pay very little attention to the conduct of the patent

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[49] SLC v. Deutsche Telekom, Regional Court of Mannheim, case no. 2 O 106/14 (Nov. 27, 2015) and Higher Regional Court of Düsseldorf, I-15 U 65/15, I-15 U 66/15 (Jan. 13, 2016).

[50] The International Patent Evaluation Consortium had recognized SLC's patent to be essential to the working of the AMR-WB standard in mobile phones, and the patent holder had committed to ETSI to license it on FRAND terms.

[51] HTC provided bank guarantees and submitted information on sales of its phones to the court, while continuing to commercially sell the infringing products. SLC rejected the offer and, as a result of which, HTC and Deutsche Telekom filed for abuse of dominant position due to SLC's action to seek injunction.

[52] *Id.* at ¶ 3.

[53] *Id.* at ¶¶ 19 and 29.

[54] *Id.* at ¶ 22.

[55] *Sisvel, supra* note 44.

[56] Koninklijke Philips Electronics N.V. v. SK Kassetten GmbH & Co. KG, District Court The Hague, The Netherlands, No. 316533/HA ZA 08-2522, 316535/HA ZA 08-2524 (Mar. 17, 2010).

[57] *Id.* at ¶ 6.18.

owner because of the belief that such conduct does not undermine the patent holder's ability to exercise his rights by seeking an injunction against continued infringement. Second, the court did not decide on FRAND compliance, (i.e. whether the offer by the SEP holder adhered to the FRAND commitment it had made to the SSO).[58] The court held that, per the requirement of *Huawei v. ZTE*, the alleged infringer was obligated to propose a counteroffer in response to *any* license offer made by the SEP holder as long as the latter conveys the requisite information on the rate and how the royalty was determined.[59] In other words, the counter offer from the implementer is not conditional on the initial offer being fundamentally compliant with FRAND terms. The approach of the Mannheim Court seems to be inconsistent with the Higher Court of Dusseldorf in *Sisvel v. Haier*, which suggested that the alleged infringer's duty to respond to the initial offer is conditional on whether the initial offer was indeed FRAND compliant.[60]

V. NTT DoCoMo v. HTC Germany

In this third case, The Mannheim Regional Court granted an injunction against HTC Germany after NTT DoCoMo claimed that HTC Germany was violating its patents.[61] In contrast to *Sisvel v. Haier*, the Court did not assess whether NTT's initial offer complied with FRAND terms.[62] Instead, the court argued that an assessment of the initial offer would only be appropriate if it was so excessive that it violated FRAND requirements.[63] The court added that their ability to make the assessment that the offer was excessive depended on the conduct of the party accused of breaching the patent. In this case, the court argued that HTC Germany's obligation after receiving the 'excessive' offer was to make a counteroffer that was compliant with FRAND requirements.[64] The court evaluated the conduct of HTC Germany and discovered that the company did not issue a counteroffer immediately after receiving the offer, and instead continued to use NTT's products.[65]

Two important facts emerge from the analysis of this case. The first factor that emerges from the analysis is that courts focus their attention on the patent owner's rights rather than the patent owner's conduct. In this case, the judges' conduct suggested that that right superseded any conduct that the patent owner might have

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[58] Rufus Pichler & Holger Kastler, *First German Decisions Applying the ECJ's Huawei v. ZTE Framework on Injunctions for Standard Essential Patents*, LEXOLOGY, 6. (Feb. 18, 2016), https://www.lexology.com/library/detail.aspx?g=a1c1c8d7-83d6-4611-8e6a-8afd3d85c713.

[59] *Id.* at ¶ 6.19.

[60] Sir Robin Jacob, *Lessons from HUAWEI v. ZTE,* 1 ITALIAN ANTITRUST REV. 11 (2017); George Nolte & Lev Rosenblum, *Injunctions in SEP cases in Europe*, SSRN 10, 10 (Mar. 2017).

[61] NTT DoCoMo to. DoCoMo v. HTC Germany, Regional Court of Mannheim, 7 O 99/15 (Feb. 19, 2016); 7 O 100/15 (June, 6 2016).

[62] Jacob, *supra* note 61 at 15.

[63] George, *supra* note 61 at 15.

[64] Dietrich Kamlah & Jonathan A. Kropp, *Mannheim Regional Court differs from Higher Regional Court of Duesseldorf on requirements for FRAND offer,* TAYLOR WESSING BLOG (Feb. 20, 2018), https://deutschland.taylorwessing.com/en/mannheim-regional-court-disagrees-with-higher-regional-court-of-duesseldorf-on-requirements-for-frand-offer.

[65] *Id.* at 15.

engaged in to deny him those rights. This approach is consistent with the approach that other courts in the EU have taken regarding the exercise of patent rights by individuals who have FRAND obligations, but are seeking an injunctive relief against a company that is continuing to infringe on its patent. In 2014, the courts in the UK underlined this view in the case of *Vringo v. ZTE*.[66] In this case, the UK court ruled that Vringo's patent was valid and that ZTE had infringed it.[67] In making this ruling, the court stated that Vringo's ability to obtain injunctive relief depended on the existence of the patent as well as evidence that the company's actions infringed on that patent.[68] This argument demonstrates that the actions of the company infringing on the patents are more important than the actions of the individual who has suffered damage because of the patent infringement. Therefore, the focus on patent infringement is an acknowledgement that the SEP holders' FRAND commitment does not extinguish their right to seek injunctive relief and enforce their respective patents. The second issue that emerges is that courts have put in place measures to safeguard the process of FRAND negotiations against abuse. They acknowledge that obtaining an injunctive relief can aid the patent holder in using the injunctions as a tool for increasing the offer or delaying the process of license acquisition. The case of *Samsung v. Apple*[69] demonstrates that, in certain instances, a party may use the injunctions as a tool for delaying the other party's acquisition of the license. In this case, a Dutch court rejected Samsung's request for an injunction against Apple's continued infringement on its patents.[70] The court made this decision after it evaluated the conduct of Samsung and realized that it was using the injunction as a strategy for delaying Apple's product release.[71] The court argued that Samsung's FRAND commitment was evidence that it had committed to developing an agreement with Apple.[72] According to the Court, this agreement meant that Apple had received an irrevocable contract that entitled it to obtain a FRAND license from Samsung.[73] The agreement gave Samsung an obligation to engage in good faith negotiations with Apple.[74] During these negotiations, Samsung went on to offer a price that it suggested was consistent with FRAND practices, though limited to the Netherlands only.[75] In this case, the judge evaluated the conduct of the parties and realized that Samsung instituted the case before even replying to Apple's license offer request.[76] This led the court to believe that Samsung was using the judicial process and injunctions as a means for frustrating Apple.[77] This case is different from other cases where courts have issued an injunction because an analysis of Apple's conduct demonstrates that it was willing to provide the FRAND negotiated term.

[66] Vringo Infrastructure Inc. v. ZTE (UK) Ltd., EWHC 1591 (Pat) (2013). (hereinafter Vringo v. ZTE).

[67] Vringo Infrastructure Inc. v. ZTE (UK) Ltd., EWHC 3294 (Pat) (2014).

[68] *Vringo, supra* note 67, at ¶ 68.

[69] Samsung v. Apple, District Court of The Hague, doc.no.400367/HAZA 11-2212 (Mar. 14, 2012).

[70] *Id.* at 26 ¶ 4.50.

[71] *Id.* at 24 ¶ 4.42.

[72] *Id.* at 16 ¶ 4.6.

[73] *Id.*

[74] *Id.* at 18 ¶ 4.15.

[75] *Id.* at 13 ¶ 2.32.

[76] *Id.* at 22 ¶ 4.35.

[77] *Id.* at 21 ¶ 4.32.

VI. SAINT LAWRENCE COMMUNICATIONS (SLC) V. VODAFONE

Soon after an injunction was granted in *SLC v. Deutsche Telekom*, a similar dispute was handled by the court with the same plaintiff but a different telecom operator. In *SLC v. Vodafone,*[78] an injunction was granted by the regional court of Düsseldorf against Vodafone, which was offering to sell smartphones using SLC's essential patent.[79] HTC was participating as a third-party intervener for delivering smartphones embedded to Vodafone.[80] This judgment is of significant relevance, as it went on to further clarify the obligations of parties as initially provided in *Huawei v. ZTE*.

The first issue the court identified was that SLC need not be proven to be in dominant position for the purpose of further proceedings and, therefore, SLC's alleged dominance was not considered by the court as a starting point of the case.[81] The court then clarified that a notice of infringement furnished after bringing an action will not, on its own, render the claim for injunctive relief unenforceable.[82] As this complaint was raised before the guidelines for prior notice of infringement were laid down by CJEU in *Huawei v. ZTE*, the court held that not adhering to CJEU's guidelines was rather inconsequential in this matter.[83] In transitional cases such as this one, notification could be delivered by servicing the action brief containing all relevant information required by the defendant. In addition, the court acknowledged that unnecessary delay would be caused if the complainant was forced to withdraw the action and file another complaint following CJEU's guidelines.[84]

The court refused defendant's argument that license fees demanded were higher than industry-standard royalty rates and held: "*It should be noted that not every deviation from industry practice indicates an abuse. When comparing royalties, the technology to be licensed in each case must also always be considered.*"[85] The defendant had received sufficient information regarding the calculation of royalties in the offer that was held to be compliant with FRAND terms by the court after examining comparable royalties within (anonymized) licensing agreements of six other mobile telecommunications companies submitted by the plaintiff.[86] These comparable licensing agreements and the prevalent industry practice were justly held as relevant factors while determining whether the license offer was FRAND compliant or not.

Similar to the approach adopted in both *SLC v. Deutsche Telekom* and *NTT DoCoMo v. HTC,* the court laid emphasis on the fact that the defendant, Vodafone, failed to follow the guidelines by not submitting any counter-offer and also failed to

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[78] SLC v. Vodafone*,* LG Düsseldorf, 4a O 73/14 (Mar. 31, 2016).

[79] E.U. Patent No. EP1125276B1 (filed Oct. 27, 1999); held by SLC.

[80] Gabriella Muscolo, *The Huawei Case, Patents and Competition Reconciled?*, 1 HORIZONS OF COMMERCIAL LAW 2017, 18, ISSN 2282 - 667X (2017), http://rivistaodc.eu/edizioni/2017/1 (last visited Feb. 20, 2018).

[81] *Vodafone, supra* note 79, at 3 ¶ 1.

[82] *Id.* at 9 ¶ 2.

[83] *Id.* at 7 ¶ 2.

[84] *Huawei, supra* note 7.

[85] *Vodafone, supra* note 79, at 17 ¶ (e).

[86] *Id.* at 15.

provide any security in response to the initial offer. On the other hand, the three counteroffers made by the intervener (HTC) were held to be non-FRAND compliant due to two reasons: first, it was only limited to the German territory; second, the royalty rates offered were considered significantly low by the court.[87] It was opined that offering a worldwide portfolio license does not amount to violation of FRAND obligations, since it is a globally accepted practice of the industry. Taking a departure from the CJEU guideline, it was held that the SEP owner is not required to provide precise mathematical calculations for the estimated royalties that were demanded. Rather, a range of values of standard licensing royalties prevailing in the market was deemed to be sufficient, which SLC did present in the court.[88] The approach taken by the court in *SLC v. Deutsche Telekom,* of finding the telecom operator as a suitable defendant was followed in this case as well. However, unlike any post-*Huawei* case, the German court in *SLC v. Vodafone* went on to decide (in the affirmative) FRAND compliance of the initial offer made by the SEP owner.[89] The court acknowledged that the plaintiff was skeptical in presenting freely negotiated license agreements.[90] However, court held that not every license fee negotiated under the threat of injunctive action is necessarily abusive and excessive – an assertion confirmed by the CJEU in its judgment.[91]

VII. IMPLICATION OF RECENT CASE LAW

The CJEU guidelines brought much needed clarification that was applied in subsequent cases to understand whether there was abuse of dominant position by SEP owners while seeking injunctive relief. The guidelines have been applied by courts in recent cases as discussed above, either explicitly adhering to the guidelines or with modifications to suit specificities of the case. However, there are questions that are yet to be resolved in future proceedings. Post *Huawei*, the method of determination of whether a given SEP holder is in a dominant position or not is still unclear, since the guidelines are applicable where the SEP holder is already held to be dominant in the market.

Another point of ambiguity pertains to the sequence of obligations of the licensing parties. The sequential ordering of requirements was strictly followed in *Sisvel,* while the court in *Deutsche Telekom* as well as in *Vodafone* was inexact in its interpretation of procedural steps laid by CJEU. In addition, there is no certainty in respect to the timing to be adhered to by the alleged infringer. In other words, it is not clear as to how long an alleged infringer can take before responding to the offer/notice given by the SEP owner, or the time for providing security after a counter-offer is rejected by an SEP owner. Even though in the above cases courts have dealt with this issue, albeit without consistency. For instance, a duration of one year[92] and eighteen months[93] in *Sisvel* and *NTT DoCoMo* respectively, were

[87] *Id.* at 30.
[88] *Id.* at 21.
[89] *Id.* at 12.
[90] *Id.* at 17.
[91] Huawei Technologies Co. Ltd. v. ZTE Corp., C-170/13 ECJ at 77.
[92] *Sisvel, supra* note 44.

considered significantly late to reply to SEP-owner's notice/offer. Further, a period of one month[94] and three months[95] in *Sisvel* and *Deutsche Telekom,* respectively, were considered adequate for providing security after SEP owner's rejection of counter offer.

Other than *SLC v. Vodafone,* none of the other cases addressed the question whether the offer made by the SEP owner was FRAND compliant. The courts mostly focused on the counter-offers made by the alleged infringers, without examining whether the SEP owner's initial offer was FRAND compliant or not. However, it is worth mentioning that instead of a fresh assessment of the SEP holder's offer, the court in this case relied on the existing comparable licenses submitted by the SEP owner to determine FRAND compliance. While this approach indeed satisfies the '*non-discriminatory*' prong of FRAND, it cannot be said accurately in respect to the *'fair'* and *'reasonable'* prongs of FRAND terms. It seems there is still scope for clarification required from courts since the existing comparable licenses that are presented may not be ruled to be entirely free of any kind of injunctive threat.[96]

The judgment of the appellate court in *Huawei v. ZTE* is expected to be announced soon, in addition to the forthcoming decisions from appeals made in *Sisvel v. Haier*[97] and *SLC v. Deutsche Telekom.*[98] Several questions, including those mentioned above, are expected to be clarified. The guidelines provided in *Huawei,* in addition to the clarification provided in *Vodafone*, provide some guidance to the alleged SEP infringers. It is advisable to provide a FRAND-compliant counter-offer to an SEP owner at the earliest instance of receiving the offer/notice. Even though it is unclear how an offer is determined FRAND-compliant, *Vodafone* provides an indication towards comparable license agreements and prevalent industry practices as useful considerations.

VIII. What can India learn from the emerging European jurisprudence?

With the world's second-largest wireless subscriber base, India houses more than 150 mobile device vendors.[99] With over one billion mobile subscribers, India has

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[93] *NTT DoCoMo, supra* note 62.

[94] *Sisvel, supra* note 44.

[95] *Deutsche Telekom*, *supra* note 50.

[96] Haksoo Ko, *Facilitating Negotiation for Licensing Standard Essential Patents in the shadow of Injunctive Relief Possibilities,* SEOUL NATIONAL UNIVERSITY SCHOOL OF LAW (May 15, 2013), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2267280

> Under a proposed court procedure, the court would make an interim assessment of the FRAND compliance of the offer initially and final decision could be taken at a later stage, when it is necessary to do so . . . this will provide lesser incentive for the parties to engage in opportunistic behavior and encourage participation in fruitful negotiations.

[97] *Sisvel, supra* note 44.

[98] *Deutsche Telekom*, *supra* note 50.

[99] Jorge L. Contreras & Rohini Lakshane, *Patents and Mobile Devices in India: An Empirical Survey*, 50 VANDERBILT J. TRANSNATIONAL LAW 1, 2 (2017).https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2756486

attained the position of second-largest mobile subscribers base in the world.[100] The Indian mobile handsets market had been dominated by foreign manufacturers like Samsung, Nokia and Sony for over several years, but the status quo has changed dramatically in the past few years with the emergence of domestic players like Micromax, Lava and Intex. The increasing dominance of domestic players along with Chinese producers like Xiaomi, Lenevo and Oppo, flourished the market with a host of smartphones with high specs at low prices.[101]

In spite of such developments, the Indian smartphones market had been relatively unaffected by the SEP and FRAND wars, until the beginning of SEP litigations in the past three to four years. Multiple suits against several domestic Indian smartphone makers have been brought by multi-national telecom companies, led by Ericsson in most cases. These legal actions have led to several orders being passed by the courts, mostly in favor of the foreign patent holders, as well as intervention by the Competition Comission of India (CCI).[102] There have been multiple instances of Indian courts granting injunctions against the domestic manufacturers.

The earliest dispute involving SEP in India occurred between Ericsson and Kingtech Electronics[103] for the import of 'G'Five' brand handsets into India, which comprised of patents owned by Ericsson.[104] In August 2013 Ericsson went on to obtain an injunction order against Kingtech, where the Delhi High Court refrained them from importing such handsets implementing Ericsson's Adaptive Multi Rate technology patents.[105]

The second such instance occurred with the patent infringement suit filed by Ericsson against Micromax, alleging violation of its 8 standard essential patents, in March 2013. From thereon, apart from Micromax, Ericsson initiated proceedings against other smartphone manufacturers operating in India, domestic as well as foreign, including Gionee, Intex, Xiaomi, iBall, and Lava in the High Court of Delhi.[106] Apart from Ericsson, the US-based Vringo Infrastructure Inc. is another

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[100] Mahanagar Doorsanchar Bhawan, *The Indian Telecom Services Performance Indicators,* TELECOM REGULATORY AUTHORITY OF INDIA (Dec. 1, 2016), http://www.trai.gov.in/sites/default/files/Indicator_Reports_April_June_01_12_2016.pdf (reporting 1059.86 million subscriptions as of June 30, 2016).

[101] Contreras et. al., *supra* note 100 at 2.

[102] In Re Intex Technologies (India) Limited v. Telefonaktiebolaget LM Ericsson (Publ), Competition Commission of India, Case No. 76/2013 (Jan. 16, 2014).

[103] Kingtech Electronics (India) Pvt. Ltd. v. Union of India, High Court of Delhi, W.P.(C) 6878/2011, C.M. No. 15811/2011 (Dec. 19, 2011).

[104] AMR Patents: Indian Patent No. IN203034 (filed Mar. 9, 2001) (Linear Predictive Analysis by synthesis encoding method and encoder); Indian Patent No. IN203036 (filed Mar. 14, 2001) (Apparatus for producing from an original speech signal a plurality of parameters); IN234157 (A method of encoding/ decoding multi-codebook fixed bitrate CELP signal block); Indian Patent No. IN203686 (Method and system for alternating transmission of codec mode information); Indian Patent No. IN213723 (Method and apparatus for generating comfort in noise in a speech decoder).

[105] Telefonaktiebolaget Lm Ericsson v. Kingtech Electronics (India) Pvt. Ltd., High Court of Delhi, CS (OS) 68/2012 (Aug. 22, 2013).

[106] Telefonaktiebolaget Lm Ericsson v. Best IT World (India) Private Limited (iBall), High Court of Delhi, CS (OS) 2501/2015 (Sept. 2, 2015); Telefonaktiebolaget Lm Ericsson v. LAVA International Limited, High Court of Delhi, CS 764/2015 (Mar. 24, 2015); Telefonaktiebolaget Lm Ericsson v. INTEX Technologies (India) Limited, High Court of Delhi, CS (OS) 1045/2014 (Mar. 13, 2015); Telefonaktiebolaget Lm Ericsson v. XIAOMI, High Court of Delhi, CS 3775/2014 (Aug. 12, 2014);

party which has taken patent infringement actions (against ZTE) for alleged violation of its SEPs. In most of the cases, courts ruled in favor of the patent holder, injunctions were granted in Ericsson's favor and the manufacturers were directed to submit security and royalties determined by the courts. In addition to the court actions, few manufacturers have also approached the Competition Commission of India (CCI), alleging abuse of dominance by Ericsson. However, the competition aspect is outside the scope of this paper. In December 2014, Delhi High Court granted an injunction to Ericsson against Micromax and directed Micromax to pay royalties ranging from 0.8-1.3% of the net selling price of the infringing device.[107] That is, the court preferred the use of 'downstream device' as the royalty base. Interestingly, the court calculated the royalty using the comparable license method, examining such 26 licenses executed between Ericsson and other Indian parties.[108] In addition, the court clarified the nature of the royalties determined, holding them merely an interim arrangement and not a determination of FRAND rates for Ericsson's portfolio.

Similarly, in *Ericsson v. Intex,*[109] the court found the practice of using net selling price of the downstream device as royalty base, to be FRAND.[110] In deciding the above, the court referred to the downstream device approaches adopted in the US case *Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys.* (hereinafter *CSIRO v. CISCO*)[111] and by the Chinese Competition Authority (NDRC) towards Qualcomm's SEPs for 3G/4G technologies.[112] Owing to the similar facts, the court used the same royalty rates which were decided in *Ericsson v. Micromax*, and an injunction was granted, restraining Intex from manufacturing or importing the infringing devices. Ericsson also succeeded in obtaining an ex-parte injunction[113] against Xiaomi, restraining it from selling and importing its devices using Ericsson's

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Telefonaktiebolaget Lm Ericsson v. GIONEE Communication Equipment Co. Limited, High Court of Delhi, CS 2010/2013 (Oct. 31, 2013); Telefonaktiebolaget Lm Ericsson v. Kingtech Electronics (India) Pvt. Ltd., High Court of Delhi, CS (OS) 68/2012 (Aug. 22, 2013).

[107] Telefonaktiebolaget Lm Ericsson v. Mercury Electronics & Anr.*,* High Court of Delhi, CS (OS) 442/2013, 2, ¶ 4 (Nov. 12, 2014).

[108] *Id.* at 1*,* ¶ 1.

[109] Telefonaktiebolaget Lm Ericsson v. Intex Technologies (India) Ltd., High Court of Delhi, CS (OS) 1045/2014 (Mar. 13, 2015).

[110] *Id.* at 250, ¶ 158.

[111] Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys., No. 6:11-cv-343, 2014 U.S. Dist. LEXIS 107612 (E.D. Tex. July 23, 2014)

> Basing a royalty solely on chip price is like valuing a copyrighted book based only on the costs of the binding, paper, and ink needed to actually produce the physical product. While such a calculation captures the cost of the physical product, it provides no indication of its actual value.

Id. at 22.

[112] People's Republic of China National Development and Reform Commission Administrative penalty decision, NATIONAL DEVELOPMENT AND REFORM COMMISSION (Mar. 2, 2015) http://www.ndrc.gov.cn/gzdt/201503/t20150302_666209.html. Decision delivered by National Development and Reforms Commission, China on March 2, 2015. Original order: http://www.ndrc.gov.cn/gzdt/201503/t20150302_666209.htmltranslated to English: available at https://translate.google.com/translate?hl=en&sl=auto&tl=en&u=http%3A%2F%2Fwww.ndrc.gov.cn%2Fgzdt%2F201503%2Ft20150302_666209.html.

[113] Telefonaktiebolaget Lm Ericsson v. Xiaomi Technology and Ors., High Court of Delhi, CS (OS) 3775/2014 (Dec. 8, 2014).

patented technology. However, Xiaomi was able to get the injunction partially vacated[114] on the ground that Ericsson concealed the fact about Xiaomi's 'Global Patent License Agreement' with Qualcomm.[115] This agreement authorized Xiaomi to use two out of eight alleged patents owned by Ericsson, as royalties were already being paid by Xiaomi to Qualcomm. This led the court to temporarily allow Xiaomi to resume the sale, on conditions of using only Qualcomm chipsets and depositing security of an amount equivalent to three month sales.

In the case of *Vringo v. ZTE,*[116] Delhi High Court granted an ad-interim ex-parte injunction against ZTE on manufacture and sale of the infringing devices alleged by Vringo. However, the injunction was later lifted, with the court ordering ZTE to submit a bank guarantee of INR 50 million.[117] This became the first case in the series of SEP litigation where courts agreed to appoint a 'scientific advisor'.[118] However, in December 2015, Vringo and ZTE entered into confidential settlement and a licensing agreements,[119] under which both agreed to withdraw all pending litigations across the world.

Apart from the court proceedings, the CCI has been approached by Micromax, Intex and iBall,[120] claiming abuse of dominance by Ericsson in its licensing practices. On a prima-facie basis, in its preliminary ruling, CCI held Ericsson as dominant in the relevant market and considered its licensing practices. CCI opined that Ericsson abused its dominant position by imposing high and unfair royalty rates and by forcing parties to sign Non-Disclosure Agreements (NDA). Interestingly, no other court or competition authority outside India has raised any competition issues in respect to NDAs, as the nature of such licenses themselves require that secrecy be maintained, due to the nature of information contained therein. Even though the final investigation by CCI is still underway and the final order is expected to be out soon, the position taken by CCI on most issues has been exactly opposite to what the Indian courts have held till now.

IX. CONCLUSION

There is no doubt that the *Huawei v. ZTE* decision, with its six-step test, brought clarification regarding the conduct of the SEP holder and the alleged infringer in respect to SEP licensing on FRAND terms.[121] However, there are

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[114] *Id.*; Telefonaktiebolaget Lm, High Court of Delhi, IA 3074/2015 in CS (OS) 3775 2014 (Apr. 22, 2016).

[115] Ashish Bharadwaj, *Delhi High Court partially vacates interim injunction with respect to Ericsson's 3G standard essential patents*, 11 JIPLP 873 (2016).

[116] Vringo v. ZTE, High Court of Delhi, CS (OS) 2168/2013 (Nov. 8, 2013).

[117] Rohini Lakshané, *Joining the Dots in India's Big-Ticket Mobile Phone SEP Litigation*, 14, 13-16, SSRN (Oct. 31, 2017), https://ssrn.com/abstract=.

[118] *Id.*

[119] CCPIT Patent & Trademark Law Office, *ZTE made a $21.5 Million Global settlement with Vringo*, LEXOLOGY (Dec. 11, 2015) http://www.lexology.com/library/detail.aspx?g=b118fa05-19d7-4ac7-93e4-048fe1f8a38e.

[120] In Re Intex Technologies (India) Limited v. Telefonaktiebolaget LM Ericsson (Publ), Competition Commission of India, Case No. 76/2013 (Jan. 16, 2014); The Quarterly Newsletter of Competition Commission of India (CCI), 18 FAIR PLAY, 13 (2015).

[121] Huawei Technologies Co. Ltd. v. ZTE Corp., C-170/13 ECJ (2015).

multiple issues in respect to FRAND licensing which need to be dealt with, as is evident from subsequent cases in Germany. The German FRAND jurisprudence has evolved substantially in the past two years, particularly concerning grant of injunctions and determination of abuse of dominance violating Article 102 TFEU. The Indian courts and competition authority have been at the opposite ends of the spectrum in dealing with FRAND matters. Though CCI is yet to come out with its final decision, the Delhi High Court has been in consonance with the international practices in granting injunctions.

The framework laid down in *Huawei* has not been explicitly applied in any of the cases in India. In India, the courts have dealt with the conduct of both parties on a case-by-case basis, without following any stringent steps as laid down in *Huawei*, which was cited in *Ericsson v. M/S Best IT World*[122] by the defendant, alleging that the conduct of Ericsson did not comply with CJEU's guidelines. However, this was rejected by the Indian court on the basis of the evidence, which showed that the defendant was in fact aware of Ericsson's rights over the patents and, therefore, an injunction was granted in favor of Ericsson. Before the court could go further into the merits and any elaborate application of *Huawei* could happen, the parties entered into a Global Licensing Agreement, and the pending case was disposed of.[123] In *Ericsson v. CCI,* the court stated, referring to *Huawei, "there is good ground to hold that seeking injunctive reliefs by an SEP holder in certain circumstances may amount to abuse of its dominant position . . . risk of suffering injunction . . . undue pressure on implementer."*[124] It was determined that the SEP holder's position is not equitable with that of a non-essential patent holder, due to the lack of options for the licensee in case of the former, thereby underlining the importance of protecting the interest of the implementer.[125] In spite of a seemingly pro-implementer position, the courts have been efficient in identifying instances of possible reverse patent hold-up and granting injunctions in most cases where the licensee was unwilling to execute an agreement.[126]

Adopting the CJEU's guidelines (or, the six-step test) in the Indian jurisprudence will indeed make the process more time-efficient and less ambiguous.[127] Further, the Indian courts have not evaluated the initial offer made by the SEP holder closely, and have referred to available comparable licenses to set

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[122] Ericsson v. M/S Best It World, The High Court of Delhi, I.A. No.17351/2015 in CS (OS) 2501/2015, 6, ¶ 12 (Sept. 2, 2015).

[123] Ericsson and iBall entered into a Global Patent License Agreement (GPLA) in October 2015 and the suits were dismissed thereon. Rajesh Kurup, *iBall, Ericsson settle patent issue*, THE HINDU BUSINESS LINE (Nov. 20, 2015), http://www.thehindubusinessline.com/info-tech/iball-ericsson-settle-patent-issue/article7900713.ece.

[124] Ericsson v. CCI, The High Court of Delhi, W.P.(C) 1006/2014, CM Nos.2037/2014, 2040/2014, 151, ¶ 199 (Mar. 30, 2016) (emphasis added).

[125] *Id.*

[126] Injunctions granted by the court in favor of *Ericsson* in separate proceedings against *Kingtech Electronics (India) Pvt. Ltd.; Mercury Electronics & Anr.; Intex Technologies (India) Ltd.;* and *Xiaomi Technology*.

[127] *See also* Koren W. Wong-Ervin, Douglas H. Ginsburg, Bruce H. Kobayashi, and Joshua D. Wright, *FRAND in India*, GEORGE MASON UNIVERSITY LAW AND ECONOMICS RESEARCH PAPER SERIES, 16-32 (2017).

interim royalty rates.[128] Post *Huawei,* only the *Vodafone* judgment attempted to determine FRAND compliance of the initial offer made by the SEP holder. The *Vodafone* case also used comparable licenses, similar to the approach taken by Indian courts. However, an important distinction is that in the former*,* the court held the offer to be FRAND compliant, which the Indian courts have been reluctant to do. Deciding upon the interim royalty rates is not exactly the same as determining FRAND compliance, which gains even more importance when Indian competition agency has *prima facie* held the conduct of the SEP holder as anti-competitive and FRAND non-compliant. In the FRAND jurisprudence emerging around the world, what stands out is that determining (reasonable) royalties for an essential patent has been the most debatable[129] issue due to the level of complexity of the underlying issues. There have been multiple, and opposing, views regarding this contentious issue. Apart from the method of looking at (considering) comparable licenses, courts in the US have considered 'hypothetical negotiation' between a *willing* licensee and *willing* licensor,[130] which could be considered as a derivative of comparable licensing methods. When it comes to the selection of the appropriate authority for the determination of royalties, there are conflicting opinions as well.

On the one hand, setting of royalty rates by a competition authority is fiercely opposed based on the argument that it will amount to intrusion of the competition authority in free functioning of the market that goes against the mandate of any competition authority.[131] On the other hand, it has been contended that the courts

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[128] The court cautioned that these were mere interim royalty rates and not determination of FRAND rates.

[129] J. Gregory Sidak, *What Aggregate Royalty Do Manufacturers of Mobile Phones Pay to License Standard-Essential Patents?*, 1 THE CRITERION JOURNAL OF INNOVATION 701 (2016) https://www.criterioneconomics.com/aggregate-royalty-to-license-standard-essential-patents.html; Anne Farrar & Koren W. Wong-Ervin, *Methodologies for Calculating FRAND Royalty Rates and Damages: An Analysis of Existing Case Law*, LAW360 (Oct. 2014) https://www.law360.com/articles/584906/methodologies-for-calculating-frand-damages-part-1; J. Gregory Sidak, *The Proper Royalty Base For Patent Damages*, 10(4) JOURNAL OF COMPETITION LAW & ECONOMICS 989 (2014) https://www.criterioneconomics.com/the-proper-royalty-base-for-patent-damages.html; Jorge Padilla and Koren W. Wong-Ervin, *Portfolio Licensing at The End-User Device Level: Analyzing Refusals to License FRAND-Assured Standard-Essential Patents at The Component Level*, SSRN (2016) https://ssrn.com/abstract=2806688; John C. Jarosz & Michael J. Chapman, *The Hypothetical Negotiation and Reasonable Royalty Damages: The Tail Wagging The Dog*, 16 STAN. TECH. L. REV. 769 (2013); Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28(2) BERKELEY TECH. L. J. 1135 (2013); Wong-Ervin et. al., *FRAND in India*; Jorge L. Contreras, *Injunctive Relief in U.S. Patent Cases*, UNIV. OF UTAH COLLEGE OF LAW RESEARCH PAPER NO. 183 (2017).

[130] Jarosz et. al., *The Hypothetical Negotiation and Reasonable Royalty Damages: The Tail Wagging The Dog* http://stlr.stanford.edu/pdf/royaltydamages.pdf(emphasis added); Georgia-Pacific Corp. v. U.S. Plywood Corp., 446 F.2d 295, 299-300 (2d Cir. 1971); Microsoft Corp. v. Motorola, Inc., 2013 WL 2111217, 16 (W.D. Wash. Apr. 25, 2013); Laser Dynamics, Inc. v. Quanta Computer, Inc., 694 F.3d 51, 60 n. 2 (Fed. Cir. 2012) ("This court has sanctioned the use of the Georgia–Pacific factors to frame the reasonable royalty inquiry. Those factors properly tie the reasonable royalty calculation to the facts of the hypothetical negotiation at issue."); Broadcom Corp. v. Qualcomm Inc., 501 F.3d 297, 314-15 n. 8 (3d Cir. 2007) ("The reasonableness of royalties is an inquiry that courts routinely undertake using the 15–factor test set forth in Georgia–Pacific . . . and some courts have already applied this test in the [RAND] context.").

[131] Sir Robin Jacob, *Competition Authorities Support Grasshoppers: Competition Law as a Threat to Innovation*, COMPETITION POLICY INTERNATIONAL (Dec. 20, 2013)

are not well-equipped to set royalty rates, due to a lack of information needed to suitably determine royalties. It is instead suggested that the Standard Setting Organizations (SSOs) are better equipped to determine such rates, right before the patent invention is declared essential, which will reflect the true value of inventions in comparison to the alternative (i.e. before it becomes standard).[132] Another important element is that of determining the 'royalty base', which in itself is such a complex issue and would require a separate paper focusing solely on it. Finally, Indian courts have not had the chance to examine the FRAND compliance of a counter-offer made by an implementer. This is primarily because in most cases there were no counter-offers and the court had to set royalty rates itself. This is supplemented by the fact that most of the implementers in these disputes were held as 'unwilling licensee' by the court, after examining their conduct, held as tactics for delaying negotiations.

https://www.competitionpolicyinternational.com/competition-authorities-support-grasshoppers-competition-law-as-a-threat-to-innovation/.

[132] Stanley M. Besen, *Why Royalties for Standard Essential Patents Should Not Be Set By The Courts*, 15 CHI. – KENT J. INTELL. PROP. 19 (2016); Mark Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 2163 (2007).