

*India: Managing the  
IP Lifecycle  
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The interplay between patents and anticompetitive practices  
Intl Advocare  
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## INDIA

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# The interplay between patents and anti-competitive practices

By Mamta Rani Jha, Inttl Advocare

By their very nature, IP rights are monopolistic. Patent laws in particular, which seek to encourage innovation by granting limited monopolies over inventions, epitomise this aspect of IP rights. Since a patentee is statutorily empowered to prevent others from infringing its right – and thereby gains an economic advantage – patent rights do appear to run counter to competition. Indeed, antitrust laws aim to foster competition in the market by preventing abuse of dominant positions, which patent rights naturally create.

Examined in isolation, the two acts may leave an impression that they are based on conflicting objectives and are antithetical to each other. However, this is not necessarily true. As is evident from a reading of the provisions of patent laws – both internationally and in India – both laws aim to create a balance between opposing interests in order ultimately to protect public and consumer interests; however, their means of achieving this end are different.

## International agreements

The Paris Convention for the Protection of Industrial Property and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) form the basis of patent legislation in most countries. These two agreements recognise the underlying interplay between patent and competition laws and offer clues on how the overlaps may be addressed. Specifically, Article 5(A)(2) of the Paris Convention envisages the grant of compulsory licences to prevent any abuses which might result from granting monopolistic patent rights. Similarly, Articles 8.2, 40 and 40.2 of TRIPs allow member countries to take appropriate measures to prevent the abuse of

IP rights through practices which unreasonably restrain trade or adversely affect the international transfer of technology.

These international agreements have thus acknowledged the need for striking a balance between monopolistic rights and fair play, although complete discretion has been conferred on member states to frame their respective legislations. It is encouraging to note that the Patents Act 1970 and the Competition Act 2000 both recognise and reflect this balance of interests.

## Relevant provisions of the Competition Act and Patents Act

Section 3 of the Competition Act prohibits agreements which have an adverse effect on competition. However, it excludes from within its ambit the right of any person to restrain any infringement of – or impose the reasonable conditions necessary for the protection of – any of its IP rights, including patent rights. Thus, a patentee's right to restrain infringement is not curtailed by the Competition Act.

However, this is not a blanket entitlement. In cases where the use or non-use of a patent hampers trade or commerce or adversely affects public interest, the patentee's rights may be overridden to enable access. It is also pertinent to note that Section 4 of the Competition Act, which deals with abuse of dominance, does not confer a similar exclusion.

The Patents Act also has an elaborate regime of compulsory licensing to prevent possible abuse of monopoly by patentees. Section 140 of the Patents Act prevents the owner of a patent from entering into agreements by which a purchaser or licensee is prohibited from:

- acquiring patents other than the patentee's;

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- carrying out any other process except the patented process; or
- challenging the validity of the patent.

These provisions attempt to prevent any abuse of the dominance that a patent owner inherently acquires by virtue of the monopoly embodied in the patent.

Therefore, it is amply clear that the Indian laws regarding competition and patents are well balanced and recognise the legitimate concerns to which each branch of law caters. Why then is there any conflict? This chapter will demonstrate that the latent conflict between the two laws arises on account of:

- the overlap of provisions and remedies; and
- the conflict of jurisdiction of the statutory authorities empowered to adjudicate on the disputes arising under each act.

### **Instances of overlap**

There is certainly an overlap between the Patents Act and the Competition Act, as is evident from Section 3(5) of the Competition Act, which clarifies that the prohibition on anti-competitive agreements shall not affect the right of IP rights holders to impose reasonable conditions. However, ‘reasonableness’ is neither defined nor qualified. This has led to conflicting opinions as to what constitutes ‘reasonableness’ and which authority is empowered to determine the same.

The Competition Commission of India (CCI), constituted under the Competition Act, is empowered to examine whether there is abuse of a dominant position by a patentee under Section 4, even if the examined activity involves agreements or trade practices arising from the enforcement of IP rights. Unlike Section 3, Section 4 of the Competition Act has no restrictions or exceptions. This is yet another instance where differing views have been taken by the CCI and courts.

Further, under Section 61 of the Competition Act, the jurisdiction to decide on any violation

of the act vests exclusively with the CCI. However, civil courts have had to decide issues that may affect competition as part of ongoing patent infringement proceedings, leading to contradictory decisions.

Lastly, Indian civil courts have exercised their inherent powers to fix royalty rates for standard-essential patents (SEPs) as interim arrangements in infringement proceedings. However, under Section 27 of the Competition Act the CCI also has unbridled powers to remedy anti-competitive actions by modifying agreements or passing orders directing payment of costs or royalties.

### **Case studies and recent trends**

The above overlaps have been the basis of various legal proceedings between rights holders and users of patented technology. The disputes have mostly pertained to the use of patents in telecoms and agriculture and the use of copyrighted music in media and entertainment. Since several cases are pending before appellate authorities, more clarity will emerge with the passage of time.

Perhaps the most illuminating example of the conflict can be seen in a series of cases pertaining to the determination of royalty rates for SEPs, which have come before both the CCI and the civil courts and have generated contradictory decisions.

#### **The Ericsson versus Intex saga**

Indian smartphone company Intex was using 2G, 3G and EDGE technologies patented by Ericsson in its mobile phones. The parties attempted to arrive at an arrangement for the payment of royalties but could not agree on a licence model. Intex offered to pay royalties on the cost of chips, but this was not acceptable to Ericsson. Consequently, Intex filed a complaint with the CCI. On January 16 2014 the CCI ordered an investigation after concluding *prima facie* that Ericsson was abusing its dominant position by seeking product-based royalties instead of chip-based royalties and that it was not disclosing the

terms of agreements shared with other licensees. Ericsson challenged the order by way of a civil writ petition before the Delhi High Court and also filed a suit for infringement (Suit 1045/2014).

**Civil proceedings:** Despite the CCI order, in the infringement suit the single judge of the Delhi High Court issued directions for the payment of product-based royalties and issued an interim injunction in the absence of such payment by Intex. Taking note of the US district court decision in *CSIRO v CISCO* and the judgment of the Chinese Competition Authority in respect of an SEP owned by Qualcomm (where the royalties were fixed on the net sales price of devices and not the patented chip set price), the court ordered Intex to pay royalties of 0.8% to 1.3% of the price of the devices. This interim arrangement followed an earlier order passed in another infringement suit, *Ericsson v Micromax*, wherein royalty rates were fixed on the basis of 26 other licence agreements produced by Ericsson for the same SEPs.

The judge also observed that Intex had made contrary pleas: before the CCI, Intex had pleaded abuse of dominant position with respect to Ericsson's SEPs; whereas in the infringement suit, Intex had pleaded that the patented technologies were not SEPs. The court thus held that Intex's pleas amounted to an admission that the suit patents were essential and valid, and held Intex liable for infringement of the patents.

Intex appealed the injunction order. However, while the appeal was pending, the writ petition filed by Ericsson was dismissed and the CCI order was upheld.

**Writ proceedings:** In the writ petition, Ericsson argued that since the Patents Act contains several mechanisms to determine royalty rates, the CCI ought not to interfere. The writ court concluded that there was indeed no irreconcilable inconsistency between the Patents Act and the Competition Act. The court noted that the remedies provided under the Competition Act are materially different from the remedies under the Patents Act. It observed that such remedies are not mutually exclusive; thus, exercising one does not remove the right of a licensee to approach the other forum.

The writ court further observed that in certain circumstances the owner of an SEP may abuse its dominant position by seeking injunctive relief, given its advantageous position. The court also stated that instituting suits or other threats to a licensee in order to coerce the licensee into



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With over 18 years' litigation experience, Mamta Rani Jha currently heads the litigation practice at Inttl Advocare, one of India's leading IP law firms.

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Apart from litigation, Ms Rani Jha actively advises clients on IP licensing, auditing, contract drafting and negotiation, business venture evaluation and due diligence, anti-counterfeiting and border control measures.

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accepting terms that are not fair, reasonable and non-discriminatory would amount to an abuse of dominance. The court held that Ericsson's conduct could lead to a finding of abuse of dominance, justifying the jurisdiction of the CCI. Most importantly, the court considered several US and EU cases – including Germany's *Orange Book Standard* and *ZTE v Huawei*, heard by the European Court of Justice – and held that a potential licensee cannot be precluded from challenging the validity of the patents in question. Ericsson challenged the order and it is currently pending before an appeals court.

It remains to be seen how the appeals courts will resolve these conflicting views and provide

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a harmonious construction of the patent and competition laws.

Interestingly, in *Ericsson v Competition Commission of India* (WP (Civil) 5604/2015), a separate writ petition wherein the petitioner had withdrawn its complaint before the CCI on the basis of settlement with Ericsson, the Delhi High Court noted that notwithstanding such withdrawal, the CCI would be at liberty to consider the factum of settlement and could even act in its own cognisance if it still felt action against the petitioner were required for abuse of the dominant position.

#### Other relevant cases

In *Department of Agriculture v Mahyco Monsanto* (2/2015) and *Nuziveedu Seeds v Monsanto* (107/2015), the CCI ordered an investigation into alleged abuse of dominance by Monsanto Corporation, which holds patents for several traits of ‘BT-Cotton’, a strain of cotton that is genetically modified to be resistant to pests. Monsanto was accused of charging one-sided, arbitrary and onerous royalties from its sub-licensors, as well as coercing parties into agreeing to discriminatory and restrictive licensing agreements. Monsanto countered by filing a suit for infringement before the Delhi High Court, since its licensees had refused to pay increased royalty rates. Although an interim injunction was denied on account of Monsanto’s illegal termination of its sub-licence with the defendants, the order has been challenged before the Division Bench of the Delhi High Court, where it is pending.

In *Phase Power Technologies Private Limited v ABB India Ltd* (12/2016), the CCI held that mere pendency of a patent infringement suit before a civil court does not exclude the jurisdiction of

the CCI if the petitioner can make out a *prima facie* case of contravention of Section 3 or 4 of the Competition Act.

#### Lacunae

In India, the interaction of IP legislation with competition law is a relatively new phenomenon wherein adequate policy guidelines are unavailable and jurisprudence is still developing. There is still no finality on issues such as which parties may determine royalty rates and the criteria to be applied to determine the same.

Recently, issues surrounding ‘pay for delay’ and ‘denial of access to an essential facility’ have also been raising important concerns regarding the interplay between patent and competition law. There is need for a proper policy framework and direction in order to address these issues effectively.

#### Conclusion

The relationship between competition law and patent rights may seem inherently contradictory, but in reality it is not. Rather, both legislative devices promote dynamic competition by limiting static competition. Patent rights grant holders a headstart over their competitors by enabling them to exploit the patent for a specific duration. It is obvious that during this period the patent owner will have a monopoly and a position of dominance. Indeed, competition law has never called for monopolistic rights to be absolutely prohibited; however, abuse of such monopolistic rights will amount to violation of antitrust laws. The dominant position offered by patent law does not violate competition policies *per se*, but abuse of that position does. In a nutshell, both laws have a common objective, but their ways of achieving it are different. ■

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