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Convergence of Competition Law and Patent Law in the FRAND Regime

M. Varalakshmi[1], Dr. Gali Vinod Kumar[2]

[1]Research Scholar, Department of Law, P. K. University, Shivpuri, M.P
[2]Professor, Department of Law, P. K. University, Shivpuri, M.P

ABSTRACT

An important field of legal and economic study is the FRAND regime's (Fair, Reasonable, and Non-Discriminatory) interaction between patent law and competition law, which aims to promote innovation while avoiding anti-competitive practices. While competition law works to protect consumers from monopolies, patent law gives inventors short-term exclusive rights to promote technical progress. With Standard Essential Patents (SEPs)—crucial for achieving technical industry standards and having far-reaching consequences in areas like ICT—this interaction becomes more complex. Patent holdups, royalty stacking, and unfair licensing tactics are just a few examples of how the tension between encouraging innovation and preserving market competition frequently appears. The FRAND regime, which aims to reconcile competing goals, becomes an essential framework for dealing with these issues. But, different legal traditions and economic factors impact how FRAND principles are interpreted and enforced across nations.

Keywords: Competition law, Patent law, Intellectual property rights, Market, Monopoly

INTRODUCTION

Since its inception in the early 20th century, judicial and administrative ideas have tended to magnify the conflict between competition policy and intellectual property rights (IPRs). The overarching goals of intellectual property laws are to ensure that creators get their fair share of profits from their inventions, to spur more innovation, and to release formerly proprietary information into the public domain. The job of competition regulators is to keep monopolies at bay and ensure that markets are competitive. Occasionally, this limitation limits the free use of the exclusive rights granted by Intellectual Property Laws. The protection of intellectual property and the regulation of market competition are closely related. The former authorizes the maker and seller to produce and sell the owner's intellectual property within a certain market, provided that the owner meets specific requirements. These inventions and pieces of art are protected by copyrights, patents, trademarks, trade secrets, and other forms of unique protection. Thus, IP rights define the area in which competitors can exercise their rights.

To maximize societal benefit, laws governing intellectual property and competition seek to prohibit monopolies while also permitting temporary monopolies. However, intellectual property laws should address the condition that monopolies be economically substantial. If not, competition law might be able to hinder monopolies by prohibiting certain monopolistic acts or attempts to gain monopolies, even if it does not outright prohibit monopolies. Any and any usage, or lack thereof, of the owner's intellectual property is entirely within their rights. No violation of competition law would occur if the owner of a patented or non-patented product chose to sell it to the consumer directly or determined the selling price through his representatives.

On a separate note, developing countries have good reason to be concerned about the potential outcome of TRIPS. One worry is that stronger protections for intellectual property would give FTCs greater market power, which may lead to fewer sales, higher prices, and less technological sharing in general. The rate of innovation and the number of new competitors might both be stifled by an increasingly dominant market. Tighter protection of intellectual property rights may make other forms of anti-competitive activity, such sales methods and licensing restrictions, easier with more market dominance. Here are a few examples of these practices: (a) potential competitors forming cartels through price fixing, output limiting, or market splitting through cross-licensing agreements; (b) certain markets having entry barriers raised through tie-in sales or restrictions on related technology due to intellectual property rights (IPR); and (c) new or small businesses facing difficulties breaking into established markets due to threats or actual bad faith litigation and opposition proceedings stemming from IPR protection.

The last point to make is that competition regulation aims to curb attempts to exploit an IP asset in a way that goes against IP rights. A conflict emerges when competition regulations prioritize static market access and intellectual property rights (IPRs) prioritize incentives for dynamic competition. However, when both frameworks are well-designed, they complement one other to create a balanced environment that is conducive to innovation, technology transfer, and information dissemination.

STANDARD ESSENTIAL PATENTS AND FRAND

Legal doctrines pertaining to the safeguarding of creative works are collectively known as IP Law. It is an exclusive right, similar to others in property law. It gives the IP owner the authority to stop others from using their IP. Copyrights (for the protection of literary and creative works), trademarks (for the protection of trademarks), designs (for the protection of designs), and patents are all examples of intellectual property rights that cover a broad spectrum of IP. Inventions in technology, whether they are improvements to current products or completely new ones, are often the subject of patents. It might potentially include a single, novel method. The owner of a patent has the only right to manufacture or use the patented product or procedure. All kinds of intellectual property, including patents, have traditionally been territorial in character. The fundamental rationale for pursuing patents is to forestall market imitations and to temporarily reap the benefits of one's labor. One subset of patents that is absolutely necessary for a certain process is known as a Standard Essential Patent (SEP). Patents of this kind are essential for meeting the technical requirements of the relevant industry, and SEPs are one type of patent that meets those requirements. SEPs safeguard innovations that have required tremendous effort to create and symbolize the fundamental innovation in an industry. Examples of devices that make use of SEPs include smartphones, tablets, linked vehicles, smart home apps, smart stores, gaming technologies, and connected healthcare. When it comes to patent battles, SEPs play a key role, particularly in the ICT sector. Such patent conflicts have engulfed the majority of IT firms, including Samsung, Apple, Motorola, Ericsson, Nokia, and Microsoft.

It is well-known that in this context, the lawsuits involving the enforcement of standard essential patents for Universal Mobile Telecommunications Service (UMTS) and General Packet Radio Service (GPRS) were handled by Motorola and Samsung, respectively. In contrast to SEPs, non-essential patents (non-SEPs) may be generated using alternative approaches by firms and do not impede a whole industry as "slide-to-unlock" patents do. As a consequence, litigation involving non-SEPs is less common. Even at the administrative level, the rising number of challenges related to SEPs and the mountain of case law during the last six years indicate that a definitive solution is nowhere in sight. The new anthem and rules in many places, including the US, EU, China, and Japan, are based on the Fair Reasonable and Non-Discriminatory (FRAND) principles, however it has been shown that FRAND does not apply universally. In different legal systems, the concepts of fairness, reasonableness, and nondiscrimination could have different meanings. In their analysis of the concept of nondiscriminatory, Dennis Carlton and Alan Shapiro have put out an economic suggestion. The idea that all "similarly situated" businesses should pay the same royalty rates is put out there in nondiscriminatory language. But nobody seems to have a firm grasp on the subject. The case of Unwired Planet v. Huawei shows that the courts in the UK have taken a different view. It should also be emphasized that FRAND is a contractual word. The rules of contract law would, of course, apply to any infractions. French contract law is the bedrock from which FRAND phrases emerged. Courts in several countries have started using this approach, including the United Kingdom and the United States. Although a pattern has emerged, the precise meaning of FRAND terms remains up for debate. When trying to figure out what constitutes fair and acceptable, it's clear that most countries use the similar rates method. This strategy is shown, for instance, in the cases of Microsoft v. Motorola and TCL v. Ericsson. Other nations, however, have a different opinion.

FRAND REGIME AND ITS IMPORTANCE IN LICENSING SEPS

Interoperability and standardization are of utmost importance in today's technology-driven society for the smooth integration of devices, systems, and applications from different manufacturers. From the telecommunications industry to the automobile manufacturing sector, standards such as 4G, 5G, Wi-Fi, and video codecs are fundamental to worldwide connection. These standards are based on technology that are frequently shielded by patents called Standard Essential Patents (SEPs). Careful licencing management of these SEPs is required to strike a balance between incentivizing innovation and protecting the market from misuse, as they are essential for the standards' implementation. In response to this difficulty, the FRAND regulation was put in place; it is now an essential part of the process for licensing SEPs.

Patent owners of standard-essential patents (SEPs) are required by the FRAND regime to make their technology available to manufacturers and developers on fair terms so that everyone can benefit. To that end, it mandates that license agreements be reasonable, nondiscriminatory, and equitable. While ensuring that SEP holders are paid for their contributions to innovation, these rules aim to prevent them from abusing their market position.

SEPs stand out from the crowd because they lay claim to technologies that are deemed crucial for putting a standard into action. For example, a 5G network's operation may depend on a certain encryption mechanism. Companies

providing goods and services cannot meet a standard's technical criteria unless they have access to SEPs. Because their patents are required for everyone trying to adopt the standard, SEP holders end up with a lot of sway in the market. Having this kind of authority encourages innovation, but it also comes with the potential of monopolistic practices like charging ridiculous royalties or enforcing onerous license conditions.

Standard-Setting Organizations (SSOs) mandate that SEP holders license their patents on FRAND terms to reduce the likelihood of such dangers. When it comes to coordinating the development of standards and making sure that patented technology are accessible through FRAND pledges, SSOs like the IEEE and the European Telecommunications Standards Institute (ETSI) are vital.

Promoting Technological Innovation and Standardization
By guaranteeing that SEP holders get just remuneration for their roles in standard development, the FRAND framework encourages innovation. Furthermore, it stops these rights from being used to exclude certain markets. This equilibrium is achieved by the regime by incentivizing innovators to share their innovations with SSOs, which leads to the development of strong and broadly used standards.

Ensuring Market Accessibility and Competition
In the absence of FRAND obligations, SEP holders may engage in monopolistic actions and limit market accessibility by using their patents to exclude rivals or demand exorbitant fees. Because of the FRAND regime, vital technology will always be available to all market players, which encourages innovation and growth for companies of all sizes via healthy competition. This is of utmost significance in sectors such as telecommunications, where international competition and standards are fundamental.

Preventing Hold-Up and Hold-Out
Two important concerns are handled by the FRAND regime: hold-up and hold-out.

- **Hold-up** happens when SEP holders take advantage of their position by seeking exorbitant royalties following the adoption of a standard. In order to stay competitive, implementers may be compelled to accept unjust conditions since they are unable to resist employing SEPs.
- •**Hold-out** occurs when implementers choose to rely on protracted litigation to postpone payments rather than negotiate or pay royalties, even when the license conditions are appropriate.

Global Interoperability and Economic Growth
The availability of SEPs under FRAND conditions is crucial to the general adoption of standards like 5G, Wi-Fi, and Bluetooth, which have a worldwide reach. The FRAND regime promotes worldwide interoperability by guaranteeing equitable and nondiscriminatory licensing practices; this is crucial for sectors such as healthcare, manufacturing, and telecommunications. Because companies can create and release new innovation with the assurance that it will work with current systems, interoperability is a key driver of economic development.

Facilitating Legal and Regulatory Clarity
Another important function of the FRAND system is to lessen regulatory and legal ambiguity. Disputes between SEP holders and implementers can be better handled using the structure it offers for SEP licensing. With the rise of high-profile lawsuits using SEPs, such as Microsoft v. Motorola in the US and Huawei v. ZTE in the EU, this becomes even more crucial. The FRAND framework is frequently used by courts and competition authorities to determine if licensing arrangements are in compliance with antitrust laws.

THE INTERPLAY OF COMPETITION LAW AND PATENT LAW

There has always been tension between intellectual property law and competition law. As a subset of intellectual property law, patent law grants the owner of a patent temporary exclusive rights. But the goal of competition law is to level the playing field so that everyone has a fair chance to compete and succeed. But when it comes to encouraging innovation in society, the goals of patent law and competition law overlap. One may say that the purposes of patents and standards are complementary; both seek to foster innovation and facilitate the spread of new technologies. Nonetheless, their relationship is hostile as well. Patent ambushes, hold-ups, and strategic patenting involving overlapping rights are commonplace in this field. Vested interests try to shape and control market circumstances for competitors and system end users from the early stages of the innovation cycle by influencing standardization.

The density and quality of patents also show how over-declaration and poor patents affect each other. The need to reveal potentially crucial patents quickly is clearly at the root of the over declaration problem. As a result, patents for even "weak" innovations—those that are marginally better than prior ones—tend to pop up. The result is that some academics have claimed a crisis in patent law and others have cast doubt on the contribution of patent protection to innovation. The European Commission has also cast doubt on patent law and examined it closely, suggesting that it is riddled with issues. Competition issues arising from patents have been often before the Commission in recent years, most often in the context of the pharmaceutical and telecommunications sectors.

"In short, our patent system, while surely a spur to innovation overall, is in danger of imposing an unnecessary drag on innovation by enabling multiple rights owners to "tax" new products, processes and even business methods," Carl Shapiro warned in 2001, sounding the alarm about the dangers of employing patents to promote innovation. Although the original intent of patent law was to incentivize innovators, he and a handful of other prominent figures argue that patent law actually discourages innovation.

From a competition law standpoint, SEP misuse can negatively affect international trade in addition to causing patent hold-up, royalty stacking, refusal to license, and contributing to end-user cost inflation. In a typical hold up, the SEP holder—who is in a stronger position—states the license terms, and the implementer—who is in a subordinate position—is required to comply with those terms. As stated in Article 102 of the Treaty on the Functioning of the European Union (hereafter referred to as "the TFEU"), patent ambush is an example of a type of a hold up that can take many forms, such as impeding investments, innovation, or the misuse of a dominating position. In most cases, patent ambush occurs when the owner of the patent keeps quiet about the fact that it might become a standard in the industry. The fact that the patent holder can charge exorbitant royalties is abusive conduct. This discriminatory practice was acknowledged by the Commission in the Rambus ruling.

Additionally, in a hold out or reverse hold up, the SEP holder is in a precarious situation. A holder of a SEP may suffer substantial losses as a result of the implementers' reluctance to settle on a single course of action. If this were to happen, the SEP holder would likely offer the SEP at a substantially reduced rate to avoid losing money. The problem of patent thickets, as Carl Shapiro so eloquently put it, "...an overlapping set of patent rights requiring that those seeking to commercialize new technology obtain licenses from multiple patentees," is another important consideration. When you add in the possibility of delay—specifically, the possibility that newly developed items may unintentionally violate patents granted after their creation—the patent maze becomes much more difficult to navigate. Data collected over the last decade shows that patent thickets reduce competition and drive up costs.

Ericsson and Micromax's legal battle brought to light the expanding intersection between IP rights law and competition law. There is a potential of abuse of dominance due to the inherent importance of SEPs in technology deployment. Both the 2002 Competition Act and the European Union Treaty, under Article 82, prohibit abusive and anti-competitive conduct. In both instances, the CCI noted that of Ericsson's 33,000 patents, 400 were awarded in India, making it a dominating participant. Discriminatory (due to patent hold-up and royalty stacking) since Ericsson's royalty rates were directly proportional to product costs and had no connection to the patented product. A non-disclosure agreement was required of all users involved in the Intex issue. As a result of this arrangement, consumers couldn't access data about other users' royalty rates. This lowered transparency and hampered the FRAND spirit. Because both companies do business in India, the courts there would have jurisdiction over any disputes arising from the Intex-Ericsson Agreement, but the parties instead agreed to let the courts in Singapore and Sweden handle such matters.

THE POLITICS OF JURISDICTIONS

A one-judge panel of the Delhi High Court heard Ericsson's challenge to the CCI's authority, voiced its disapproval of the CCI's involvement, and ordered the CCI Director General to stop conducting any further investigations. Despite Ericsson's assertions that the matter was only related to the contract, the CCI applied FRAND royalty rates in both instances, citing Clause 6 of the ETSI IPR policy. Notable companies' involvement in patent lawsuits has reignited the issue about the Competition Commission's authority. Those with intellectual property rights are granted monopoly over the exercise of that right by Section 3(5) of the Competition Act, which exempts them from the Act's requirements. Nevertheless, as stated in Section 62 of the aforementioned Act, the provisions of the Act are meant to supplement, rather than supersede, any other laws.

The purpose of the Commission is to safeguard consumers against abuses of dominating positions and anti-competitive practices, as stated in the Preamble. As a result, the Commission used welfare law as a justification for its authority. Standard establishing organizations were established with the goal of improving and fostering competitiveness via the development of standards, as mentioned before. Technology should continue to reach out to people, even while everyone competes. In order to compensate for not having patents that can be negotiated, non-patent owners will have to pay somewhat higher licensing costs, but they will also have a chance to benefit from the invention and sell it to customers. That way, everyone from technical contributors to non-contributors may participate in the patenting process while still making, selling, and importing items that meet the criteria.

The CCI, nevertheless, overlooked this. The CCI relied on circumstantial evidence in both instances, disregarding the intricacies of the FRAND system, to reach its determination. Since SEP-holders rely on the parties' contractual bargaining rights, it is impossible to weaken the courts' jurisdiction. The SEP-holders are disincentivized and innovation is indirectly discouraged when the contractual character of SEP agreements is disregarded. Evidence of the patent's essentiality is propelled by the prospect of an injunction. It is unacceptable for an uninterested licensee to use arguments about public benefit or competition to coerce the SEP holder into paying a royalty rate—that would

constitute a compelled license. Ultimately, the dispute around the CCI's authority will be resolved by the passage of time.

CONCLUSION

Recognizing the need of both encouraging innovation and preserving fair market competition, the FRAND regime brings together patent law and competition law. Although intellectual property rights provide innovators with short-term monopolies to incentivize investment and ingenuity, competition law prevents the unfair stifling of market access or inflation of costs via the exploitation of these rights. When it comes to Standard Essential Patents (SEPs), the dynamics are even more knotty since patent holders and implementers frequently but violently disagree on license conditions, patent delays, and royalty issues. Problems arise from different interpretations in different countries, even while legal frameworks like FRAND try to bring these interests into harmony by requiring rationality, non-discrimination, and fairness. Implementers (hold-outs) strategically underutilize SEPs, which reduces the value of patent protections, while patent ambushes and royalty stacking are examples of SEP misuse that might reduce market competition and increase consumer costs. Maintaining innovation and promoting fair market dynamics through the integration of patent and competition law is crucial for creating a well-balanced ecosystem that is beneficial to all parties involved.

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