

## Current Intelligence

### Patents

#### ■ Delhi High Court partially vacates interim injunction with respect to Ericsson's 3G standard essential patents

*Telefonaktiebolaget LM Ericsson v Xiaomi Technology & Others*, High Court of Delhi, Case No IA 3074/2015, CS(OS) 3775/2014, 22 April 2016

**The temporary injunction granted against Xiaomi in December 2014 for patent infringement and for refusing to enter into a licensing agreement with Ericsson was lifted by the Delhi High Court for two 3G standard essential patents on the ground of concealment of information by Ericsson.**

#### Legal context and facts

Ericsson holds a number of standard essential patents (SEPs) related to cellular communication standards, including the 3G standard, and has aggressively pursued litigation against cell phone manufacturing companies. Qualcomm Inc and Ericsson AG signed a global patent licensing agreement that allowed Qualcomm to utilize the patented technology in producing chipsets, which were sold to several device manufacturers around the world, including Xiaomi. Since its entry into the Indian market in July 2014, Xiaomi, a large-scale Chinese manufacturer, has sold cell phones incorporating Ericsson's patented technology. Before launching its phones in India, Xiaomi was asked by Ericsson to obtain the necessary licences to use Ericsson's patented technology. However, the Chinese manufacturer opted instead to purchase a licence to use Ericsson's patents directly from Qualcomm.

The SEP holder filed a patent infringement action against Xiaomi before the Delhi High Court, alleging that the Chinese manufacturer had started using Ericsson's patented technology without a licence, ignoring Ericsson's offer to license the suit patents on fair, reasonable and non-discriminatory (FRAND) terms. Ericsson reported that it had asked Xiaomi to obtain a patent licence to distribute products in India well before the company entered the Indian cell phone market, but failed to report to the trial judge that Xiaomi was already paying royalties for licensing the same patents from Qualcomm. Ericsson further stated that, even though Xiaomi was aware of Ericsson's portfolio of SEPs and Ericsson's willingness to offer a licence, the Chinese company had refused to acknowledge their position until the court issued an *ex parte* interim order on 12 August 2014. Consequently, Xiaomi appealed the *ex parte* ruling on the ground of suppression of material facts,

stating that the ruling 'throttled the business of the appellants'. In the appeal, Xiaomi alleged that the chip containing the patented technology was being sourced from Qualcomm, in lieu of an agreed licensing fee, and that Ericsson had knowingly withheld this information when filing the *ex parte* plea. Xiaomi presented the court with an email exchange where Qualcomm had confirmed, replying to a query raised by Xiaomi, that it had the right to license the patented technology, under the patent licensing agreement with Ericsson.

#### Analysis

In December 2014, the court issued an order restraining Xiaomi from a range of actions, including 'manufacturing, assembling, importing, selling, offering for sale or advertising, including their and third party, websites, products (telephone instruments, mobile handsets, tablets, hand held devices, dongles etc)' that used Ericsson's patented technology. Xiaomi was also restrained from any current or future use of the technologies or devices based on the listed patents (FAO (OS) 522/2014, 2014).

Courts in India are empowered to grant injunctions and stop importation or distribution of infringing products that contain patented technologies, unless accompanied by the required permission. This is what the *ex parte* ruling in *Ericsson v Xiaomi* accomplished. Had Xiaomi persisted in selling the infringing products, the court could have ordered the customs authority to seize, and possibly destroy, all products. The injunction would have applied regardless of whether the allegedly infringing company was headquartered in India, or in another country.

Xiaomi filed an appeal against the injunction on 8.12.2014, on the ground of concealment of material facts by Ericsson. It alleged that Ericsson had not informed the judge who issued the *ex parte* order of the fact that Xiaomi had rightfully purchased a licence from Qualcomm and, therefore, was not infringing Ericsson's patents. For the limited purposes of an interim appeal, the court only considered that 'the use of the chipset sourced by the appellants from Qualcomm would be in terms of the licence agreement which Qualcomm has from the patentee i.e. Ericsson' (FAO (OS) 522/2014 (2014), para 8). The court also referred to the decision as a *pro tempore* order to allow the matter to be considered further. In order to strike 'a balance between the right of the appellants' (ibid, para 13), the interim order allowed Xiaomi to distribute its products, provided the company (1) made a deposit to the court of an amount equivalent to three months' sales, (2) provided information about the presence of chipsets purchased from Qualcomm that incorporated Ericsson's patents, (3) reported all invoices to the court and (4) added a

further deposit according to sales for the month of January in 2015 (*ibid*, para 13). Within the guidelines set by the court, Xiaomi was able to continue to sell the allegedly infringing products in India, pending final resolution.

On 22 April 2016, the final order was delivered in favour of Xiaomi on the grounds of concealment. The order was applicable only to the chipsets that were licensed by Xiaomi from Qualcomm, which concerned only two of the original eight suit patents. The court found that Ericsson had deliberately and materially concealed the evidence of a licensing agreement with Qualcomm. The party seeking an *ex parte* order has a heightened duty to disclose all the material information relevant for the purpose of the injunction sought, a duty that Ericsson had failed to perform. The court also stated that it appeared that Xiaomi had tried to use the filing to expand the court's review to all the eight standard essential patents, and observed that the ruling would only cover the two patents that Xiaomi had referred to in its filing.

The temporary restraining order on Xiaomi was lifted. The use of chipsets from Qualcomm was held as an authorized use of the patents, since Qualcomm was paying royalties to Ericsson. Therefore, the injunction was vacated only in respect to the two patents which Qualcomm was authorized to license to Xiaomi. The court concluded that the plaintiff had entirely failed to establish a case. In fact, the court ruled that Ericsson had deliberately concealed the licensing agreement, to the point that they had 'acted mala fide and approached this Hon'ble Court with unclean hands' (*Xiaomi v Ericsson*, p 27, para VII).

### Practical significance

This ruling is important for the establishment, enforcement and maintenance of patent rights in India. Amidst the on-going litigations concerning telecom SEPs, it throws light on the conduct of both licensor and licensee in the context of a patent licensing agreement. The temporary order against Xiaomi was lifted because of Ericsson's failure to disclose relevant information to Xiaomi. The court established unequivocally that consent must be acquired from a patent holder before the use of its patents, but also clarified that injunctive relief granted by courts to SEP holders can very well be discharged, varied or set aside with the help of applications under Order XXXIX, Rule 4 of the Code of Civil Procedure, 1908.

The decision is a welcome change in light of other similar cases where courts appeared to have considered the issuing of an injunction as the norm, rather than an exception. Further, it draws attention on the need to carry out a thorough assessment of the conduct of the parties on a case-by-case basis. In this respect, it is important to note that both Ericsson and Xiaomi, in this case, failed to disclose relevant information, thus calling into play the

concept of contributory negligence. The court could have granted an injunction anyway in respect to the other six patents held by Ericsson, despite disclosure of an agreement with Qualcomm, due to Xiaomi's failure to get, directly or indirectly, a licence covering their use.

India represents a huge, and largely unsaturated, market for cell phones. Appropriate use of technology is of great importance in ensuring the success of the current Indian government's policy initiatives, such as 'Digital India' and 'Make in India'. The recently adopted national IPR policy and the effective enforcement of intellectual property laws will ensure the creation and dissemination of technologies relevant for the growth of the ICT industry. The Ericsson–Xiaomi decision will go a long way towards ensuring that the conduct of the licensing parties is investigated and adequately dealt with for the benefit of SEP holders, technology implementers/manufacturers, and end users. The existing legal framework in India, including the rules presiding the grant of injunctions and the licensing of standard essential patents on strictly FRAND terms, appears to be adequate to protect IPRs and foster innovation.

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### ■ Court of Appeal agrees: breast cancer formulation patents to be revoked

*Hospira UK Limited v Genentech, Inc*, Court of Appeal for England and Wales, [2016] EWCA Civ 780, 27 July 2016

**On 27 July 2016, the Court of Appeal of England and Wales handed down its judgment in *Hospira UK Limited v Genentech, Inc*, upholding Birss J's decision at first instance that the two patents in question were invalid on the grounds of lack of inventive step and added matter.**

#### Legal context and facts

At first instance, Birss J revoked the defendant's European Patents (UK) 1,516,628 and 2,275,119 concerning the pharmaceutical formulations of the drug trastuzumab (brand name: Herceptin), which is a monoclonal antibody mainly used to treat certain breast cancers as it interferes with the HER2/neu receptor. The disclosure of the two specifications was in all material respects identical.