

Survey Report on Issues related to Essential Patent
(Tentative Translation)

Date: July 8, 2015
Japan Fair Trade Commission

Part 1 Purpose of the Survey

In industries experiencing remarkable technological innovation, such as the information technology sector, those concerned often set standards jointly on the methods of information transmission and connection among different models in order for rapid launch and expansion of the market for new products¹. Under such circumstances, some cases occur where holders of patents (including the other intellectual property rights) essential for implementation of the functions and effects prescribed in the standards (hereinafter referred to as the “Essential Patent”²) claim for injunctions against those who use such Essential Patent inside and outside of Japan.

In order to clearly show the principles about the use of intellectual property rights including patent rights under the Antimonopoly Act, the Japan Fair Trade Commission (hereinafter referred to as the “JFTC”) has stipulated “Guidelines for the Use of Intellectual Property under the Antimonopoly Act” (September 28, 2007) (hereinafter referred to as the “IP Guidelines”) and “Guidelines on Standardization and Patent Pool Arrangements” (June 29, 2005) (hereinafter referred to as the “Patent Pool Guidelines”). Problems about the Essential Patent under the Antimonopoly Act shall be basically judged based on these guidelines. However, these guidelines have limited descriptions about the acts found to constitute an exercise of right on its face (for example, claim for

¹ Activities to set standards are carried out at a public organizations or trade associations such as ITU-T (International Telecommunication Union, Telecommunication Sector), ITU-R (International Telecommunication Union, Radiocommunications Sector), ISO (International Organization for Standardization), IEC (International Electrotechnical Commission), IEEE (The Institute of Electrical and Electronics Engineers, Inc.), JISC (Japanese Industrial Standards Committee), ARIB (Association of Radio Industries and Businesses), TTC (Telecommunication Technology Committee) and ETSI (European Telecommunications Standards Institute). . Such organization or trade association shall be hereinafter referred to as the “SSO (Standard-setting Organization)”.

² The term “Essential Patent” is defined in the Patent Pool Guidelines, Part 3, 2 (1), and the same term is used in this report. Such patent is also referred to as “Standard Essential Patent” [SEP] recently.

injunction by the patent holder) and any principle about the above case under the Antimonopoly Act is not clearly given. Therefore, the JFTC has conducted a survey on the problems related to the Essential Patents as described above and compiled the principles under the Antimonopoly Act.

Part 2 Method of the Survey

The JFTC heard from entrepreneurs in the information technology industry sector and other sectors, experts, administrative agencies and SSOs.

Further, the JFTC organized cases related to exercise of right in respect of Essential Patent inside and outside of Japan and used them as a reference when compiling the principles for exercise of rights in respect of Essential Patent under the Antimonopoly Act.

Part 3 Actual Situations of Standard Setting and Essential Patent Licensing

As a result of hearing, the actual situations of standard setting and Essential Patent licensing have been clarified as follows:

1 Standard Setting

(1) SSO

Generally, an SSO opens its activities and accepts many participants to set standards based on their technological proposals.

(2) Contents of IPR policy

In order to prevent the exercise of right in respect of Essential Patent from impeding research & development, production or sale of the products adopting the standards and to promote spreading of the standards, the SSO provides a document describing principles for allowing license of the Essential Patent (such a document is called "Intellectual Property Rights Policy (IPR Policy)"). Detailed provisions of the IPR policies vary among SSOs, but the IPR policy of the typical SSO subject to this survey generally stipulates following points about handling of Essential Patents³.

³ Shown below are the IPR policies of the typical SSOs.

• Japanese Industrial Standards Committee, "Procedures Concerning Establishment, etc. of JIS, Including Patent Rights, etc." (January 25, 2012) (https://www.jisc.go.jp/jis-act/pdf/2011_patent_policy.pdf)

- A. To ask the participants to clearly indicate that they have any Essential Patent (including those pending) if they have one in the phase of standard setting:

Note that, however, the SSO does not evaluate the validity or essentiality of the Essential Patent (including those pending), and the validity or essentiality is usually not evaluated by the SSO and a third party shall not evaluate the Essential Patents (including those pending) at the time of declaration by ordinary. Therefore, the licensee naturally may dispute the validity and essentiality of the Essential Patent in any lawsuits on the patent afterwards. Actually, some technologies are judged by the court that they lack validity or essentiality. Although the validity of patent is checked in the examination phase by the competent authority in each country before granting of the patent, for example, in the patent appeals at the Japan Patent Office, about 30% of patents are judged ineffective⁴.

- B. To have the Essential Patent holder clearly show its willingness to grant a license of the Essential Patent (including those pending, in this section) under "FRAND [fair, reasonable and non-discriminatory] conditions" after standard setting:

An Essential Patent holder's act to clearly indicate, in writing to the SSO,

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- Association of Radio Industries and Businesses , "Guidelines for Treatment of Industrial Property Rights in connection with the ARIB Standard" (July 3, 2012) (http://www.arib.or.jp/english/html/overview/implement_order/IPRguideline2012July.pdf)
 - Telecommunication Technology Committee, "The Policy for the Handling of Industrial Property Rights" (May 31, 2010) (<http://www.ttc.or.jp/en/docs/ru603.pdf>)
 - International Telecommunication Union "Common Patent Policy for ITU-T/ITU-R/ISO/IEC" (<http://www.itu.int/en/ITU-T/ipr/Pages/policy.aspx>), " Patent Statement and Licensing Declaration form" (<http://www.itu.int/oth/T0404000002/en>)
 - European Telecommunications Standards Institute "ETSI Intellectual Property Rights Policy" (November 14, 2014) (<http://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>)
 - The Institute of Electrical and Electronics Engineers, Inc. "IEEE-SA Standards Board Bylaws" (March, 2015) (https://standards.ieee.org/develop/policies/bylaws/sb_bylaws.pdf)

⁴ Japan Patent Office Annual Report 2014

its willingness to grant a license under FRAND conditions is called a “FRAND declaration”. It is prescribed that, when an Essential Patent holder makes a FRAND declaration, the SSO includes the technology subject to the Essential Patent in the standards and, when the holder fails to make such declaration, it considers change of standards so as to exclude the technology protected by the Essential Patent⁵.

2 License negotiations for Essential Patent

Those who research & develop, produce or sell any products adopting the standards shall be given license by the Essential Patent holder. Note that, however, the validity or essentiality of the Essential Patents (including those pending) declared is not evaluated by the SSO and a third party does not evaluate the Essential Patents (including those pending) at the time of declaration by ordinary as described above. Therefore, those who intend to research & develop, produce or sell any products adopting the standards shall check for any infringement of the Essential Patent and evaluate essentiality and validity of the Essential Patent by itself, and determine the license conditions through individual negotiations with the holders of the Essential Patents.

Negotiations of the licensing conditions are usually made prior to launch of the research & development, production or sale of the products. However, in some fields including the information technology sector where the standards are set by putting many Essential Patents together and these patents are owned by many patent holders, a prior negotiation, that is, those who intend to research & develop, produce or sell any products adopting the standards check for any infringement of the Essential Patent and evaluate its essentiality and validity by itself, and determine the license conditions through individual negotiations with the holders of the Essential Patents, may be difficult.

Therefore, those who research & develop, produce or sell the products adopting the standards may start negotiations upon notification from the Essential Patent holder after the launch of research & development, production or sale of such products, and may check for infringement of the patent subject to such notification and evaluate its essentiality and validity. After such an ex post negotiation, the JFTC finds some cases where holders of Essential Patent claim

⁵ The Patent Pool Guidelines, Part 2, 1 (Note 3),

for injunctions in the absence of the license agreement.

In case a patent pool⁶ is established, a scheme to have licenses granted through such a pool may be used.

3 Concerns of entrepreneurs about Exercise of Rights in Respect of Essential Patent

(1) Refusal to license and injunction claim

Regarding refusal to license and injunction claim by the holder of FRAND-encumbered Essential Patent, some entrepreneurs have opinions that such action is necessary as a mean to make the proper royalty for the Essential Patent, and the other entrepreneurs have opinions that such action is problematic since it impedes business activities such as research & development, production and sale of the product adopting the standards.

Shown below are specific cases of refusal to license and injunction claims inside and outside of Japan clarified in hearings, etc.

A. Cases in Japan

In the case where application for provisional disposition to stop import of the products adopting the standards is filed in relation to the Essential Patent for which the right holder has made a FRAND declaration to the SSO, the Intellectual Property High Court judged that exercise of injunction claim right should not be allowed in relation to the FRAND-encumbered Essential Patent. This is because such an injunction against the party willing to be licensed under FRAND conditions (hereinafter, the “willing licensee”) in relation to the FRAND-encumbered Essential Patent is considered as an abuse of right (Article 1, Paragraph 3 under the Civil Code)⁷. In this case, the court also showed that it should

⁶ A patent pool means a scheme where multiple parties holding the rights to a certain technology concentrate their own patents or the authority to license the patents in a particular corporation or organization (the form of corporation or organization varies: it may be newly established or an existing body may be appointed to fulfill this role) so that the corporation or organization may grant the necessary licenses to the members of the patent pool or others. (IP Guideline, Part 3, (2), (i))

⁷ Judgment by the Intellectual Property High Court: 2013 (ra) No. 10007 and No. 10008(May 16, 2014) (http://www.ip.courts.go.jp/vcms_lf/H25ra10007_zen2.pdf, http://www.ip.courts.go.jp/vcms_lf/H25ra10008_zen3.pdf)

be judged strictly to find a party not a “willing licensee”.

Note that, however, no judgment under the Antimonopoly Act has been given in relation to refusal to license or injunction claim on the basis of the FRAND-encumbered Essential Patent including this case.

B. Overseas Cases

In foreign countries (mainly in the U.S. and Europe), there are some cases where injunction claim based on the FRAND-encumbered Essential Patent against “willing licensee” is not accepted from the viewpoint of competition laws and competition policies⁸. In such cases, the competition authorities showed opinions generally as shown below about the party recognized as the “willing licensee”.

- If the parties do not reach an agreement of license conditions even after a certain period of negotiations, a party which shows its intention to determine the license conditions at court or through arbitration procedures is deemed to be the “willing licensee”.
- Even if a party which intends to be licensed challenges dispute validity, essentiality or possible infringement of the Essential Patent, it is not considered as grounds to deny that the party is a “willing licensee”.

(2) Charge of expensive royalty or compensation for damage

Some entrepreneurs commented that charge of expensive royalty and claim of compensation for damage by the Essential Patent holder were problems and such expensive royalties were charged mainly by the "Patent Troll" as

⁸ Shown below are cases in foreign countries:

- In the Matter of Motorola Mobility LLC, and Google Inc., US FTC File No. 121-0120 (July 24, 2013) (<https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf>)
- US Department of Justice and US Patent and Trademark Office Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (January 8, 2013) (http://www.uspto.gov/about/offices/ogc/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf#search='policy+statement+of+remedies+F%2FRAND')
- European Commission Case AT.39939 - Samsung - Enforcement of UMTS standard essential patents (April 29, 2014) (http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf)
- KFTC (2014), 'Review Guidelines on Unfair Exercise of Intellectual Property Rights' (http://eng.ftc.go.kr/bbs.do?command=getList&type_cd=62&pageId=0401)

described in 5 below.

Among the cases and guidelines issued by the U.S. competition authorities and the European Commission, charging of an expensive royalty for Essential Patent is not considered as a problem under the competition act or competition policy.

4 Concerns of entrepreneurs about Restrictions accompanying exercise of rights in respect of Essential Patent

In addition to 3 above, some entrepreneurs were conscious about such other problems: that the Essential Patent holder gives certain conditions to the licensee when licensing the patent. Specifically, for example, the Essential Patent holder may obtain a license of patents other than the Essential Patents held by the licensee at the time when licensing the Essential Patent, or may request the licensee to be licensed for patents other than the Essential Patents it holds.

Note that the competition authorities in the U.S. as well as the European Commission do not show any particular principles about restricting acts in relation to exercise rights in respect of Essential Patent.

5 Patent Troll

“Patent Troll” generally means a party which does not research & develop, produce or sell any products itself, but purchases or otherwise obtains patent rights to the technology developed by other companies and exercises the rights of such patents to the entrepreneurs (large companies are often targeted) already engaged in research & development, production or sale of the products using such Essential Patents⁹.

The JFTC heard from entrepreneurs that, when the FRAND-encumbered Essential Patent was assigned to a third party, particularly in the U.S., that a third party such as patent troll often claimed injunction or requested for payment of expensive compensation for damage.

In the hearing, however, entrepreneurs tended to show their opinions that the

⁹ Such party is also referred to as a PAE (Patent Assertion Entity) recently.

patent troll was a specific problem resulting from the legal system in the U.S., where patent infringement cases tend to be settled by reconciliation due to a large amount of legal expenses and, unlike the situations in the U.S., the patent troll was not a big problem currently in Japan where the legal cost is reasonable when compared with the U.S.

Part 4 Principles for Problems on Exercise Rights in Respect of Essential Patent under the Antimonopoly Act

As described in Part 3 above, problems in relation to exercise rights in respect of Essential Patent which become obvious inside and outside of Japan or concerned by entrepreneurs in the hearing are: (1) Refusal to license or Injunction claim, (2) Request for payment of expensive royalties or damage compensation and (3) Restriction accompanying exercise of right, all by the Essential Patent holder.

For (3), refer to the IP Guidelines since the JFTC has already showed the principles¹⁰.

1 Relation between the Antimonopoly Act and the Intellectual Property Right **(1) Basic Principles**

Article 21 of the Antimonopoly Act prescribes, “The provisions of this Act do not apply to acts found to constitute an exercise of rights under the Copyright Act, Patent Act, Utility Model Act, Design Act or Trademark Act”. This means that the Antimonopoly Act is applicable to restrictions pertaining to use of technology that is essentially not considered to be the exercise of rights.

Further, an act by the party who holds a right in certain technology to block other parties from using its technology or to limit the scope of use by other parties may seem, on its face, to be an exercise of the right. Even to this case, however, the provisions of the Antimonopoly Act apply if it cannot be recognized substantially as an exercise of a right. In other words, an act that may seem to be an exercise of a right on its face cannot be recognized as acts “found to constitute an exercise of rights” provided for in Article 21 of the Antimonopoly Act, provided that it is found to deviate from or run counter to the intent and objectives of the intellectual property systems, which are to motivate entrepreneurs to actualize their creative efforts and to make use of

¹⁰ IP Guidelines, Part 4, 5

technology, in view of the intent and manner of the act and its degree of impact on competition. The Antimonopoly Act is applicable to this kind of acts¹¹.

(2) Exercise of Rights in Respect of Essential Patent

For the Essential Patents, the SSO generally specifies in the IPR policy that, in order to prevent exercise of right in respect of Essential Patents from impeding research & development, production or sale of the products adopting the standards and to broadly diffuse the standards, it makes the participants in standard setting clearly show whether they hold any Essential Patent (including those pending) and their intention for FRAND declaration on such Essential Patent. According to the IPR policy, the SSO will study change of the standards to exclude the technology protected by such if such declaration is not made. Since it can be considered that those who research & develop, produce or sell the products adopting the standards can access all Essential Patents under FRAND license conditions, they can positively make investments required for research & development, production or sale of the products adopting the standards.

Under such circumstances, if the holder of the FRAND-encumbered Essential Patent exercises the right against the FRAND declaration, or more specifically, if such Essential Patent holder, though a party which researches & develops, produces and sells the product adopting the standards diffused broadly is willing to be licensed under FRAND conditions, refuses granting a license to (including cases where the royalties requested are prohibitively expensive and the licensor's conduct is in effect equivalent to a refusal to license; hereinafter the same shall apply) or claims an injunction against the party, such an act will makes it difficult for such party to research & develop, produce and sell the products adopting the standards.

Therefore, such exercise of the right in respect of Essential Patent against FRAND declaration deviates from or runs counter to the intent and objectives of the intellectual property systems, which are to motivate entrepreneurs to actualize their creative efforts and make use of technology. Such exercise is not recognizable to be an exercise of rights under the Patent Act and the Antimonopoly Act is applicable to this kind of acts.

¹¹ IP Guidelines, Part 2(1)

Note that any claims for compensation of damage based on the Essential Patent does not make it difficult to research & develop, produce and sell the products adopting the standards, but is recognizable to be an exercise of right under the Patent Act.

2 Affected Market

(1) Basic principles

When evaluating restrictions in relation to use of the technology under the Antimonopoly Act, the JFTC defines the market of the dealt technology, market of the products supplied using that technology and the market of other technology or products corresponding to the transactions affected by the restriction, so as to study the impact on the competition.

If a certain technology is used by many entrepreneurs in a particular field and it is quite difficult for such users to develop circumventing technology or switch to substituting technology, a market limited to that technology may be defined.

Restriction on use of technology may certainly affect the competition about technology development, but any transactions or market cannot be assumed for the research and development activities themselves. Therefore, the impact on the technology development competition shall be evaluated by the impact on the competition in transactions of future technology as the fruit of research & development activity and products using such technology¹².

(2) Market affected by exercise Rights in respect of Essential Patent

Because of its nature, the Essential Patent is indispensable for research & development, production and sale of the products adopting the standards. Refusal of licensing or injunction claim for the Essential Patent makes or is threatened to make it difficult for the other party to research and develop, produce and sell the products adopting the standards. Therefore, refusal to license and injunction claim affect the market of the products adopting the

¹² IP Guidelines, Part 2(2)

standards¹³.

3 Refusal to License and Injunction Claim

(1) Requirements of Act

If a holder of the FRAND-encumbered Essential Patent refuses granting a license to a “willing licensee”, since this is an act “to refuse trade with a certain entrepreneur” and the injunction claim assumes such an act, such refusal and claim satisfy the requirements of an act described in Paragraph (2) of the General Designation (Other Refusal to Trade) among unfair trade practices. In addition, in the case the Essential Patent holder and the other party to which licensing is refused and an injunction is claimed are competitors in the market of the products adopting the standards, such conduct satisfies the requirements of the act for Paragraph (14) of the General Designation (Interference with a Competitor’s Transactions). Further, since refusal to license and injunction claim exclude the other party from the market of the products adopting the standards, they also satisfy the requirements of the act as private monopolization (Article 3 of the Antimonopoly Act).

(2) Requirements of Impact on Competition

A. In the case of the technology that is recognized to be influential, restriction of use imposed on such technology is likely to have a relatively large impact on the competition. Whether a certain technology is influential shall be judged generally considering the utilization situations of that technology in the product market, difficulty in development of circumventing technology or switching to substituting technology, as well as the position of the right holder of that technology in the technology or product market, etc¹⁴.

B. Essential Patent is essential for realization of the functions and effects prescribed in the standards, and its use is indispensable in the market of the products adopting the standards. Therefore, it is considered the

¹³ If a party makes it difficult to develop a product adopting standards, it means obstruction of competition based on the newly developed technology. This may possibly adversely affect the competition in the market of technology related to the standards.

¹⁴ IP Guidelines, Part 2(4)(ii)

Basic method of analyzing the effect in reducing competition is shown in IP Guidelines, Part 2, (3)

technology of the Essential Patent is influential and refusal to license and injunction claims on the basis of the FRAND-encumbered Essential Patent have a large influence on the competition in the market of the products adopting the standards.

Under such circumstances, refusal to license or claim for injunction to a party who is willing to take a license by a FRAND-encumbered Essential Patent holder, or the same act above by a FRAND-encumbered Essential Patent holder when the standard which includes the Essential Patent had already been set and subsequently, the FRAND declaration for that Essential Patent was withdrawn, generally makes it difficult to research & develop, produce or sell the products adopting the standards diffused broadly. Such acts may fall under the exclusion of business activities of other entrepreneurs. Therefore, if such an act substantially restricts competition in a particular field of trade, it is a problem under the Antimonopoly Act, since it is considered to be Private Monopolization [Article 3] of the Act.

Even if the acts do not substantially restrict competition in the product market described above and are not considered to be Private Monopolization, such acts generally makes it difficult to research & develop, produce or sell the products adopting the standards diffused broadly. As the entrepreneurs who research & develop, produce or sell the products adopting the standards will be deprived of trading opportunities or impeded the ability of the party to compete, such acts adversely affect the competition in the market of the products adopting the standards and tend to impede fair competition. Such acts are considered to be Unfair Trade Practices (Paragraph 2 [Other Refusal to Trade] or Paragraph 14 [Interference with a Competitor's Transactions] of General Designation) under the Antimonopoly Act.

(3) Scope of “Holder of the FRAND-encumbered Essential Patent ” and “Willing licensee”

As preconditions (2) B above, the refusal to license or injunction claims should not be “found to constitute an exercise of rights “ described in 1 (2) above. For this, it is necessary to consider the requirement of the “the Holder of the

FRAND-encumbered Essential Patent” and “Willing licensee” for every individual case.

A. Scope of “Holder of the FRAND-encumbered Essential Patent”

Some Essential Patents may be assigned to a third party (including a patent troll) or entrusted to the manager of a patent pool after standard setting. In these cases, the Essential Patent holder is not the party who made a FRAND declaration. Considering that, as described in Part 3, 1 (2) B above, SSO specifies in the IPR policy to exclude the technology protected by the Essential Patent for which it fails to obtain a FRAND declaration from the holder, it is usually presumed that the party who receives transfer of the Essential Patent after stipulation of standards recognizes that a FRAND declaration has been made for that Essential Patent. In addition, even in case the Essential Patent holder who made a FRAND declaration withdraws its FRAND declaration after standard setting, an exercise of its right is still in violation of the FRAND declaration made in the standard setting phase and the market is affected in the same way.

Therefore, the act by the party which accepts assignment of the Essential Patent, the act by the party who is entrusted with management of the Essential Patent, and the act of the party which withdraws the FRAND declaration cannot be recognized as acts “found to constitute an exercise of rights”.

B. Scope of “Willing licensee”

Regarding the fact that, as described in 1 (2) above, an exercise of the Essential Patent against the FRAND declaration makes it difficult to research & develop, produce or sell the product adopting the standards diffused broadly, whether a party is not a “willing licensee (who willing to take a license on FRAND terms)” should be strictly judged based on the situation of each case. Therefore, for example, in case the parties do not reach an agreement of license conditions even after a certain period of negotiations, a party which shows its intention to determine the license conditions at court or through arbitration procedures is deemed to be the “willing licensee”. Even if a party which intends to be licensed challenges

dispute validity, essentiality or possible infringement of the Essential Patent, the fact itself should not be considered as grounds to deny that the party is a “willing licensee”.