

RIETI Policy Seminar

Standards and Intellectual Property: Strategies Japan should adopt in light of current global trends

Handout



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Legal Issues Concerning
the Enforcement of
FRAND-encumbered SEPs:
A View from Japan with
a Comparative Perspective

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Outline

- **Different Kinds of Disputes**
- **Patent Litigation**
 - 1) Restriction on Enforcement of SEPs
 - 2) Determination of FRAND royalties
- **Competition Law**
- **Recent Developments**
 - 1) US- DOJ
 - 2) EU- Commission's "Communication"
 - 3) Japan- JPO's "Guidelines"
- **Concluding Remarks**

- **Different Kinds of Disputes**
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Legal disputes involving FRAND-encumbered SEPs

Categories	Examples
Patent infringement disputes	Apple v. Samsung (Japan), Apple v. Motorola (US), Ericsson v. D-Link Sys. (US), Huawei v. ZTE (Germany, EU), Unwired Planet v. Huawei (UK), etc.
Disputes under Competition law	Samsung case (EU), Motorola case (EU), Qualcomm case (Japan, Korea, etc.), etc.
Contractual disputes	Microsoft v. Motorola (US)

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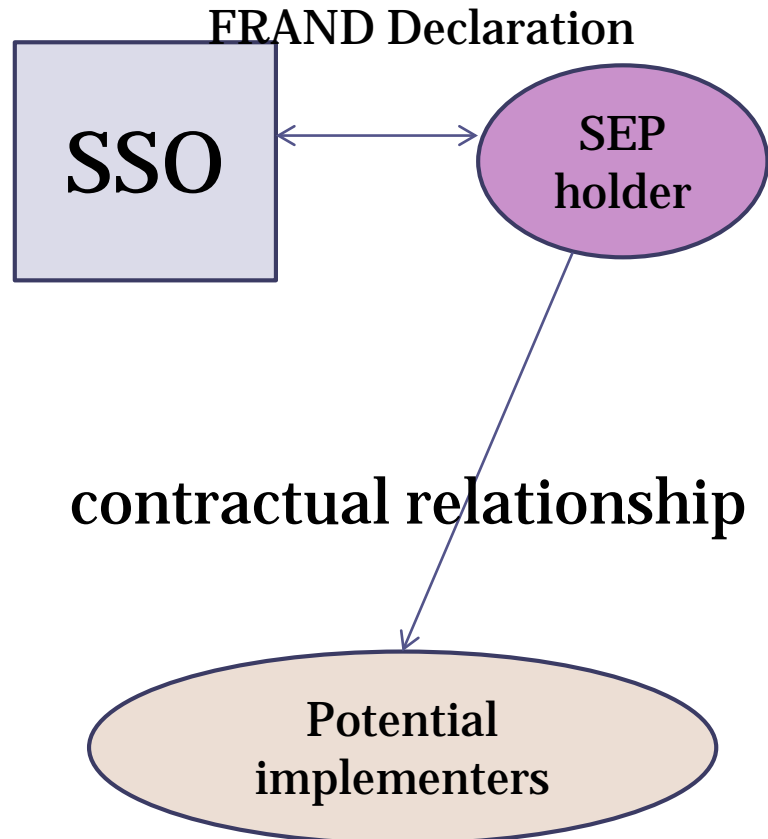
Restriction on Enforcement of SEPs

- **Restriction on the award of injunctive relief and damages**
- **What is the legal ground?**

Legal grounds for restriction of enforcement

- **Contractual ground**
SEP holders' contractual obligation to implementers
- **Abuse of rights doctrine**
- **theory of patent remedies**
- **Anti-competitive practice**

Contractual ground for restriction



- Some court decisions in the U.S. and the UK recognized a contractual obligation by SEP holders to implementers (third party beneficiaries) based on the FRAND declarations.
- *E.g.*, *Microsoft v. Motorola*, 696 F. 3d 872 (9th Cir. 2012) (a breach of contract case) ; *Apple v. Motorola*, 886 F. Supp. 2d 1061 (W.D. Wis. 2012); *Unwired Planet v. Huawei* [2017] EWHC 711 (Pat).

Abuse of rights approach

- Apple v. Samsung, Japanese IP High Court, Special Division (May 16, 2014) 2013 (Ne) 10043, 2013 (Ra) 10007 and 10008.
 - The Japanese IP High Court denied Samsung's claim for injunctions and damages exceeding the level of FRAND royalties based on the abuse of rights doctrine.
 - It is a leading case in Japan with regard to the enforcement of FRAND-encumbered SEPs related to the UMTS standard.
- 1) Samsung filed petitions for **preliminary injunctions** against Apple, alleging that Apple's products infringed the SEPs.
 - 2) Apple sued Samsung, asking for a declaratory judgment to confirm Samsung was not entitled to seek **damages**.

IP High Ct. on FRAND and licensing contracts

- Applicable law for interpretation with respect to the formation of contracts through the FRAND declaration by Samsung: **French law**
- “The FRAND declaration could not be considered as an offer for a contract, and **no license agreement [between the patentee and the implementer] was formed as a result of the declaration.**”
- This conclusion seems to be reasonable from the Japanese legal point of view. (But how about the view from French law?)

IP High Ct. on injunction and damages

- IP High Court
 - 1) refused to grant preliminary injunctions, and
 - 2) denied the right of Samsung to seek damages exceeding the amount equivalent to the royalty under FRAND conditions (*i.e.*, **awarding of damages equivalent to FRAND-royalties** was affirmed).

IP High Ct. on injunctions

- Considering the hold-up problem, holders of FRAND-encumbered SEPs should not be allowed to seek an injunction against **a party willing to obtain a license under the FRAND terms** as such an exercise of the patent right would constitute **an abuse of right**.
- Meanwhile, an injunction against a party working the invention should be allowed if it has no intention for such a license.
- The burden of proof of the willing licensee requirement is on the alleged-infringer (implementer of the standard), but **strict scrutiny shall be made before determining the lack of the willingness** on the side of the infringer.

IP High Ct. on damages

- Claims for **damages exceeding the FRAND royalty should be denied as an abuse of right**, as long as the alleged-infringer successfully proves the fact that the patentee had made a FRAND declaration.
- Meanwhile, if the patentee successfully proves that the infringer has **no intention of obtaining a FRAND license**, the patentee **should be allowed** to claim damages exceeding the FRAND royalty.
- On the other hand, if the alleged-infringer successfully proves special circumstances, such as **extreme unfairness** regarding the patentee's claim for damages not exceeding the FRAND royalty, the patentee's claim is restricted as an abuse of right.

Good-faith negotiation obligation

- The Japanese IP High Court also recognized a good-faith negotiation obligation for Samsung (the holder of the SEPs).

“In light of the fact that the appellant has made the FRAND Declaration, the court finds that the appellant at least has an obligation to have a good-faith negotiation with the appellee for the execution of a FRAND license agreement, based on the principle of good faith under the Civil Code of Japan.”

- The Court did not find a breach of the above obligation by Samsung. Therefore, the Court awarded damages equivalent to the FRAND royalties to Samsung.

Standards by the IP High Ct

- **Baseline: no injunction + FRAND royalty**
- **the burden of proof of (a lack of) a willing licensee requirement**
 - **on the implementer as to injunctions**
 - **on the patentee as to damages exceeding the FRAND royalty**

Abuse of right approach

- Advantage
 - In Japan, this is almost the only practically possible way to restrict patent enforcement against infringements
- Disadvantage
 - Ambiguous standard, unpredictability.
 - The IP High Court tried to mitigate this problem by presenting a general and clear standard.
- However, the Court did not present **a criterion to judge the willingness** of the standard implementer.

Patent remedy law approach

- In the U. S., for awarding injunctions, courts consider the four factors from *eBay v. MercExchange*, 547 U.S. 388 (2006).
 - 1) irreparable harm, 2) monetary remedies are inadequate, 3) the balance of hardships favors the patent owner, and 4) the public interest.
- *Apple v. Motorola*, 757 F. 3d. 1286, 1332 (Fed, Cir. 2014) (“A patentee subject to FRAND commitments may have difficulty establishing irreparable harm.”).

Competition law approach

- In EU and its members, particularly Germany, the defendants have been resorting to a defense of anti-competitive practice against the enforcement of (FRAND-encumbered) SEPs.
- BGH, 6.5.2009 - Orange-Book-Standard (infringer can have a compulsory licensing defense against the injunctive relief due to patent holder's abuse of dominant position.)

Competition law

- **Huawei v. ZTE, CJEU, 16.7.2015.**
 - **Compulsory license defense can only be used against injunctive relief, and not against actions seeking damages.**
 - **Provides a general framework for SEP holders and implementers to follow for the enforcement of SEPs and the use of injunctions.**
- **Unwired Planet v. Samsung, LG Düsseldorf, 19.1.2016.**
 - **Clarified the CJEU requirements indirectly influence claims for damages.**

Competition law

- the Japanese IP High Ct.
 - gave just a perfunctory reference to an assertion about the anticompetitive effects of Samsung's conducts.
 - stated "the entire evidence ... is not sufficient to prove that the **claim for damages not exceeding the FRAND royalty** constitutes a breach of the Antimonopoly Act"
 - The above statement is off point, as it ignores Samsung's conduct of seeking injunctions.

Japanese IP High Ct. on competition law

- Apple alleged, in the context of asserting and proving the abuse of rights, that the series of Samsung's acts (including claims for injunctions and high royalties) constituted **a violation of the Antimonopoly Act.**
- The IP High Court said “in light of the fact that the amount of the damages claimed by Samsung does not exceed the FRAND royalty as alleged by itself, and that the claim for damages exceeding the FRAND royalty is generally prohibited as an abuse of right, the entire evidence submitted before the court is **not sufficient to prove** that the claim for damages not exceeding the FRAND royalty constitutes a breach of the Antimonopoly Act.”

Competition law

- **Given the decision by the IP High Ct., it would not be needed as much to allow a defense of anticompetitive conducts in civil litigation on infringements of SEP.**

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Determination of FRAND royalties

- **Who can determine? Courts?**
- **Calculation methods**
 - top-down method
 - bottom-up method

IP High Ct. on the FRAND royalty

- Top-down method
- $(A \times B) \times 5\% \div 529$
 - A: the sales turnover of the infringing products
 - B: the contribution ratio of the compliance with the UMTS standard by the infringing products
 - 5%: the royalty rate cap which is applied to prevent the aggregate amount of too high of royalties (= to avoid royalty stacking)
 - 529: the number of the essential patents for the UMTS standard

Unwired Planet v Huawei

[2017] EWHC 711 (Pat)

- The court (Birss J) held that Huawei's insistence on a license with a geographical scope of the UK only was not on FRAND terms, while a FRAND license between a licensor with a global SEP portfolio and a licensee operating on a global basis would be worldwide.
- Thus, national courts may need to determine FRAND royalties on a global basis, *e.g.*, in the context of finding whether the offer by one of the parties was on FRAND terms.

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Competition law in Japan

- Possible claims under the Japanese Anti-Monopoly Act (AMA)
 - unfair trade practices (price differentiation, refusal to trade, discriminatory treatment of trade terms, interference with a competitor's transactions, etc.)
 - private monopolization (when a substantial restraint of competition is found)

JFTC's Guidelines for the Use of IP under the AMA (2016)

- **Refusal to license or bring an action for injunction against a party who is willing to take a license by a FRAND-encumbered SEP holder, or refusal to license or bring an action for injunction against a party who is willing to take a license by a FRAND-encumbered SEP holder after the withdrawal of the FRAND Declaration for that SEP may fall under the exclusion of business activities of other entrepreneurs by making it difficult to research & develop, produce or sell the products adopting the standards [or be considered to be Unfair Trade Practices (para. (2) and (14) of the General Designation), if they tend to impede fair competition].**

JFTC's Guidelines for the Use of IP under the AMA (2016)

- **The description above shall be applied no matter whether the act is taken by the party which made the FRAND Declaration or by the party which took over FRAND-encumbered Standard Essential Patent or is entrusted to manage the FRAND-encumbered Standard Essential Patent.**

JFTC's Guidelines for the Use of IP under the AMA (2016)

- Whether a party is a “**willing licensee**” (one willing to take a license on FRAND terms) or not should be judged based on the situation of each case in light of the behavior of the both sides in licensing negotiations, etc. (For example, the presence or absence of the presentation of the infringement designating the patent and specifying the way in which it has been infringed, the presence or absence of the offer for a license on the conditions specifying its reasonable base, the correspondence attitude to the offers such as prompt and reasonable counter offers and whether or not the parties undertake licensing negotiations in good faith in light of the normal business practices.) Even if a party which intends to be licensed challenges dispute validity, essentiality or possible infringement of the SEP, the fact itself should not be considered as grounds to deny that the party is a “willing licensee” as long as the party undertakes licensing negotiations in good faith in light of the normal business practices.

Imation v. One-blue

(Tokyo D. Ct. Feb. 18, 2015)

- A case decided under the Unfair Competition Prevention Act.
- The defendant (Y) was a patent management company which was entrusted with FRAND-encumbered SEPs related to standards for blue-ray discs (BDs) by the patentees.
- The plaintiff (X) was selling BDs adopting the standards.
- Y sent warning letters to X's major clients mentioning Y's right to injunction against X's infringement of the SEPs.

Imation v. One-blue

(Tokyo D. Ct. Feb. 18, 2015)

- X sued against Y, alleging that Y's conducts constituted
 - acts of unfair competition (false allegation) , and
 - unfair trade practices (interference with a competitor's transactions)
- The Tokyo District Court affirmed that Y's conducts were acts of unfair competition, because X was willing to agree on a FRAND-based license contract and thus Y could not enjoin X's sale of BDs.

Imation v. One-blue

(Tokyo D. Ct. Feb. 18, 2015)

- **Commentators say that the same conclusion could be reached as to the presence of unfair trade practices under the Anti-Monopoly Act.**

Remaining issues

- In Japan, in the context of competition policy as well as patent infringement litigation, the criteria for judging the willingness of the parties for licensing on FRAND terms are not clarified yet.

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1) Policy Shift in US-DOJ?

- Address by Assistant AG Delrahim on Nov. 10, 2017

“Too often lost in the debate over the **hold-up** problem is recognition of a **more serious** risk: the **hold-out** problem.” “[T]he hold-up and hold-out problems are not symmetric. ... Because this asymmetry exists, under-investment by the innovator should be of greater concern than under-investment by the implementer.”

1) Policy Shift in US-DOJ?

- Address by Assistant AG Delrahim on Nov. 10, 2017
 - “Under the antitrust laws, ... a unilateral refusal to license a valid patent should be per se legal.”
 - “SSO rules purporting to clarify the meaning of ‘reasonable and non-discriminatory’ that skew the bargain in the direction of **implementers** warrant a close look to determine whether they are the product of **collusive behavior** within the SSO.”

1) Policy Shift in US-DOJ?

- **Address by Assistant AG Delrahim on Nov. 10, 2017**
“We should not transform commitments to license on FRAND terms into a compulsory licensing scheme. If an SSO requires innovators to submit to such a scheme as a condition for inclusion in a standard, we should view the SSO’s rule and the process leading to it with suspicion, and certainly not condemn the use of such injunctive relief as an antitrust violation where a contract remedy is perfectly adequate.”

2) EU's Initiative on SEPs

- **“Standard Essential Patents for a European digitalised economy”**
- **Roadmap (April 10, 2017)**
- **The initiative will address three main problems:**
 - 1) **Opaque information about SEP exposure,**
 - 2) **Unclear valuation of the patented technologies, and**
 - 3) **Risks of uncertainty in enforcement.**
- **“This policy Communication will mainly provide best practice guidance to industry, SSOs and Member States without changing legal positions or rights and obligations.”**

2) EC's "Communication"

- **Communication from the European Commission
"Setting out the EU approach to Standard Essential
Patents" COM(2017) 712 final (Nov.29, 2017)**
- **Two main objectives of key principles**
 1. **Incentivising the development and inclusion of top technologies in standards, by preserving fair and adequate return**
 2. **Ensuring smooth and wide dissemination of standardized technologies based on fair access conditions**

2) EC's "Communication"

1. **Increasing Transparency on SEPs Exposure**
 - Improving quality and accessibility of information recorded in SDO databases
 - More up-to-date and precise declarations
 - Essentiality checks
 - Means of implementation: gradual steps

2. **General Principles for FRAND Licensing Terms for SEPs**
 - Licensing principles: terms with a clear relationship to the economic value of the patented technology, individual SEPs cannot be considered in isolation, etc.
 - Efficiency and non-discrimination: non-discrimination between "similarly situated" licensees (*Unwired Planet v. Huawei* [2017] EWHC 711 (Pat))
 - Worldwide licensing approach (*Unwired Planet v. Huawei* [2017] EWHC 711 (Pat))
 - Patent pools should be encouraged, especially for IoT industries and SMEs.
 - Setting up an expert group to gather industry practice and additional expertise.

2) EC's "Communication"

3. A Predictable Enforcement for SEPs

- Availability of injunctions under the *Huawei v. ZTE* jurisprudence
- Proportionality for the grant of injunctive relief, assessed on a case-by-case basis (“[C]onsiderations need to be given to the relative relevance of the disputed technology for the application in question and the potential spill-over effects of an injunction on third parties.”)
- Litigation on the basis of patent portfolios
- ADR encouraged.
- PAEs (patent assertion entities) should be subject to the same rules.

2) EC's "Communication"

4. Open Source and Standards

- Integration between open source projects and standardization processes is a win-win situation.

5. Conclusion

- The Commission will closely monitor the SEP licensing markets with a particular focus on IoT technologies, by making use of the expert group that will be created and launching further studies if necessary. It will take stock of progress achieved and assess the need for further measures to ensure a balanced framework for smooth, efficient and effective licensing of SEPs on that basis."

3) JPO Guidelines

- JPO (the Japan Patent Office) floated an idea of mandatory ADR system last year.
- On September 29, 2017, JPO started a public comments invitation to contribute to “Guidelines for Licensing Negotiations Involving SEPs”. (The deadline was Nov. 10.)
- It seems that JPO abandoned the original idea of a mandatory ADR system.

3) JPO's "Tentative Outline of Guidelines"

1. Introduction

(1) Purpose of guidelines

(2) Issues in licensing negotiations involving SEPs

e.g. Difficulty in assessing all related patents and finding solutions based on cross-licensing agreements

e.g. Gap in parties' respective perceptions of reasonable royalties

2. Appropriate licensing negotiation methods

(1) Elements of "good faith" negotiations

e.g. Negotiation periods, attitudes, and histories

(2) Factors in conducting negotiations effectively and efficiently

e.g. Which parties are supposed to be at the forefront of licensing negotiations? End product manufacturers, or suppliers?

e.g. Allocation of burden in assigning royalties

e.g. Information to be provided by right-holders/implementers

3) JPO's "Tentative Outline of Guidelines"

3. Reasonable royalty levels

(1) Royalty base

e.g. The contribution of a standard to product sales: entire market value, or the smallest salable patent-practicing unit?

(2) Factors and methods for calculating royalties

e.g. Royalty rates of patent pools or other licenses, relative values of SEPs under negotiation to other SEPs, cumulative royalty rates, total number of SEPs, patent portfolio strength, R&D costs, negotiation histories

Questions about the JPO Guidelines

- In what capacity and from what perspective does the JPO provide such “Guidelines”?
 - patent policy? innovation policy? competition policy? civil law?
 - Different from the situation in EU, relationship between restriction on enforcement of FRAND-encumbered SEPs and regulation under competition policy has not been clarified yet in Japan.

Concluding remarks

- **What is necessary in Japan?**
 - **Clarification of the relation between application of the abuse of rights doctrine and treatment under competition policy.**
 - **Clarification of criteria to judge willingness for licensing on FRAND terms.**
 - **Interpretation of the legal situation concerning transfers of SEPs.**
 - **Identifying policy issues related to SEPs in view of the development of IoT, and relationship between standardization and open source projects.**

Thank you for your attention.

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