AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

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Person in Charge of the Partial Amendment of the IP Guidelines (Draft)
Consultation and Guidance Office, Trade Practices Division
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Via Fax: 011+81-3-3581-1948

**Re: AIPLA Comments on Partial Amendment of "Guidelines for the Use of Intellectual Property Under the Antimonopoly Act" (Draft)**

Dear Sirs/Madams:

The American Intellectual Property Law Association ("AIPLA") is pleased to offer comments on the above-referenced "Partial Amendment of "Guidelines for the Use of Intellectual Property under the Antimonopoly Act" (Draft) (the "IP Guidelines").

The American Intellectual Property Law Association is a national bar association of approximately 14,000 members who are primarily lawyers engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective global laws and policies that stimulate and reward invention while balancing the public's interest in healthy competition, reasonable costs, and basic fairness.

These comments focus on the proposed new material at Part 3(1)(i)(e) and Part 4(2)(iv) of the IP Guidelines, which concerns the treatment of standard-essential patents (SEPs) under agreements that require licensing on fair, reasonable, and nondiscriminatory ("FRAND") terms. The new provisions address situations in which an SEP holder refuses to license the SEP to, or seeks an injunction against, a willing licensee on FRAND terms. As we understand the new provisions, a party would be deemed a "willing licensee" if, after unsuccessful negotiations, the party intends to determine the license conditions through a court or arbitration. The proposed amendments would deem an SEP holder's refusal to license or its pursuit of an injunction to be an Unfair Trade Practice under Japanese law.

Generally speaking, AIPLA's views on intellectual property rights under standard-setting agreements have emphasized the need for transparency and flexibility, and for broad participation by all stakeholders in standards-setting activities. The stakeholders in this context include users of standards as well as owners of intellectual property whose technology may be included in standards based on the consensus of interested stakeholders. Consistent with this position, AIPLA has noted the importance of strong intellectual property rights ("IPR") protection in connection with standards-setting to preserve the incentives to invest in the development of technologies and to contribute such technologies to standards-setting efforts. To ensure that such incentives remain strong, Standards-Setting Organizations' ("SSOs'") IPR policies should not impose, or be interpreted as imposing, constraints on patent owners' rights, except to the extent specifically set forth in a particular SSO policy.

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Please find below AIPLA's comments on these issues as raised by the draft IP Guidelines.

## 1. IPR Guidelines Should Not Turn Breach of Contract Issues into Unfair Trade Practices Issues

The proposed new text at Part 4(2)(iv) of the draft IP Guidelines states that the SEP holder's refusal to license or its pursuit of injunctive relief would be considered unfair trade practices even if those acts did not substantially restrict competition in the described product market.

This broad proposition would abandon the widely accepted requirement that an unfair trade practice must be based on evidence of injury to competition. It would upset the balance of interests which the IP Guidelines should recognize in addressing the use of patented technology under industry standards agreements. That balance requires recognizing the interests of innovators who own SEPs and invest in risky technology development for emerging standards, as well as the interests of those seeking to adopt the standards and make use of such innovative technologies through licenses.

Most standards bodies recognize this fundamental balance.[1] It requires consideration of two equally important goals: (1) providing adequate compensation to the developers of technology through the licensing of SEPs on fair, reasonable, non-discriminatory terms; and (2) ensuring reasonable access to the technology for implementers who want to produce and sell standard compliant products. Ensuring that the first goal is considered incentivizes the continued investment in standardized technologies, which can be difficult and risky to develop.

[1] The ETSI IPR Policy, by way of example, provides that "the ETSI IPR POLICY seeks a balance between the needs of standardization for public use in the field of telecommunications and the rights of the owners of IPRs." ETSI Rules of Procedure, Annex 6, Sec. 3.1

A FRAND commitment is basically a commercial agreement among willing parties to make licenses available on specified terms. However, the failure to consummate a FRAND license as a result of a commercial dispute between a licensor and licensee should not rise to the level of an unfair trade practice issue in every case. Indeed, the mere threat of an unfair trade practice charge could provide the licensee with substantial negotiating leverage that may not be warranted. Such a threat might discourage innovation or development in standardized technologies at the outset by making it difficult for innovators to negotiate with potential licensees or infringers.[2]

Any competition law analysis made in connection with a claim of improper assertion of a SEP should rely on objective evidence and economic analysis. To act otherwise could disrupt the careful balance of interests that make up the standard-setting environment.

The proposed amendment treats a FRAND dispute as a possible competition law issue in connection with FRAND disputes. In general, such disputes are more properly treated as contract disputes between the parties to which the competition laws should not apply. Accordingly, the IP Guidelines should clarify that the refusal must separately meet the requirements for an unfair trade practice. See IP Guidelines, Part 3(1)(i)(d).[3]

## 2. Availability of Injunctive Relief

The draft amendments to the IP Guidelines provide no criteria for distinguishing a justified claim for injunction from one that is unjustified. Although a FRAND commitment is a representation of a SEP holder's willingness to license its technology to willing licensees, it is not a blanket waiver of the right to seek injunctive relief. There may be circumstances in which injunctive relief should remain available, for example, where the patentee has offered a FRAND rate and the licensee has refused. Similarly, the patentee is not necessarily entitled to injunctive relief in all situations and the court should consider the equities, including whether the patentee has honored its representations.

The availability of injunctive relief in appropriate circumstances is an important way that SEP holders can protect themselves against implementers who refuse to pay FRAND royalties or unreasonably delay payment. Unavailability of injunctive relief would discourage SEP holders from participating in an SSO if participation would cause them to lose or substantially limit their enforcement rights. There are legitimate circumstances under which SEP holders may be justified in not agreeing to license terms demanded by a potential licensee (for example, where the potential licensee expressly or constructively refuses to accept FRAND terms).

Whether a party is a “willing licensee” can depend on a variety of facts and circumstances beyond the mere existence of an intent to litigate or arbitrate, such as the SEP owner’s

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[2] Id. at 5-6

[3] “Under the circumstances in which a product standard has been jointly established by several entrepreneurs, it may fall under the exclusion of the business activities of other entrepreneurs when the right-holder refuses to grant licenses so as to block any development or manufacture of any product with a standard, after pushing for establishment of that standard, which employs a technology of the right-holder, through deceptive means, such as falsification of the licensing conditions applicable in the event the technology is incorporated into the standard, thereby obliging other entrepreneurs to receive a license to use the technology.” IP Guidelines, Part 3(1)(i)(d) (emphasis added).

willingness to grant a reciprocal license or an infringer's inability to pay royalties. As other examples, an infringer might purport to be willing to take a license, but ultimately refuses to take a license on reasonable terms, or might insist on terms more favorable than other licensees (to which the patent holder owes a duty of non-discrimination). Or an infringer might claim to be negotiating in good faith, but does so for an unreasonably long time, paying no royalties in the interim and gaining an unfair advantage over those who have taken a license. Such actions by an infringer do not demonstrate "willingness" to license, yet the amendments to the IP Guidelines do not distinguish these actions from those of a willing licensee. A patent owner should not be precluded from seeking injunctive relief by a potential licensee's mere allegation that the patent owner refused to make or accept a FRAND offer without requiring more.

Further, either party may appeal a court's ruling, including the determination of a FRAND rate or the availability of injunctive relief. An appellant, whether the SEP holder or a licensee, should not be considered to have violated a FRAND representation–and to have committed an Unfair Trade Practice under the proposed amendments–until a final judgment has been entered, following resolution of any appeal or the time to appeal has expired. If necessary, a trial or appellate court could stay an injunction and could consider the equities in deciding whether and on what the terms such a stay should be lifted. Of course, SSOs remain free to limit injunctive relief in their IPR policies.

Without instructions on the necessary case-by-case analysis, this part of the amendments would effectively prevent SEP holders from seeking the exclusive rights expressly granted to patent holders.

**3. Standard Setting IPR Policies**

The proposed amendments assume that an SSO "generally … makes the participants in standard setting clearly show whether they hold any Essential Patent (including those pending) and their intention for licensing" on FRAND terms. Part 3(1)(i)(e).

That is not the case, especially to the extent it implies that SSOs make determinations of essentiality. It is important to note that even a disclosure requirement, depending on how it is phrased, can be exceedingly burdensome for patent owners of any size, but particularly for a large, institutional patent owner. The vast majority of well-known SSOs do not require members to disclose "relevant" IP at all. Rather, they more commonly seek disclosure of patents likely to include "necessary" or "essential" patent claims.

To the extent, for example, that a given disclosure provision would require a member to search its patent portfolio on a regular basis, the administrative overhead of such an obligation may be a sufficient reason for a large, institutional patent owner to decide not to join the SSO. The process is further complicated when the claims at issue are in pending applications that are subject to change, or when the standards are in draft form and subject to change. Standards evolve dynamically. Whether a patent claim is essential to, or may be essential to, a standard may change over time as the standard is being developed, and it may be difficult for a patent holder to be able to determine whether a patent "reads on" a standard. Further, holders of large portfolios may be unable to undertake a rigorous analysis of specific claim language to determine whether any of their patents will "read on" a draft standard as it changes. In addition, such a requirement may be very expensive. An organization with a large patent portfolio would have to employ a team of patent lawyers to make a comprehensive review of the portfolio to determine the effect of each modification to a standard.

In addition, because of confidentiality issues, many SSOs only require or encourage disclosure of issued patents and published patent applications. Companies may resist disclosing confidential information related to unpublished patent applications, especially when a standard is still under development and patent claims may or may not remain potentially essential.

## 4. Transfer of FRAND-Encumbered Patent to New Owner

The proposed amendments to the IP Guidelines would impose the same FRAND obligations on a transferee patent owner as are imposed on the predecessor owner at the time of the standard setting.

While the transferee of a patent often will be subject to preexisting obligations associated with the transferred patent by operation of law, AIPLA is concerned that the draft Guidelines may be interpreted to impose FRAND obligations beyond what is otherwise required by an SSO.

Implementers investing in products that use the standard want to know that they can rely on licensing commitments, including those made by predecessors in interest. AIPLA recommends that, when drafting a standard, SSOs and participants consider whether a patent holder's declared licensing obligation includes a provision that such obligation shall be binding on itself and future patent owners. Further, AIPLA recommends that SSO IPR policies should encourage that such obligations survive transfers to new owners (including successors in interest through bankruptcy proceedings) and that provisions to that effect appear in exemplar declarations.

## 5. Unfair Trade Practice Should Require Impact on Competition

A conclusion that actions constitute an unfair trade practice should be based on findings of an adverse impact on competition. In general, competition law dispenses with proof of market impact only when the conduct in question is virtually always anticompetitive and almost never has redeeming justifications. By contrast, there may be strong procompetitive reasons for a patent holder to refuse a license and to seek an injunction, e.g., if a licensee is unwilling to license on FRAND terms. To presume that there will virtually always be an anticompetitive effect from refusing to license or seeking injunctive relief would be contrary to basic principles of competition law and may harm innovation.

Accordingly, we recommend that Part 4(2)(iv) expressly acknowledge the potential procompetitive outcomes that may arise from licensing FRAND-encumbered SEPs, and provide that a violation of the unfair trade practices law may be found only where objective evidence supported by economic analysis establishes an anticompetitive effect.

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Again, AIPLA appreciates the opportunity to provide these comments in response to the Questionnaire on patents and standards. Please contact us if you would like us to provide additional information on any issues discussed above.

Sincerely,

Sharon A. Israel
President
American Intellectual Property Law Association