

## JAPAN

## Assessing the licensing environment of SEPs in Japan

Abe & Partners



Takanori Abe

**O**n July 26 2021, the Study Group on Licensing Environment of Standard Essential Patents (SEPs) (the study group) of the Ministry of Economy, Trade and Industry (METI) published the Interim Report (the report). The outline is as follows.

The Competition Enhancement Office and the Intellectual Property Policy Office of METI held five meetings of the study group from March 12 2021 to July 12 2021, and with the attendance of experts and industries, reviewed the international situation surrounding the SEP licensing negotiation.

In addition to the experts and the representatives to the relevant organisations of industries (Japan Business Federation (JBF), Japan Intellectual Property Association (JIPA), Japan Electronics and Information Technology Industries Association (JEITA), Japan Automobile Manufacturers Association, Inc. (JAMA) and the Japan Chamber of Commerce and Industry (JCCI)) who attended the meeting, member companies of JEITA and JAMA observed the meetings (only in the case that member companies hope). The study group also discussed the measures preferable for Japan. The report summarises the results of the discussion in the study group as an interim report, and shows the direction of further consideration in the future.

### Objectives of the study

The study group was carried out based on the following aspects of SEPs:

#### 1) Increasing importance of SEPs

In recent years, the number of SEP

### Hold-up (Issues from the Implementers' Perspective)

Since SEPs must be always implemented in manufacturing standard-compliant products, implementers do not have the option of not using SEPs.

In addition, it is easy for the SEP holders to assert infringement of patents because it is not necessary to analyze the alleged infringing products in detail.



Even if there is one SEP that is infringed, the injunction based on the infringement will make it impossible to sell the standard-compliant products. Therefore, the implementers may be forced to accept the disadvantageous conditions compared to where ordinary patents are involved.

### Hold-out (Issues from the SEP Holders' Perspective)

SEP holders are required to license on reasonable and non-discriminatory conditions in accordance with the FRAND declaration.

If it is determined that these conditions are not met, it is likely that the exercise of the rights will not be permitted.



The implementers are likely not to respond sincerely to the license negotiation because they consider the exercise of the rights too difficult to be permitted.

For this reason, the SEP holders may not be able to recover the costs spent for the formulation of the standard and the development of the technology therefor.

Source: METI material

declarations has been increasing due to the growing complexity of technologies and the widespread use of standards. In the context of the progress of the internet of things (IoT), licenses among different industries beyond the boundaries of the electronics industry have been occurring.

#### (2) Issues concerning SEP licensing

Issues concerning SEP licensing include those from the implementers' perspective (hold-up), as well as those from SEP holders' perspective (hold-out). In either case, innovation may be discouraged, which may diminish consumer benefits that would otherwise be available. With these issues, disputes involving SEP licensing have arisen worldwide, and policy-making authorities in these countries have published policy documents or the like in order to respond to these situations.

### Findings of the study

As a result of the discussion, the

future direction for each consideration is as described below.

#### 1) Increasing disputes involving SEP licensing among different industries and the situation of Japanese companies

Disputes involving SEP licensing among different industries are expected to increase in the future, and various industries in Japan are at risk of being involved in the disputes. The Japanese government, in addition to supporting research and development, will consider the measures to deal with the disputes from the standpoint of the development of Japanese industries and externally disseminate the results of the consideration.

#### 2) Necessity of setting rules on SEP licensing negotiation processes such as rules on information provision between parties related to the negotiation

The Japanese government will promptly consider and externally disseminate rules on good faith ne-

gotiations that should be complied with by both SEP holders and implementers, taking into account international discussions, in order to realise an appropriate licensing environment through improvement of transparency and predictability of the SEP licensing negotiation processes.

**3) Patent pools**

Patent pools will be utilised as one measure for licensing SEPs as the number of SEPs increases. The Japanese government will consider the measures for encouraging good faith negotiations by ensuring transparency of their licensing terms and so on, taking account of such a situation.

**4) Joint licensing negotiations by multiple implementers**

The Japanese government will consider the measures to conduct horizontal joint negotiations which will not cause competition law concerns.

**5) Burdens on licensing within the supply chain**

There were opinions that burdens on licensing within the supply chain, such as patent indemnification, varies greatly, depending on individual circumstances, and it is difficult to set unified rules. It is important for the Japanese government to consider a larger direction (such as the allocation of burdens in entire commercial distribution including the distribution from semiconductor supply to service provision) and to get the picture of the facts.

**Practical tips**

On July 13 2021, the Intellectual Property Strategy Headquarters of the Cabinet Office of Japan published the ‘Intellectual Property Promotion Plan 2021’. The plan presented the ‘promotion of strategic use of standards for dominant market expansion’ among the seven priority strategies and discussed the ‘strategic acquisition and utilisation of standard essential patents (SEPs)’.

In contrast, the study group and the

report are focused on the SEPs, and the committee members are entirely competition law specialists. While the meeting summary, materials, agenda and the report are made public, the meetings of the study group are in principle closed to the public and the minutes are not made public.

The opinions from the attendees in the study group are placed in “(Appendix) Comments from experts and industries” of the meeting summary and the report. Some of the comments are as follows.

**1) Increasing disputes involving SEP licensing among different industries and the situation of Japanese companies**

- “This may affect the entire Japanese industry in the future. It is necessary to discuss these, considering national interests based on the actual situation of Japanese industries.”
- “I understand that the main objective is to maintain an environment where Japan will not be lagging behind in the era of post-5G. When a new industry emerges, patent disputes will occur, and it is important to shorten the disputing period to stabilise the competitive environment. Consideration on burden sharing including services should be necessary for Japan, an excellent manufacturer, not to bear much of the burden.”
- “Injunctions against willing licensees should not be allowed.”

**2) Necessity of setting rules on SEP licensing negotiation processes such as rules on information provision between parties related to the negotiation**

- “For future industrial development and innovation creation, rules should be established at least for the licensing negotiation process to be considered by the courts.”
- “Since SEP dispute after the FRAND declaration is a matter where restriction on injunctions is worth being considered, it is natural to set rules on information provision.”

- “In cases where the global patent portfolio subject to negotiation includes Japanese patents, a mechanism to take administrative measures against violations of rules would ensure effectiveness of such rules, even for international disputes and negotiations.”
- “It is also important to take international trends into account when considering the rules of the negotiation process. On the other hand, court decisions in other countries should be carefully adopted, taking into account that there may be geopolitical considerations, etc. behind them. It is also important to ensure their transparency and fairness while taking into account the actual situation of Japanese industries and national interests.”
- “For judges, it is agonising to use the JPO’s Guide to Licensing Negotiations because it only describes different arguments by both sides in a parallel manner. Therefore, it is desirable to set out the rules that indicate a certain direction in the future.”
- “At a minimum, it is necessary to establish rules for the provision of information such as claim charts. On the other hand, when there is a large number of SEPs, it is not practical to request the provision of claim charts of all SEPs. It should also be taken into account the unique situation found in SEPs that the number of patents is large.”

**3) Patent pools**

- “The patent pool is not universal, and some pools are unable to avoid higher prices. For example, in case major SEP holders unilaterally collect royalties while avoiding the burden, there is a possibility that the royalty rate will remain high without the working of the market principles.”

**4) Joint licensing negotiations by multiple implementers**

- “There are efforts to devise mechanisms to prevent problems under competition law, al-

though it appears superficially like a cartel. It would be worth examining whether such a mechanism can be established.”

**5) Burdens on licensing within the supply chain**

- “In some cases, negotiations have been postponed and considered hold-out because the patent indemnification clause blocks the discussion of the burden within the supply chain.”