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CASE STUDY

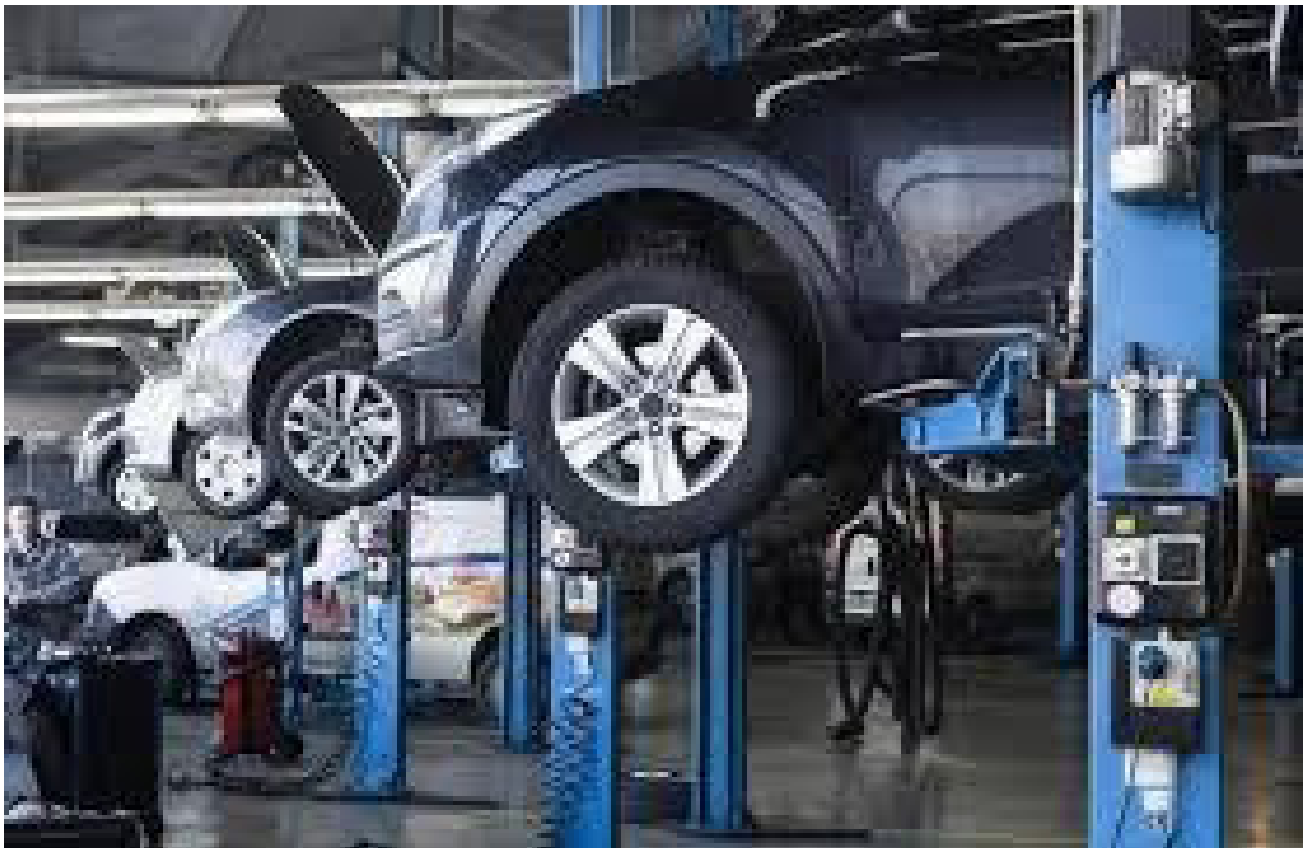
SEPs and the Automotive Industry in Japan

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SEPs and the Automotive Industry in Japan

Takanori Abe of Abe & Partners looks at the SEP landscape in the Japanese auto industry and how it fits into the international picture.



The Fourth Industrial Revolution along with the spread of the Internet of Things (IoT) means that Standard Essential Patents (SEPs) licensing negotiations are expected to be held more often between SEP holders in the information and communication technology field and business entities in other industries, especially multi-component products industries such as automobiles, game machines, etc. The following explains some of the case law, discussions in government agencies, and opinions from the automotive industry in Japan on this point.

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Overall Background

When it comes to litigation over SEPs, *Apple v. Samsung* (Decision of May 16, 2014, the IP High Court, and Judgment of May 16, 2014, the IP High Court) is a case not related to the automotive industry, while *Sharp v. Tesla Motors Japan*, filed in January, February, and March 2020, is a case related to the automotive industry which ended in settlement.

Government agencies have published reports such as “Manual of ‘Hantei’ (advisory opinion) for an essentiality check” (March 2018, Japan Patent Office [JPO]) (manual, Hantei-E), “Guide to Licensing Negotiations involving Standard Essential Patents” (June 5, 2018, JPO) (the guide), “Guide to Fair Value Calculation of Standard Essential Patents for Multi-Component Products” (April 21, 2020, the Ministry of Economy, Trade and Industry [METI]) (the basic concept), “Intellectual Property Promotion Plan 2021” (July 13, 2021, Cabinet Office) (the plan), and “Interim Report” (July 26, 2021, METI) (the report).

Classifying these cases and reports as either pro-SEP holder, neutral, or pro-implementer, there are no cases or reports classified in pro-SEP holder category. The “manual, Hantei-E”, “the guide” and “the plan” may be classified as neutral, while the decision and judgment in *Apple v. Samsung*, “the basic concept” and “the report” may be classified as pro-implementer.

Litigations

In the decision and judgment in *Apple v. Samsung*, the court held regarding the claim for injunction by a party who made a fair, reasonable, and non-discriminatory (FRAND) declaration, that a patentee who made the declaration should be restricted from enforcing the right to seek an injunction against the party willing to enter into a FRAND licence agreement. The court also held that the following shall be applied to a claim for damages by a party that made FRAND declaration: (i) a claim for damages exceeding the royalty under the FRAND condition should not be allowed, unless special circumstances exist; and (ii) the claim for damages not exceeding the royalty under the FRAND condition shall not be restricted even in the case of an SEP, unless special circumstances exist. The court found that the royalty under the FRAND condition was 9,955,854 yen (around USD100,000).

In the case of *Sharp v. Tesla Motors Japan*, it was observed whether the impact of Daimler being defeated in the Mannheim District Court and the Munich District Court in Germany, an automobile kingdom, would be recreated in Japan, also an automobile kingdom, and attention was paid to the outcome of the lawsuit. However, the lawsuit ended in settlements.

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Reports

(1) The basic concept

The basic concept shows the following three principles for calculating the fair value of SEPs for multicomponent products.

Principle (1): The parties to a licensing agreement should be decided based on the concept of a “licence to all.”

Principle (2): Royalties should be calculated using a “top-down” approach.

Principle (3): Royalties should be calculated based on the proportion the SEP technology contributes (contribution rate) to the value of the main product that implements the SEP technology.

Regarding principle (3), the basic concept stated that “in the case of automobiles, which can be said to be typical of multi-component products that contain many parts, the value calculated based on the contribution rate has been calculated based on the parts that essentially implement the patent concerned” and, “For example, an automobile is manufactured by combining approximately 30,000 (modules) complex components. In the automotive industry, there is the system of division of labour in which each supplier designs and develops its own products and is responsible for quality assurance. This system contributes to ensuring the quality of automobiles”.

The guide stated both the rights holder’s arguments and the implementer’s arguments, but the basic concept took a stance more in line with the implementer. The Fair Standards Alliance, which is participated in mainly by automobile manufacturers and aims to promote SEP licensing subject to FRAND conditions, expressed on its website that it welcomes the basic concept. On the other hand, one member of the Intellectual Property Committee Industrial Structure Council (Committee) commented on the basic concept, stating that it should be noted that the basic concept was not a final decision of the METI, but rather a conclusion of a study group of one bureau, and that the JPO was not involved in the basic concept’s formulation.

“Mr. Shitara, former chief judge of the IP High Court, said he agreed with principles (2) and (3).”

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In the Committee, Mr. Shitara, former chief judge of the IP High Court, said he agreed with principles (2) and (3), because he understands the principles make the same points as the *Apple v. Samsung* judgment of the Grand Panel of the IP High Court. He also stated that regarding principle (1), it would be best if a worldwide consensus could be reached and negotiations could be based on it, but it is not easy until case law is accumulated in each country. Mr. Shitara also mentioned that people in the IP departments of Japanese companies are overwhelmed at entering into licence agreements with many foreign SEP holders, and that a situation where more SEP holders join licensing marketplace Avanci, offer very reasonable royalties and conclude licence agreements in a single window is desirable.

(2) The report

The Competition Enhancement Office and the Intellectual Property Policy Office of METI held five meetings of METI's Study Group on Licensing Environment of SEPs (the study group) from March 12 2021 to July 12 2021, and with the attendance of experts and industries, reviewed the international situation surrounding SEP licensing negotiations. In addition to the experts and the representatives of 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 (those member companies who wanted to attend). The study group also discussed the measures preferable for Japan.

The following statements by the attendees of the study group indicate that the study group is intended to establish rules that could be considered by the courts.

- For future industrial development and innovation creation, rules should be established for the licensing negotiation process to be considered by the courts.
- 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 rules that indicate a certain direction in the future.

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(3) The plan

The plan states that “Japanese companies are currently lagging behind the competition to acquire SEPs in areas including 5G technology, and thus have not been able to strategically acquire and utilise SEPs sufficiently” and “in particular, beyond 5G, the public and private sectors have to work together strategically to actively acquire SEPs for Japanese companies”.

The opinions from the industries

During discussions in government agencies, the opinions of implementers are often heard, but those of the rights holders are less common. Regarding rights holders, the following comments have been made by some committee members: “It is natural that Nippon Telegraph and Telephone Corporation (NTT) and the Innovative Optical and Wireless Network (IOWN) Global Forum, which are supposed to be the patentees of beyond 5G, shall stand on access for all, but it is a problem that it was not clear which position they are in.”

On the national interest, the attendees of the study group made the following comments: “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” and “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 dispute 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.”

In the report, the companies’ opinions are presented. “It is not practical for an automobile manufacturer to be responsible for every patent on the tens of thousands of components. As a patent on component, negotiating with the supplier who designs and manufactures the component and is conversant with the technology, is more efficient for the SEP holder” (automobile manufacturer/implementer). “If the royalties on an SEP accumulate and ultimately exceed the price of the product, it is strange and must be tightly controlled” (electronic equipment manufacturer/SEP holder, implementer). “It is obviously incorrect to pay unexpected royalties for the provision of a beneficial service and increased added value to the end product, which the supplier particularly could not predict, and would not be able to fulfil the patent warranty agreement” (electronic equipment manufacturer/ implementer).

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The JAMA gave the following opinions.

- The aim and real intention of SEP holders targeting the final product (automobile) was to increase royalties by basing their calculations on expensive products.
- Most of what is declared as a SEP (50% – 90%) is not essential.
- Avanci's licence terms are not clear compared with traditional patents; the plan ultimately balances rights holders and implementers.
- The patent system did not consider the situation in which there are tens or hundreds of thousands of patents on a mere part of an end product, as is the case with SEPs related to mobile communication standards. In such a situation, it would be too rigid to grant injunction against the final product even if only one patent is infringed, and it may discourage development of industry. In view of the fact that the legislative intent of the Patent Act is to contribute to the development of industry, it is useful to review the system or remedy against infringement at this time. In the *Apple v. Samsung* IP High Court judgment, restricting injunctions on the grounds of abuse of rights is a good guidance, however it is necessary to consider that the Patent Act should specify under what conditions an injunction should/should not be granted in order to increase predictability.
- The following four points need to be clarified promptly.
 - (1) A full, exhaustible licence should be given to any willing SEP implementer regardless of whether it is upstream or downstream in the supply chain (the concept of "licence to all").
 - (2) The basis for calculating royalties should be the "Smallest Salable Patent Practicing Unit" in the end product.
 - (3) To prevent excessive royalty stacking, a "top-down" approach should be used to set an upper limit on royalties.
 - (4) The value of an SEP should be calculated on the basis of its technical value as a patented invention, without taking into account the added value of standard technology.

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Honda Motor has expressed the following opinions.

• *Review of automatic injunctions:*

Due to the rapid increasing advance and complexity of technology, the multifunctionality of products, the IoT in society and the increasing number of international patents, automatic injunctions as a traditional remedy for patent infringement should be considered. Looking at the examples from other countries, they seem reluctant to grant automatic injunctions as a remedy for infringement litigation by non-practising entities (NPEs) seeking monetary gain or infringement proceedings relating to a large number of SEPs. Japan should review the system of automatic injunctions as a remedy for these issues in particular, in view of today's technological and social circumstances.

• *Handling of SEPs:*

The number of SEPs for some standards is huge, and systematic discipline on SEP licensing is required to encourage the use of standards and to achieve a stable IoT society. One of the current international issues surrounding SEPs is the discussion on the level of licensing in the product supply chain (whether the licensing is limited to the most downstream end product manufacturers or whether upstream component manufacturers are also available). In this regard, for example, even though upstream component manufacturers conduct basic and fundamental research and development on standards, and as a result are more likely to own patent rights such as SEPs, refusing licences to upstream component manufacturers would eliminate the opportunity to reduce royalty costs through cross-licensing, prevent competition between component manufacturers and may result in consumers ultimately bearing the costs of various IoT-related products and services that could otherwise be reduced. For the development of a diverse IoT society, such SEPs issues should be examined and the necessary institutional discipline is required, considering the consumer interests and benefits.

- Patent trolls and those who are willing to negotiate in good faith should be distinguished. Patent trolls are only interested in obtaining high compensation and have nothing to do with Society 5.0 or industrial development. It would be a very good strategy to lead drafting guidelines and create a market view earlier that could have a certain degree of impact on litigation or Alternative Dispute Resolution. This should not be bad for right holders who are willing to negotiate in good faith.

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- SEP holders should disclose sufficient information about their SEPs. Unlike mobile phones, automobiles have the basic functions to run and stop. No matter how automobiles develop in the future, information and communication technology is only one part of the function of an automobile. Thus, there should be no royalties on the end product. Refusal to negotiate with component manufacturers should definitely not be allowed.

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