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INTELLECTUAL PROPERTY AND STANDARD SETTING

-- Note by Japan --

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JAPAN

1. Introduction

1. In recent years, there has been growing concerns that the exercise of intellectual property rights, including patents, by companies involved in standardisation activities may hinder the smooth progress of standard setting. Specifically, if a technology adopted in standard specifications (specifications that are communalised and unified for products and services) is covered by intellectual property rights, such as patents, the exercise of these intellectual property rights after the setting of standard specifications (so-called “hold-up”) makes it difficult for other participants to use the standard specifications at a reasonable cost. This can inhibit the smooth spread of the standard specifications.

2. The Japan Fair Trade Commission (JFTC) has addressed competitive issues concerning exercise of intellectual property rights and standard setting by clarifying the views from the Antimonopoly Act. These views have been compiled in two types of guidelines.

3. In this contribution, we would like to provide an outline of the guidelines developed by the JFTC concerning intellectual property rights and standardisation activities. In addition to these guidelines, we will also discuss recent court decisions on FRAND declarations concerning intellectual property rights in Japan.

2. Outline of the guidelines developed by the JFTC

4. The JFTC has published the Guidelines for the Use of Intellectual Property under the Antimonopoly Act described in 2.1 below (hereinafter referred to as the “Intellectual Property Guidelines”). The assessment of licensing through standardisation and the use of patent pools¹ pursuant to the Antimonopoly Act is essentially made in accordance with the Intellectual Property Guidelines, which are supplemented by the Guidelines on Standardization and Patent Pool Arrangements (hereinafter referred to as the “Patent Pool Guidelines”) separately developed by the JFTC.

5. We have already explained the two guidelines above in the past². Thus, for the purposes of this contribution, we would like to focus on standardisation activities and the exercise of patents.

¹ The holders of patents for technologies adopted in specifications sometimes choose to jointly form a patent pool framework. This framework acts as a means for resolving difficult issues regarding complicated interests related to standardization activities. Using this framework, the patents required to develop and manufacture a product that incorporates the specifications are licensed as a package to an entrepreneur.

² The outlines of the Intellectual Property Guidelines and Patent Pool Guidelines were given in the written contribution from Japan to the Round Table on [Standard Setting](#) of the WP2 meeting held in June 2010. DAF/COMP(2010)33 [Standard setting] P135

2.1 *Intellectual Property Guidelines (Published in September 2007 and Revised in January 2010)*³

6. When applying the Antimonopoly Act with respect to the restrictions pertaining to the use of technology, it is important for competition policy to protect competition in technologies and products from any negative effect caused by any restrictions that deviate from the intent of the intellectual property systems⁴, while making every effort to facilitate competition through the intellectual property systems.

7. Based on these goals, the Intellectual Property Guidelines first explain the basic principles according to which the Antimonopoly Act applies to restrictions pertaining to the use of technology, and then explain the principles of the Antimonopoly Act concerning restrictions pertaining to the use of technology from the viewpoint of private monopolisation, unreasonable restrictions on trade, and unfair trade practices.

8. Restrictions by the right-holder to a technology such as not to grant a license for the use of the technology to an entrepreneur or to file a lawsuit to seek an injunction against any unlicensed entrepreneur using the technology constitute a violation of the Antimonopoly Act, if such conducts cause a substantial restraint of competition in any particular field of trade or tendency to impede fair competition.

9. The types of conducts as described above are listed in the guidelines as follows.

2.1.1 *Private monopolisation (Restrictions falling under “the exclusion of business activities of other entrepreneurs”)*

- a) The refusal of entrepreneurs participating in a patent pool to grant a license to any new entrant or any particular existing entrepreneur without any reasonable grounds in order to hinder it from using the technology
- b) Where a technology is found to be influential in a particular product market and is actually used by numerous entrepreneurs in their business activities, the acquisition by one of the entrepreneurs of the rights to the technology from the right-holder and the refusal to license the technology to others, preventing them from using it. (“Interception”)
- c) The collection by an entrepreneur conducting business activities in a particular technology or product markets of all of the rights to a technology that may be used by its actual or potential competitors but not for its own use and its refusal to license them to prevent the competitors from using the technology (“Concentration of rights”)
- d) Under the circumstances in which a product standard has been jointly established by several entrepreneurs, i)the refusal of the right-holder to grant licenses so as to block any development or manufacture of any product compliant 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 or ii)the refusal of an entrepreneur holding rights to a technology to grant licenses so as to prevent other entrepreneurs from participating in the bidding after deceiving a public institution into setting out specifications of the product it will be purchasing through bidding that can be satisfied solely by the use of the technology, thereby creating a situation in which no bidder can manufacture any product meeting the specifications without receiving the license to use the technology

³ http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.files/070928_IP_Guideline.pdf

⁴ Legal frameworks to protect intellectual property in relation to technology.

2.1.2 *Unfair trade practices*

- a) In a case where an entrepreneur acquires the rights to a technology from the right-holder, with the recognition that a competitor uses the licensed technology in its business activities and that it is difficult for the competitor to replace the technology with an alternative, the refusal of an entrepreneur to grant a license for it in order to block the competitor from using the technology (Paragraphs 2 (Other Refusal to Trade) and 14 (Interference with a Competitor's Transactions) of the Designation of Unfair Trade Practices⁵)
- b) The refusal of a right-holder to a technology to grant a license to stop other entrepreneurs from using its technology after urging them to use its technology in their business activities through unjustifiable means such as falsification of licensing conditions, and making it difficult for them to shift to other technology (Paragraphs 2 (Other Refusal to Trade) and 14 (Interference with a Competitor's Transactions) of the Designation of Unfair Trade Practices)
- c) In a case where the technology provides the basis for business activities in a particular product market and a number of entrepreneurs, accepting licenses for the technology from the right-holder, engage in business activities in the product market, the discriminatory refusal to license a particular entrepreneur without reasonable grounds (Paragraph 4 (Discriminatory Treatment on Trade Terms, etc.) of the Designation of Unfair Trade Practices)

2.2 *Patent Pool Guidelines (Published in June 2005 and Revised in September 2007)*⁶

10. The Patent Pool Guidelines are broadly divided into “A. The principles under the Antimonopoly Act concerning standardisation activities” and “B. Problems under the Antimonopoly Act with activities to pool patents for specifications.”

2.2.1 *The principles under the Antimonopoly Act concerning standardisation activities*

11. Under the section entitled “Application of the Antimonopoly Act to activities to standardise specifications,” the following explanations are given.

12. “Although the standardisation of specifications places certain restrictions on participants’ business activities by commonalising the functions or performances of the products subject to standardisation activities, by allowing compatibility among the new products, it enables speedy commercialisation and expansion of demand for the products that have adopted specifications and this contributes to greater consumer convenience. As such, standardisation of specifications by competitors is not assumed to immediately pose legal issues with the Antimonopoly Act.

13. However, if the activity substantially restricts competition in related markets or threatens to impede fair competition with restrictions as follows, it poses legal issues with the Antimonopoly Act.”

- i. Restrict prices of new products (that have adopted specifications)
- ii. Restrict development of alternative specifications
- iii. Unreasonably extend the scope of specifications
- iv. Unreasonably exclude technical proposals from competitors

⁵ The JFTC designated any act which tends to impede fair competition pursuant to article 2, paragraph 9, item 6, of Antimonopoly Act, in addition to the acts listed in from item 1 to item 5 of article 2, paragraph 9 of the Act, as unfair trade practices.

⁶ http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.files/Patent_Pool.pdf

- v. Exclude competitors from the standardisation activities

14. Under the section entitled “Application of the Antimonopoly Act to the exercise of patent rights for specifications,” the following explanations are given.

“For instance, the refusal by a patent holder to grant a license generally does not pose a problem under the Antimonopoly Act when the patent holder is not involved in the activities to develop the specifications of the standards. However, if a patent holder has taken part in the activities and is endeavoring to have its patented technologies adopted by the specifications, refusing to grant a license (including requesting a very high license fee, which is tantamount to a refusal) without any reasonable grounds after the specifications are developed and become prevalent, this will pose a legal problem with the Antimonopoly Act, by constituting private monopolisation in case of substantially restricting competition in related markets if it becomes difficult for companies to develop and produce the products with the specifications, or by constituting unfair trade practices when they threaten to impede fair competition (Other Refusal to Trade).”

15. This paragraph indicates that the so-called “hold-up” activities by patent holders may pose a problem with the Antimonopoly Act.

2.2.2. *Problems under the Antimonopoly Act with activities to pool patents for specifications*

16. This section examines the applicability, etc. of the Antimonopoly Act to the activities of pooling and licensing patents for specifications.

17. The following principles are given as a safe harbour.

“If many competitors license their patents for specifications through the pool, imposing on licensees certain restrictions—with the exception of obviously anti-competitive ones such as fixing the product price or quota—will not pose problems under the Antimonopoly Act when (a) the market share of the pool is no more than 20% in the related markets or (b) if it is difficult to appropriately analyse the effect on competition with market shares there are at least four other competing specifications.”

18. Under the section entitled “Perspectives in examining problems under the Antimonopoly Act in the activity to pool patents,” the basic perspectives are given as follows.

“The effects on competition of pooling patents for specifications can differ, for example between the case when all patents in the pool are essential for fulfilling the functions and utilities for specifications (namely, “essential patents”) and other cases.” This is followed by the analysis below.

2.2.2.1 If only essential patents are pooled

19. When only the essential patents are pooled for fulfilling the functions and utilities for the specifications, competition among the patented technologies is not restricted and any problems with the Antimonopoly Act are not posed even if licensing conditions are fixed, because essential patents are mutually complementary for fulfilling the functions and utilities for the specifications.

2.2.2.2 If patents not essential for specifications are included in the pool

20. If patents that are not essential for specifications are included in the pool without justifiable reasons, given the following effects on competition among the technologies associated with the specifications, the activity is likely to restrict competition and represent a legal problem under the Antimonopoly Act.

- i) When a number of patents on alternative technologies (patents in this type of relationship are hereinafter referred to as “alternative patents”) are pooled and licensed with fixed conditions, because the patents on these technologies are competing on their licensing conditions, competition among these alternative technologies is restricted.
- ii) Even if patents included in the pools are not mutually substitutable, when patents in the pools are substitutable with those outside of the pool, by being licensed as a package with essential patents, the technologies with the patents not pooled are hardly adopted by the licensees of the pool and are excluded from the technology market.

21. To summarise, when a patent not essential for specifications is pooled, the anticompetitive effects would be non-negligible. As a consequence, it is necessary to comprehensively evaluate, the effect on competition of pooling such patents, by taking the following factors into account in addition to the market conditions such as the degree of prevalence of the standards, the existence of alternative patent pools or specifications:

- i) Whether or not pooling the patents other than essential patents is reasonably necessary or has pro-competitive effects.
- ii) Whether or not patent holders pooling their patents can license out their patent without going through the pool and whether the entrepreneurs can select necessary patents and accept license only for them.

22. Furthermore, under the section entitled “Analysis of constraints on licensees in a license agreement through a patent pool,” the following explanations are given.

“In licensing agreements through a pool, imposing differential conditions on specific businesses without due cause, such as (i) refusing to license the patents, (ii) requiring extremely high licensing fees compared with other licensees and (iii) limiting the scope of authorised use of the patents, is likely to violate the Antimonopoly Act when such activities have a direct and serious impact on the competitive ability of licensees that are suffering discrimination. (Private monopolisation and discriminatory treatment on transaction terms)”

3. Decision of the Intellectual Property High Court in Japan on the Apple Japan vs. Samsung Electronics case (with special reference made to the FRAND declarations) — (May 16, 2014)

23. Recently, a court decision was made in a private suit regarding the Patent Act, in which the exercise of rights - to make a claim for damage - by the patent holder based on the patent rights within the range of the amount equal to the license fees under FRAND terms did not fall under the abuse of the right. Because this decision may be referenced in relation to future competition policy, we would like to introduce the decision of the Japan Intellectual Property High Court on the Apple Japan vs. Samsung Electronics case below.

3.1 Background of the case

24. This case is the one in which Samsung Electronics Co., Ltd (Samsung Electronics) alleged that the production, assignment, import, etc. of the products⁷ by Apple Japan LLC (Apple Japan) constitute infringements of the patent right of Samsung Electronics (patent right for the patent to the invention titled

⁷ iPhone 4, iPad 2 Wi-Fi + 3G model, iPhone 4S.

“method and apparatus for transmitting/receiving packet data using pre-defined length indicator in a mobile communication system” (hereinafter referred to as the “Patent Right”), and filed a petition for a provisional disposition order for an injunction, etc. against the production, assignment, import, etc. of the products by Apple Japan. In response to this petition, Apple Japan alleged that its production, assignment, import, etc. of the products⁸ do not constitute infringements of the Patent Right of Samsung Electronics, and sought a declaratory judgment to confirm that Samsung Electronics is not entitled to seek damages due to tort for the infringements of the Patent Right by Apple Japan in relation to acts committed by Apple Japan as mentioned above.

3.2 Underlying facts

25. The products conform to the UMTS (Universal Mobile Telecommunications System) standard, which is the telecommunications standard developed by 3GPP (Third Generation Partnership Project), a private organisation established for the purposes of the dissemination of the third-generation mobile telecommunication system or mobile telephone system (3G), as well as the international standardisation of the related specifications.

26. ETSI (European Telecommunications Standards Institute), one of the standard organisations which established 3GPP, provides the “Intellectual Property Rights Policy” as the guidelines for the treatment of intellectual property rights (IPRs).

27. On August 7, 2007, Samsung Electronics in accordance with the ETSI IPR Policy, notified ETSI that the IPRs including the Patent Right were or were highly likely to be essential IPRs for the UMTS standard, with an undertaking that it was prepared to grant an irrevocable license on fair, reasonable and non-discriminatory terms and conditions (such terms shall be hereinafter referred to as the “FRAND Terms,” and this declaration as the “FRAND Declaration”).

3.3 Summary of the decisions and court decision

3.3.1 Issue of whether the petition for an injunction filed by Samsung Electronics based on the exercise of the Patent Right constitutes the abuse of right

28. In this decision, the court determined that the exercise of the right by Samsung Electronics to seek an injunction based on the Patent Right constitutes the abuse of right (Article 1, paragraph (3) of the Civil Code).

29. The followings are some parts of the court decision.

“A party intending to engage in the manufacturing, sale, etc. of a UMTS standard-compliant product would recognise that, among the patent rights essential for the manufacturing, sale, etc. of such product, at least those owned by ETSI members require the timely disclosure in accordance with ETSI IPR Policy Clause 4.1 and the FRAND licensing declaration under ETSI IPR Policy Clause 6.1. Such party would rely on the availability of a FRAND license through an appropriate negotiation with the patent holders and such reliance is worth protecting. Accordingly, in connection with the Patent subject to the FRAND Declaration, allowing the unconditional exercise of the right to seek an injunction would be detrimental to the reliance of parties who manufacture or sell the UMTS standard-compliant product based on the availability of such license.”

⁸ Iphone 3GS, iPhone 4, iPad Wi-Fi + 3G model, iPad 2 Wi-Fi + 3G model.

3.3.2 *Issue of whether the petition for damages filed by Samsung Electronics based on the exercise of the Patent Right constitutes the abuse of right*

30. In this judgment, the court held as follows, determining that the claim for damages filed by Samsung Electronics constitutes the abuse of right to the extent exceeding the amount of the FRAND royalty, but does not to the extent of the amount not exceeding the FRAND royalty.

3.3.2.1 Claim for damages exceeding the FRAND royalty

31. In this judgment, the court determined that the claim for damages filed by Samsung Electronics constitutes the abuse of right to the extent exceeding the amount of the FRAND royalty, from the similar perspective to the one held in the judgment described in 3.3.1 above etc. and is not accepted.

32. Method for calculating the amount of the FRAND royalty under the FRAND Terms in this court case

- i) the percentage of the contribution of the compliance with the UMTS standard to the sales turnover of the products⁹ (A) needs to be calculated.
- ii) among the contribution ratio of the compliance with the UMTS standard, the contribution ratio of the Patent needs to be calculated. For this purpose,
 1. the aggregate royalty rate cap is set at 5%¹⁰.
 2. because the contribution ratio of each patent is unknown, the amount of FRAND royalty should be based on the division of the contribution ratio (A) of the royalty by the number (B) of UMTS standard essential patents (C).

33. ***Therefore, the calculation formula is as follows.***

- i) Percentage of the contribution of the Patent to total sales turnover of the Products¹¹ (C)

$$A (\%) \times 5 (\%) \times 1/B \rightleftharpoons C (\%)$$

A : Percentage of the contribution of compliance with the UMTS standard to the sales turnover of Products

B : Number of UMTS standard essential patents (In this court case, the number of patent families has been found to be 529.)

- ii) Royalty under the FRAND terms

$$D (\text{yen}) \times C (\%) \rightleftharpoons E (\text{yen})$$

D: Total sales turnover of the Products

⁹ The products described in footnote 8 that were determined to fall within the technical scope of the invention of Samsung Electronics (iPhone4 and iPad2 Wi-Fi + 3G model).

¹⁰ In this court case, the 5% aggregate royalty cap was adopted for the following two reasons. First, both Samsung Electronics and Apple Japan claimed the 5% aggregate royalty rate as a precondition. Second, many owners of the UMTS standard essential patents support the 5% aggregate royalty cap with a view to prevent the aggregate royalty from being excessively high.

¹¹ The specific figures for A, C, and D have not been disclosed.

33. With this calculation, the court determined the amount of royalty (E) under the FRAND terms to be 9,955,854 yen (approximately 71,100 euro).

3.3.2.2 Claim for damages not exceeding the amount of the FRAND royalty

34. As for the claim for damages not exceeding the amount of the FRAND royalty, the patentee should not be restricted from exercising such claim even where the patent is a Standard Essential Patent.

35. A party intending to engage in the manufacturing, sale, etc. of a UMTS standard-compliant product is presumed to have started its business understanding the necessity of paying the amount of the FRAND royalty in the future. In addition, as one of the purposes of the ETSI IPR Policy, Clause 3.2 thereof provides “IPR holders ... should be adequately and fairly rewarded for the use of their IPRs.” So, in this context as well, it is necessary to ensure that the patentee is adequately rewarded.

3.3.3 *Reference to the Antimonopoly Act*

36. Apple Japan alleged that the series of acts committed by Samsung Electronics constituted a violation of the Antimonopoly Act (unfair trade practices: other refusal to trade, discriminatory pricing, etc.). However, the court decision concludes that the claim for damages not exceeding the FRAND royalty does not substantially constitute a violation of the Antimonopoly Act.