April 10, 2018

Submitted via email (PA0A00@jpo.go.jp)

Legislative Affairs Office
General Coordination Division
Policy Planning and Coordination Department
Japan Patent Office
3-4-3 Kasumigaseki
Chiyoda-ku Tokyo 100-8915, Japan

RE: *Comments of ACT | The App Association in response to the Japan Patent Office's Draft* Guide to Licensing Negotiations involving Standard Essential Patents

ACT | The App Association (The App Association) writes in response to the Japan Patent Office (JPO) request for input on its draft Guide to Licensing Negotiations involving Standard Essential Patents (Draft Guidance).[1]

I. Statement of Interest and General Views of ACT | The App Association on Standard Essential Patents (SEP) Licensing

The App Association represents more than 5,000 small and medium-sized app development companies in the United States and around the world. Our association is committed to promoting innovation while developing robust standards and a balanced intellectual property system to accelerate the growth of technology markets. We applaud JPO for undertaking a public consultation on this important matter.

The App Association strongly supports JPO's efforts to provide clarity about the SEP licensing ecosystem. We agree that the rise of the internet of things (IoT) is poised to expose new markets and verticals to SEP licensing. We strongly urge the JPO to build upon existing, global-consensus guidance on the abuse of fair, reasonable, and non-discriminatory (FRAND) commitments and the effects of their abuse on competition and innovation.

[1] http://www.jpo.go.jp/torikumi_e/hiroba_e/eigo_iken_hyoujun_180308.htm.

A variety of market regulators have provided significant guidance regarding SEPs and FRAND licensing commitments; we urge the JPO to align with and build upon their guidance to support Japanese innovation and competition in the global market. Further, leading standard setting organizations (SSOs) like Institute of Electrical and Electronics Engineers (IEEE) have successfully revised their intellectual property rights (IPR) policy text to clarify technology contributors' FRAND commitments in ways that are consistent with such guidance. We believe the JPO's forthcoming guidance on the anticompetitive implications of breaches of FRAND commitments can increase competition by reducing IP abuse and deterring unnecessary and burdensome litigation. This will support greater ingenuity in the Japanese market.

Specifically, the App Association believes clarifications about the FRAND commitments are extremely beneficial to SEP holders, standard implementers, and consumers of technology. The negative effects of abusive SEP licensing can be particularly harmful to our members, which includes thousands of small and medium-sized enterprises (SMEs) that represent both SEP holders and standards implementers. These SMEs, which include many companies in Japan, often do not have the resources to deal with larger enterprises holding numerous SEPs. As a result, they face financially debilitating litigation with no predictable outcome or are forced to accept excessive royalty demands made by the SEP holders. In the worst case, the SME cannot afford litigation or expensive SEP licenses, they may be forced to change their product or abandon their business plan altogether. Patent licensing abuses pose a major threat to any industry that relies on standards in its innovation cycle. We believe the JPO's guidance will be essential to deter these abuses for innovators.

The convergence of computing and communication technologies will continue as a diverse array of industries come together to build IoT. A variety of market segments, including agriculture, transportation, and public safety, increasingly rely on the use of internet-connected sensors and devices. Open standards such as wi-fi, LTE, and Bluetooth make it possible for our members to create IoT devices and software that is interoperate across political and industry boundaries and transforms enterprise and government services for the better.

Unfortunately, a number of FRAND-committed SEP owners fragrantly abuse their unique opportunity and renege on their commitment to license in a fair, reasonable, and non-discriminatory manner. These practices threaten healthy competition and jeopardize the potential of nascent markets like IoT.

The patent policies developed by standard development organizations (SDOs) today will impact the way Japanese citizens work, live, and play for decades to come. These issues are important to app developers and emerging industries around the globe, and prompted the App Association to launch the All Things FRAND (http://www.allthingsfrand.com/) initiative. We encourage JPO to utilize All Things FRAND as a resource to better understand how regulators and courts around the world define the FRAND commitment.

SDOs vary widely based on their membership, the industries they cover, and the procedures for establishing standards.[2] Each SDO will need the ability to tailor its intellectual property policy to its particular requirements and membership. We do not believe that governments should prescribe detailed requirements for all SDOs to implement. However, as evidenced by the judicial cases and regulatory guidance posted on our All Things FRAND website, basic principles underlie the FRAND commitment to ensure standard-setting is pro-competitive and SEP licensing terms are in fact reasonable, fair, and non-discriminatory. Ideally, an SDO's IPR policy for SEP owners would include all the following principles that prevent patent "hold up" and anti-competitive conduct:[3]

- **Fair and Reasonable to All** – A holder of a SEP subject to a FRAND commitment must license such SEP on fair, reasonable, and non-discriminatory terms to all companies, organizations, and individuals who implement or wish to implement the standard.
- **Injunctions Available Only in Limited Circumstances** – Injunctions and other exclusionary remedies should not be sought by SEP holders or allowed except in limited circumstances. The implementer or licensee is always entitled to assert claims and defenses.
- **FRAND Promise Extends if Transferred** – If a FRAND-encumbered SEP is transferred, the FRAND commitments follow the SEP in that and all subsequent transfers.
- **No Forced Licensing** – While some licensees may wish to get broader licenses, the patent holder should not require implementers to take or grant licenses to a FRAND-encumbered SEP that is invalid, unenforceable, or not infringed, or a patent that is not essential to the standard.
- **FRAND Royalties** – A reasonable rate for a valid, infringed, and enforceable FRAND-encumbered SEP should be based on several factors, including the value of the actual patented invention apart from its inclusion in the standard, which cannot be assessed in a vacuum that ignores the portion in which the SEP is substantially practiced or royalty rates from other SEPs are required to implement the standard.

The App Association calls on the JPO to ensure that its future SEP licensing guidelines reflect the above principles. We remain committed to working with JPO to assist in

[2] U.S. Fed. Trade Comm'n & U.S. Dep't of Justice, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, at 33-34, footnote 5 (2007), *available at* https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-propertyrights-promoting-innovation-and-competition-report.s.department-justice-and-federal-tradecommission/p040101promotinginnovationandcompetitionrpt0704.pdf.

[3] "Principles for Standard Essential Patents" About AllThingsFRAND.com (explaining the FRAND commitment requirements.) http://www.allthingsfrand.com/about/about-allthingsfrand.com/

shaping draft guideline language on which the public can review and comment.

JPO has generously accepted comments in advance of the guidelines, on which the App Association provided its views.[4] Our comments below build upon those views.

II. ACT | The App Association's Specific Comments on the JPO's Draft Guidelines

Building on our comments above, we provide the following feedback on specific proposals and text in the Draft Guidance:

> In its Draft Guidance, JPO has acknowledged the inherent link between standard setting and competition and innovation, and the role of competition law in ensuring a balanced and fair SEP licensing ecosystem.[5] However, the App Association strongly encourages JPO to provide a much more complete discussion about the relationship between standard setting and competition law in Section I ("Purpose of the Guide") and elsewhere in the Guidance. JPO should reinforce its alignment with the global consensus that standard setting naturally gives rise to competition issues, and that competition law has a significant role in preserving the utility of the open standards system through ensuring fair access to patents essential to standards when an SEP holder has voluntarily made a commitment to license its SEP(s) on FRAND terms.
>
> We continue to encourage the JPO's guidelines be developed and released with the assistance of the Japan Fair Trade Commission (JFTC), whose guidelines are only mentioned in a footnote of the Draft Guidance.[6] As JPO notes, JFTC has updated its *Guidelines for the Use of Intellectual Property under the Antimonopoly Act*.[7] JFTC's guidance stated that a refusal to license, or bringing an injunction against a party who is "willing" to take a license based on FRAND terms, can be considered exclusionary conduct under Japan's Antimonopoly Act. The Guidelines indicate that a "willing" licensee will be judged on a case-by-case basis, based on the conduct of both negotiating parties. The JFTC clarified that a prospective licensee's challenge to the validity, essentiality, or infringement of the SEP(s) would not be grounds for labeling it an unwilling licensee, as long as it undertakes the negotiations in good faith considering standard business practices. It is essential that JPO move forward in coordination with JFTC as it addresses the SEP licensing ecosystem.

---

[4] http://actonline.org/wp-content/uploads/ACT-Comments-re-JPO-SEP-Licensing-Guidelines-final-111017.pdf.

[5] Draft Guidance at 4, 17-18.

[6] *Id*. at 1.

[7] *See* Guidelines for the Use of Intellectual Property under the Antimonopoly Act, Part 3, Section 1(i)(e) (January 21, 2016); *available at* http://www.jftc.go.jp/en/pressreleases/yearly-2016/January/160121.files/IPGL_Frand_attachment.pdf.

Clearer, coordinated rules for SEP licensing will allow for more informed participation and enable participants to make more knowledgeable decisions about the implementation of the standard. Since 1995, market regulators have taken numerous steps to provide this clarity in the SEP context and we urge the JPO to align with and build upon these important developments. Although different jurisdictions' guidance varies in detail, they do exhibit common licensing principles for FRAND-committed SEPs. In particular, one commonly shared guidance indicates that the following conduct can be a breach of the FRAND commitment, or even an abuse of competition law: refusing to license SEPs to standard implementers; coercing the licensee to accept a license of a non-SEP as a condition for the licensing of a SEP; requesting discriminatory terms for a SEP license; imposing an unreasonable level of royalties or other non-FRAND conditions; seeking or using injunctive relief against willing licensees that are able to pay a reasonable royalty; or imposing licensing conditions that unreasonably restrict the licensee's exercise of related patents it owns. This guidance does not, however, prescribe specific royalty rates for SEPs because of the highly fact-specific nature of SEP licensing. This approach would prevent regulators in emerging antitrust regimes from concluding that the JPO departs from well-established international norms, which we have summarized in an appendix to this document.[8]

- We remain concerned with the false differentiation being made by others before the JPO (and other policymakers) between "innovators" and "implementers" which seek to label companies with SEP licensing programs as "innovators" and those who utilize open standards (and the patents essential to such open standards) as "implementers." App Association members, which are both holders and licensees of SEPs, both contribute to the development of standards and use such standards to create and innovate in the market. With respect to the standards, both upstream and downstream inventions are important to the advancement and uptake of new products by end users, and we urge JPO to avoid assigning such labels or in favoring particular business models. We are encouraged by JPO avoiding making such a false dichotomy in its Draft Guidance and support such an approach.
- We appreciate JPO's discussion of injunctions in the Draft Guidance.[9] The App Association believes that, as JPO discusses, due to the SEP holder's voluntary undertaking of the FRAND commitment, injunctions and other exclusionary remedies should not be sought by SEP holders, or allowed, except in limited circumstances. Further, the implementer or licensee should always be entitled to assert claims and defenses.

[8] We urge JPO to view the appended summary of developments across key jurisdictions which JPO should align its Guidelines with.

[9] Draft Guidance at 17-18.

The JPO mentions injunctions in the context of acting in good faith, and discusses the European precedent created in *Huawei v. ZTE*.[10] We strongly urge the JPO to additionally include the fact that the JFTC's guidance states that a refusal to license, or bringing an injunction against a party who is "willing" to take a license based on FRAND terms, can be considered exclusionary conduct under Japan's Antimonopoly Act. Further, we urge for a similar reference to the JFTC's policy in the JPO's discussion of rights holders' actions that may be viewed as bad faith.

- The App Association urges JPO to recognize in its Guidance that, across key markets and in Japan, SEP holders' are required to offer licenses to "all third parties" on FRAND terms (i.e., "license for all"), and we urge the JPO to reject the "access for all" SEP licensing concept. It is well known that SEP holders increase their market power when their patent is incorporated into a standard, and because of their FRAND commitment, they cannot refuse a license to any willing third party. We note that, in the European Communication's recently-adopted Communication on SEPs,[11] the EC reiterated that the Court of Justice of the European Union (CJEU) has confirmed in the *Huawei* decision of 2015 that efforts "to grant licenses on FRAND terms creates legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licenses on such terms." SEP holders that refuse to offer FRAND licenses to willing licensees, particularly SMEs or competitors, present a clear threat to competition, innovation, and interoperability. Further, competition regulators from North America to Europe to Asia have either developed policies, or brought enforcement actions, based on the concept that SEP holders must offer FRAND licensees to *any* willing licensee. This approach has also been adopted by leading standard development organizations, including the European Telecommunications Standards Institute.[12] Despite this understanding, several select companies and organizations continue to push for embracement of the nebulous term "access for all" that would allow SEP holders to argue and defend a decision to refuse to license to some parties, even if their potential licensees were willing to negotiate on FRAND terms. We urge the JPO to align with the EC's judicious decision to confirm that SEP licenses must be made available to any willing licensee, including a competitor.

---

[10] Draft Guidance at 5-6.

[11] https://ec.europa.eu/docsroom/documents/26583.

[12] https://allthingsfrand.com/sep-licenses-available-to-all/

- The App Association urges the JPO to remove the following sentence from page 21's Footnote 41: "Objections to this amendment have been made by rights holders."[13] We make this recommendation because the sentence's addition to a statement of fact regarding IEEE-SA's policy clarification unduly undercuts the IEEE-SA patent policy clarifications which were legitimately made within the open and consensus rulemaking process of IEEE-SA. Further, the policy changes have not, as alleged by fringe voices, derailed the standards development processes or output of IEEE-SA.[14]
- The App Association notes its support for JPO's discussion regarding greater transparency for SEPs.[15] We agree that enhancing transparency of essentiality and validity of SEPs leads to more efficient licensing negotiations. We also note that many SDO IPR policies require SDO participants to disclose patents or patent applications that are, or may be, essential to a standard under development. Reasonable disclosure policies can help SDO participants evaluate whether technologies being considered for standardization are covered by patents. Disclosure policies should not, however, require participants to search their patent portfolios.
- We appreciate JPO's discussion of SEP royalty calculation factors in the Draft Guidance.[16] As representatives of small business innovators that rely on FRAND access to SEPs, we seek to avoid two well-established and deleterious effects[17] -- royalty stacking, when the cumulative demands for the patent threaten to make it economically unviable to offer, and patent hold-up. The App Association supports JPO issuing guidelines that do not establish royalty rates specific to FRAND commitments, but instead establish general principles to determine whether a proposed royalty or other licensing term is reasonable. The Draft Guidance provides summary and interconnections between Japanese court decisions and decisions from other key jurisdictions

  Regarding the "royalty base," JPO puts forward draft discussion of certain theories, including the "smallest saleable patent practicing unit" (SSPPU) theory. In earlier comments, we urged the JPO to avoid exclusive mandates regarding calculation of a royalty base, even though the SSPPU approach and others have emerged as a reliable basis for calculation.[18] We appreciate JPO's supportive discussion of the SSPPU pricing methodology as an approach to determining reasonable royalty base.

  We suggest that the JPO ensure clarity in its guidance that a reasonable rate for a valid, infringed, and enforceable FRAND-encumbered SEP should be based on

[13] Draft Guidance at 21.

[14] https://allthingsfrand.com/guest-post-ieees-continued-leadership-in-standardization/

[15] Draft Guidance at 27.

[16] Draft Guidance at 30-36.

[17] http://bit.ly/1QTIDYv.

[18] *E.g.*, *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1227 (Fed. Cir. 2014).

a variety of holistic factors, including the value of the actual patented invention, apart from its inclusion in the standard. This value cannot be assessed in a vacuum that ignores the portion in which the SEP is substantially practiced, or royalty rates from other SEPs to implement the standard. We appreciate JPO's discussion of valid factors including royalty rates of patent pools or other licenses, relative values of SEPs under negotiation to other SEPs, cumulative royalty rates, total numbers of SEPs, and negotiation histories, as well as other factors used in precedent-setting case law in other key jurisdictions such as the *Georgia-Pacific* factors,[19] as they are refined through further decisions.[20]

- The App Association notes its support for JPO's discussion of royalty stacking and its deleterious impacts on innovation.[21] The impacts of royalty stacking are particularly harmful to SME innovators that rely on open standards to compete in the market. We urge JPO to retain this discussion in its Guidance.

- The App Association appreciates JPO's discussion of "non-discriminatory royalties."[22] However, we strongly urge the JPO to avoid any endorsement of pricing schemes that would allow SEP royalty valuations to be based on (1) unconnected SEPs and other innovations brought into the standard development process by unrelated parties, and (2) the ingenuity of downstream innovators that depend on open standards to compete in the market. We note that the European Commission has rejected the "use-based pricing" model that would have allowed SEP holders to inflate license fees based on the value created by other innovators, or factors unrelated to the patent. In its current form, JPO's Draft Guidance would permit use-based pricing (e.g., its discussion under *Royalties for Different Uses*[23]).

  Use-based pricing is a market-distorting licensing model that clearly runs afoul of the FRAND commitment by allowing upstream actors (SEP holders) to determine the business practices of downstream actors (device manufacturers, software developers, etc.) through the licensing terms of their contracts. It forces willing licensees to provide commercial information about their customers as well. In some cases, use-based pricing approaches restrict to whom licensees can sell and in turn dictates the business model they must pursue.

  Use-based pricing impedes downstream innovation and undermines the Japanese app developer community's ability to grow and compete, ultimately harming Japanese consumers. Japanese law has always ensured that patents

[19] *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

[20] *E.g.*, *Microsoft Corp. v. Motorola, Inc.*, No. 10-cv-1823 (W.D. Wash.).

[21] Draft Guidance at 34.

[22] Draft Guidance at 37.

[23] Draft Guidance at 37-38. JPO states that "…in the ICT field, there are views that it is not discriminatory for a rights holder to apply different royalties for products that fully enjoy the capacity of the technology (e.g. self-driving car, remote surgery) and those that only use part of the capacity of the technology (e.g. smart meter) even if these products use the same standard technology."

be valued based on what they claim (i.e., what the inventor has invented). A new system which takes value from others' contributions to technical standards as well as downstream inventors, "gifting" that added-value to upstream SEP holders, is not only unfair, but it would also badly harm our members and their existing and future markets. Use-based pricing unfairly increases business costs for our members and for other companies participating in downstream markets, and it will undermine companies' ability to bring products to market as well as impede future growth prospects to scale-up into new IoT verticals.

To be clear, any form of endorsement for use-based pricing, even if included with other "pricing methodologies" in a well-intentioned attempt to reach a compromise, will upend the balanced SEP licensing environment that the JPO is seeking to develop through this Guidance. Moreover, any endorsement of use-based pricing by the JPO will place our Japanese member companies in a position where they are unable to compete with those located in jurisdictions outside of Japan. If use-based pricing practices are permitted, the Japanese consumer will ultimately suffer due to lack of market choice and higher prices. Finally, we are also concerned that proponents of use-based licensing approaches plan to use any positive reference to use-based licensing in the text of this Guidance to legitimize this approach as a market baseline.

It is more important than ever that the JPO ensure that its Guidance clearly and unambiguously rejects use-based licensing practices and furthers a balanced and fair SEP licensing ecosystem. We therefore request that the JPO remove the subsection titled *Royalties for Different Uses*.

III. **Conclusion**

The App Association thanks JPO for seeking input on its Draft Guidelines. We look forward to assisting JPO on this critical effort. Please do not hesitate to contact us with any questions.

Sincerely,

Brian Scarpelli
Senior Global Policy Counsel
ACT | The App Association

APPENDIX

Further SEP FRAND licensing-related guidance from policymakers include, but are not limited to, the following:

Canada

In March 2017, the Canadian Bureau finalized revisions to IP enforcement guidelines that define breaches of FRAND commitments as a competition issue for the first time.[24] The IP guidelines note that (i) bundling of SEPs and non-SEPs can cause competitive harm; (ii) there are only limited circumstances under which SEP holders can obtain injunctive relief; (iii) while contract law may be sufficient to resolve contractual breaches of FRAND, competitive effects from some breaches may need to be addressed under competition law; and (iv) the Bureau is not a rate regulator and would likely only find a royalty rate alone (without the accompanying threat / use of injunctive relief) to be a competition problem if the SEP owner had set a maximum rate during standard development and then breached it. The Bureau acknowledges in its guidelines that rapid developments continue in competition enforcement policy, so the Bureau will regularly revisit its guidance in light of relevant developments.

China

- On February 9, 2015, China's National Development and Reform Commission ("NDRC") issued an administrative penalty decision against Qualcomm, Inc. The NDRC determined that several aspects of Qualcomm's licensing of telephony SEPs constituted an abuse of a dominant position.[25] The specific practices deemed to be unlawful were: (i) charging royalties for expired SEPs, (ii) conditioning SEP licenses on licensees' agreement to take licenses to other Qualcomm patents that were not SEPs ("non-SEPs"), (iii) requiring SEP licensees to grant back royalty-free licenses to their non-SEPs, (iv) imposing a "relatively high royalty" calculated on a device-level royalty base, and (v) requiring baseband chip purchasers to agree to licenses with unreasonable conditions such as the ones listed above and not to challenge Qualcomm's licenses.

- China's State Administration for Industry and Commerce issued a Regulation on Prohibiting Abuse of Intellectual Property Rights to Eliminate or Restrict Competition on April 7, 2015.[26] The regulation prevented SEP holders with a dominant market position from engaging in conduct that eliminates or restricts competition by refusing to license implementers, tying SEPs to non-SEPs, or imposing other unreasonable conditions in violation of the FRAND commitment.

---

[24] http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04031.html.

[25] National Development and Reform Commission, [2015] Administrative Penalty Decision No. 1, February 9, 2015, http://jjs.ndrc.gov.cn/fjgld/201503/t20150302_666170.html.

[26] http://bit.ly/2zrGDcX.

European Union

- The European Commission's guidelines regarding horizontal co-cooperation agreements, published in 2011, discuss the anticompetitive threat of patent "hold up" in the SSO context and the importance of the effective use of FRAND commitments in combating that threat. [27] "While a standard is being developed, alternative technologies can compete for inclusion in the standard. Once one technology has been chosen and the standard has been set, competing technologies and companies may face a barrier to entry and may potentially be excluded from the market." (Par. 266). This characteristic of standard-setting presents the potential of enabling "companies to behave in anti-competitive ways, for example by 'holding-up' users after the adoption of the standard either by refusing to license the necessary IPR or by extracting excess rents by way of excessive royalty fees thereby preventing effective access to the standard." (Par. 269). To avoid this anticompetitive outcome, the guidelines stress that SSOs should adopt IPR policies that "require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms ('FRAND commitment')." (Par. 285). The Commission points out that "FRAND commitments can prevent IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable fees (in other words excessive fees) after the industry has been locked-in to the standard or by charging discriminatory royalty fees." (Par. 287). In case of a dispute involving a FRAND commitment, "the assessment of whether fees charged for access to IPR in the standard-setting context are unfair or unreasonable should be based on whether the fees bear a reasonable relationship to the economic value of the IPR." (Par. 289). Because FRAND commitments are voluntary, however, IPR holders should be permitted "to exclude specified technology from the standard-setting process and thereby from the commitment to offer to license, providing that exclusion takes place at an early stage in the development of the standard." (Par. 285).

- In the European Commission's market testing in December 2012 of a set of proposed commitments offered by Rambus to license its SEPs on reasonable terms, some respondents expressed the concern that Rambus would seek to "extract royalties based not on the price of the individual chips or controllers, but on the value of the end-product (such as PCs, mobile phones and other devices integrating DRAMs), even if the licensed technologies only represent a small percentage of such end-products." In response, the Commission made clear that the "royalty shall be determined on the basis of the price of the individually sold chip and not of the end-product. If they are incorporated into other products, the individual chip price remains determinative".[28]

[27] Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreement, Par. 285 (Jan. 14, 2011).

[28] http://ec.europa.eu/competition/antitrust/cases/dec_docs/38636/38636_1203_1.pdf

- On April 29, 2014, The European Commission issued a decision in which it determined that "Motorola Mobility's seeking and enforcement of an injunction against Apple before a German court on the basis of a smartphone SEP constitutes an abuse of a dominant position prohibited by EU antitrust rules".[29] The Commission explained that FRAND commitments are "designed to ensure effective access to a standard for all market players and to prevent 'hold-up' by a single SEP holder." The Commission determined that seeking an injunction against a willing licensee of a FRAND-encumbered SEP "could risk excluding products from the market" and "lead to anticompetitive licensing terms that the licensee of the SEP would not have accepted absent the seeking of the injunction. Such an anticompetitive outcome would be detrimental to innovation and could harm consumers." On the same day, the Commission issued a press release on the case that provided further guidance, including the point that (i) the licensee can challenge the validity, essentiality or infringement of SEPs and still be considered a "willing" licensee; and (ii) the specific rate of a reasonable royalty should be determined by courts or arbitrators.

- On April 29, 2014, the European Commission formally accepted commitments from Samsung to not seek injunctions on FRAND-encumbered SEPs for smartphones and tablets against licensees that agree to an approved licensing framework.[30] This framework gave licensees the choice of having a reasonable royalty rate and other FRAND terms determined by a court or, if both agree, by an arbitrator. The Commission also iterated the same principles that it stated in connection with the Motorola case described above.

- Based on an identified need for a clear, balanced and reasonable policy for SEPs in the European Union with the aim of contributing to the development of the Internet of Things and harnessing Europe's lead role in in this context, on November 27, 2017 the EC released a Communication titled *Setting out the EU approach to Standard Essential Patents*.[31] The Communication sets out "key principles that foster a balanced, smooth and predictable framework for SEPs. These key principles reflect two main objectives: incentivising the development and inclusion of top technologies in standards, by preserving fair and adequate return for these contributions, and ensuring smooth and wide dissemination of standardised technologies based on fair access conditions." We note that the App Association played a key role is shaping this guidance, and has publicly provided insights into key areas of agreement we share with the EC, including but not limited to: transparency on SEP exposure, general principles for FRAND licensing of SEPs, and other areas.[32]

---

[29] http://europa.eu/rapid/press-release_IP-14-490_en.htm\

[30] http://europa.eu/rapid/press-release_IP-14-490_en.htm

[31] https://ec.europa.eu/docsroom/documents/26583.

[32] https://allthingsfrand.com/european-commission-communication-setting-out-the-eu-approach-to-standard-essential-patents/.

Republic of Korea

- In December 2014, the Korean Fair Trade Commission (KFTC) revised its Guidelines on the Unreasonable Exercise of Intellectual Property Rights to address breaches of FRAND commitments as a competition law matter.[33] According to the KFTC, the following licensing practices by SEP holders may be deemed to be abusive:
  - Coercing the licensee to accept a license of a non-SEP as a condition for licensing a SEP;
  - Not disclosing patents applied for or registered to increase the possibility of one's technology being standardized or to avoid prior consultations on license conditions;
  - Unreasonably refusing to license the SEP;
  - Not licensing the SEP on FRAND terms so the patentee can strengthen its monopoly power or exclude competitors in the relevant market;
  - Requesting discriminatory terms for a SEP license, or imposing an unreasonable level of royalties;
  - Imposing licensing conditions that unreasonably restrict the licensee's exercise of related patents held by the licensee;
  - Seeking injunctive relief unless (i) the potential licensee refuses to enter into a license agreement on FRAND terms objectively confirmed in proceedings in a court or an arbitration forum, or (ii) a willing licensee is unable to pay damages due to imminent bankruptcy, etc.; or
  - Unreasonably imposing licensing conditions that require a cross-license of non-SEPs held by the licensee. (See Section III.3.A, B & D(5)).

  The KFTC also indicated that a FRAND commitment obligates SEP holders to negotiate in good faith with willing licensees, and listed various factors to help the agency make that determination.

[33] http://bit.ly/2jdxbUa.

- In December 2016, the KFTC issued a decision imposing sanctions against Qualcomm Incorporated in the amount of 1.03 trillion Korean Won (approximately $865 million USD) for alleged violations of Korean competition laws.[34] After conducting a comprehensive investigation that spanned for more than a year and issuing its examination report to Qualcomm on November 13, 2015, the KFTC found that Qualcomm, an SEP holder, breached its FRAND commitments when engaging in licensing agreements with certain companies. The Seoul High Court subsequently denied a stay of the Corrective Order.

<u>United States</u>

- In 2011, the U.S. Federal Trade Commission (FTC) issued a report entitled *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (2011), in which the FTC addresses the issue of a reasonable royalty for FRAND-encumbered SEPs and recommends that "[c]ourts should cap the royalty at the incremental value of the patented technology over alternatives available at the time the standard was chosen".[35] The FTC explains that setting the royalty for a FRAND-encumbered SEP "based on the ex-ante value of the patented technology at the time the standard is chosen is necessary for consumers to benefit from competition among technologies to be incorporated into the standard – competition that the standard setting process itself otherwise displaces." The FTC also addresses the question of the appropriate royalty base in patent cases and recommends that "[c]ourts should identify as the appropriate base that which the parties would have chosen in the hypothetical negotiation as best suited for accurately valuing the invention. This may often be the smallest priceable component containing the invention." According to the FTC, "the practical difficulty of identifying a royalty rate that accurately reflects the invention's contribution to a much larger, complex product counsels toward choosing the smallest priceable component that incorporates the invention."

- The U.S. Department of Justice (DOJ) and Federal Trade Commission issued a report in 2007 entitled *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, which discusses various way to minimize patent holdup, including SEP disclosure policies, FRAND undertakings, and *ex ante* disclosure of licensing terms.[36]

---

[34] http://bit.ly/2hoADuI.

[35] https://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf

[36] https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf

- The U.S. Federal Trade Commission issued a Decision and Order in 2013 accompanying its challenge to an injunction sought by Google's Motorola Mobility Division, which sets forth in detail procedures that a declared SEP holder must undertake before it may seek an injunction or other exclusionary relief based on a SEP and makes clear that a potential licensee may challenge infringement, validity, and enforcement of a declared SEP before being ordered to pay a royalty.[37]

- In August 2013, the U.S. Trade Representative (USTR), acting on behalf of the President of the United States, overturned a U.S. International Trade Commission ruling that would have issued (i) an exclusion order (similar to an injunction) prohibiting importation of Apple products into the United States that purportedly infringed Samsung SEPs; and (ii) a cease and desist order that would have prevented Apple from engaging in certain activities, such as the sale of these products in the United States.[38] The USTR decision included substantial discussion of the policy reasons for disallowing the exclusion order.

- In January 2013, the U.S. Department of Justice and U.S. Patent and Trademark Office issued the Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, which recognizes the harms of patent hold up and explains that FRAND commitments are designed as a solution to that problem that benefits both standard implementers and SEP holders.[39] The policy statement reasons that FRAND commitments may be incompatible with injunctive relief: "A decision maker could conclude that the holder of a F/RAND-encumbered, standards-essential patent had attempted to use an exclusion order [a form of injunctive relief] to pressure an implementer of a standard to accept more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment—in essence concluding that the patent holder had sought to reclaim some of its enhanced market power over firms that relied on the assurance that F/RAND-encumbered patents included in the standard would be available on reasonable licensing terms under the SDO's policy." However, such relief may be appropriate in some circumstances, "such as where the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder's commitment to license on F/RAND term" or "is not subject to the jurisdiction of a court that could award damages."

[37] https://www.ftc.gov/sites/default/files/documents/public_statements/statement-commission-regarding-consent-agreement-google/motorola/130103brillgooglemotorola-sep-stmt.pdf

[38] https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF

[39] https://www.justice.gov/sites/default/files/atr/legacy/2014/09/18/290994.pdf

- The U.S. Department of Justice issued a detailed response in February 2015 to a "Business Review Letter" request from the IEEE seeking guidance on its updated patent policy.[40] The DOJ's response addressed several important aspects of SEP licensing, including injunctive relief, reasonable royalty rates, availability of FRAND licenses to standard implementers at all levels of the production chain, and reciprocal licenses. DOJ found the IEEE revised patent policy discussed earlier to be consistent with U.S. law.

- In 2017, the FTC brought an enforcement action in the U.S. District Court for the Northern District of California against Qualcomm, asserting that Qualcomm violated competition law in its mobile phone chip licensing practices.[41] This enforcement action is significant in seeking to provide clarity about what constitutes FRAND behavior. The FTC alleged Qualcomm's behavior was due, in part, to its dominant position in the chip manufacturing market. Qualcomm makes the lion's share of Code Division Multiple Access (CDMA) and premium LTE chips, which are essential components to nearly every cell phone. According to the FTC, Qualcomm either refused licenses, or threatened device manufacturers with the withholding of access, to those necessary chips unless licensees agreed to pay exorbitant royalty fees. The FTC described this as an anticompetitive "no license-no chips" policy, which allowed Qualcomm to obtain royalties significantly higher than those suggested within their FRAND obligation. This case continues to be litigated in the U.S. federal court system.

More detailed summaries of the regulatory initiatives listed above and links to them are available on http://www.allthingsfrand.com/letters-statements/regulatory/.

[40] https://www.justice.gov/atr/response-institute-electrical-and-electronics-engineers-incorporated

[41] http://bit.ly/2hseOdv.