

# 1 The Exercise of Essential Patents for Standards

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*If the holder of a patent that is essential for a standard (“essential patent”) seeks an injunction on the grounds that the patent was infringed, it would make it practically impossible for the companies that have been conducting business in compliance with the standard to continue their business despite the capital investment that they have made so far. The exercise of such right would place those companies in a highly disadvantageous position against the patent holder, negatively affecting the future company management and the diffusion of the standard itself in some cases. In the field of telecommunications, in particular, there have been some pending lawsuits over the issue of whether the holder of an essential patent should be permitted to seek an injunction. In this technical field, there is an urgent need for determining the approach to these cases over essential patents.*

*Some people started arguing that the exercise of the right to seek an injunction should be limited in certain cases. Previous research has shown that opinions have been divided over whether such limitations should be imposed or not. In order to explain the current situation in Japan, I will (1) present the results of a study on domestic cases and the results of a domestic questionnaire survey and a domestic interview survey, (2) identify the issues that could arise when the holder of an essential patent seeks an injunction in the field of telecommunications, etc., (3) examine the relationships between patent rights and the competition law (antimonopoly law) in the field of telecommunications, etc., and (4) analyze various issues pertaining to the management of standards bodies.*

## I Introduction

### 1 Background and purpose of this study

If the holder of an essential patent (patents that are essential for the production of goods or the provision of services in compliance with standards) seeks an injunction on the grounds that the patent was infringed, it would make it practically impossible for the companies that have been conducting business in compliance with the standard to continue their business despite the capital investment that they have made so far. The exercise of such right would place those companies in a highly disadvantageous position against the patent holder, negatively affecting the future company management and the diffusion of the standard itself in some cases.

In the field of telecommunications, in particular, there have been some pending lawsuits (judgments were already handed down for some of them) over the issue of whether the holder of an essential patent should be permitted to exercise the right to seek an injunction. In this technical field, there is an urgent need for determining the approach to these cases over essential patents.

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limitations should be imposed or not.

In order to explain the current situation in Japan, I will (1) present the results of a study on domestic cases and the results of a domestic questionnaire survey and a domestic interview survey and (2) identify the issues that could arise when the holder of an essential patent seeks an injunction in the field of telecommunications, etc.

### 2 Current situation in Japan

According to the results of the domestic questionnaire survey, many respondents replied that certain limitations should be imposed on the ability of the holder of an essential patent to seek an injunction. In particular, many respondents commented that such limitations would be desirable if the patent holder commits a wrongful act (e.g., keeping some patent applications secret) or changes the licensing conditions (e.g., changes in non-discriminatory terms) in the course of standardization process.

When asked about the scope of the FRAND declaration, the respondents were divided into three groups by answering: (1) only the member companies of the standardization body, (2) the member companies of the standardization body and the companies that were involved in the standardization process (member companies as well as non-member companies), or (3) any and all companies.

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(\*) This is an English translation of the summary of a FY2011 Institute of Intellectual Property (IIP) research study report.

## **II Issues Pertaining to the Exercise of Essential Patents**

### **1 Introduction**

In Chapter II, based on the information presented in Chapter I, each Section examines the issues pertaining to the exercise of essential patents. As a basis for discussions in this Chapter, the deliberations at the research committee were summarized. These summaries were prepared from the following five perspectives: (1) the benefits of the exercise of essential patent rights (a need for limitations on patent rights), (2) the principle of limitations on patent rights (permissibility of the limitations on patent rights), (3) the means of limiting injunctive relief (the theory of requirements), (4) the effect of the FRAND declaration (the relationships between the FRAND declaration and the limitations on the exercise of the right to seek an injunction), and (5) the relationships between the limitations on the injunctive relief and a monetary claim. In each Section of this Chapter, detailed discussions were made from these five perspectives.

### **2 Standardization from the perspective of corporate benefits and national policies**

This Section, “Standardization from the perspective of corporate benefits and national policies,” examines the political factors of standards with reference to a recent report issued by the Information and Communications Council. This report proposes the future direction of the Japanese standardization policy in consideration of the recent trends such as rapid technical development including digitalization, a change in the “platform” of standardization as shown in the transition from *de jure* standards to forum standards, rising awareness of the so-called Galapagos effect, and changes in the standardization policies of other countries.

This Section explains and addresses the four issues that were discussed in the process of the preparation of this report. These four issues are: (1) the need for taking consumer interests into consideration in the course of the standardization process, (2) the importance of ensuring that Japanese technologies (developed by Japanese companies) are adopted as standards, (3) a shift in the primary layer of standardization from infrastructures to applications and content, and

(4) the government’s involvement in standardization activities.

Based on the results of the examination of these four issues, this Section points out that standardization policies should be devised to serve as both competition policies and industrial policies. The goal of standardization policies as competition policies is to create competition by setting technical standards in order to benefit consumers (users). On the other hand, the goal of standardization policies as industrial policies is to take political initiative in leading standardization activities in order to ensure the benefits of Japanese companies. The government of each country is trying to find an appropriate balance between competition policies and industrial policies, by limiting or promoting standardization activities. This Section argues that it is necessary to recognize and evaluate these political perspectives before determining the future direction of the intellectual property laws in connection with essential technologies.

(Soichiro KOZUKA)

### **3 Standardization and patent rights Legal issues concerning the application of the RAND provisions**

Standardization organizations use the RAND provisions (Reasonable And Non-Discriminatory) or the FRAND provisions (Fair, Reasonable And Non-Discriminatory) in order to ask each company hoping to participate in the standardization process to contribute the technologies for which they have obtained or will obtain patents and to license them under reasonable and non-discriminatory terms. In other words, the purpose of these provisions is to minimize the risk of the occurrence of the tragedy of the anticommons.

In many cases, standardization activities involve companies from all over the world. Consequently, the issue of governing law has arisen, i.e., which country or jurisdiction has legal authority to settle disputes over legal issues such as the effect of RAND provisions adopted by a standardization organization. The general contract adopted by standardization organizations designates the governing law applicable to such disputes. However, it is still controversial whether the governing law designated by a standardization organization is effective against any person.

If a trial is held in Japan, a judgment would be made under the Japanese law as to what kind

of effect the RAND provisions would have on the users of the standardized technologies, who are third parties to the contracting parties, and under what conditions those provisions have such effect. In this case, the applicability of Article 537 of the Japanese Civil Code should be carefully examined because this is the provision regulating contracts for the benefit of third parties. The RAND provisions are countermeasures against problems accompanying any standardization process, e.g., the tragedy of the anticommons and the problem of hold-up in particular, and are indispensable for smooth transactions.

On the other hand, the RAND provisions do not impose any additional burdens on the beneficiaries, i.e., the users of standardized technologies. The RAND provisions are interpreted as an agreement concluded for third parties. Such an agreement is concluded between the patent holder (promisor) and the standardized organization (promisee) for the users of standardized technologies (beneficiaries).

Even if this interpretation is adopted, it is still controversial whether the RAND provisions grant each beneficiary a non-exclusive license or merely oblige the patent holder to have good faith negotiations with beneficiaries. Under the 2011 revision of the Patent Act, it is important to determine whether the RAND provisions should be interpreted as an agreement that is concluded for third parties in order to grant them a non-exclusive license or as an agreement that merely obliges the patent holder to have good faith negotiations with beneficiaries. If a non-exclusive license is granted to a beneficiary, the beneficiary is entitled to assert the license against a new assignee. If only regular contractual relationships such as the one involving the obligation for good faith negotiations are established, such contractual relationships cannot be asserted to a new assignee. Therefore, this distinction is crucial.

(Yoshiyuki TAMURA)

#### **4 Limitations on the right to seek an injunction — the conclusion of a theoretical study and possible solutions for practical issues pertaining to standardized technologies**

The exercise of a patent right that is essential for a technical standard raises some practical issues. It is unfortunately the case that some patent holders commit a wrongful act or change or waive licensing conditions in the middle of the standardization process. Against

this background, deeply concerned about issues that tend to arise when a patent holder exercises the patent right, especially the right to seek an injunction, which could have the greatest effect on third parties, I examined, from a theoretical perspective, the possibility of limiting the exercise of such a right. Furthermore, on the assumption that it is theoretically possible to impose such limitations, I examined what kinds of legal grounds those limitations have and how the limitations should be implemented.

A theoretical study on the limitations on the injunctive relief was conducted from the following two perspectives: the perspective of economic efficiency and the perspective of patent history. The conclusion drawn from the study is that, even if infringement of a valid patent right has occurred from the perspective of formality, it is theoretically impossible to completely permit, on the mere grounds that the patent right exists, the exercise of the right to seek an injunction. This is fundamentally different in nature from the view that, even though the right to seek an injunction is exercisable against any act of patent infringement in principle, the right to seek an injunction may be limited under certain circumstances as long as the doctrine of "abuse of right" is found applicable.

The exercise of the right to seek an injunction in the context of the establishment of technical standards has the following characteristics. First, the patent holder has some relationship with the standardization group or activities in many cases. Second, from the perspective of whether the patented invention or any related technology has ever been worked, it is impossible to conclude, with absolute certainty, that it has never been worked. These characteristics should be taken into consideration in the course of the establishment of the requirements for imposing limitations on the injunction.

The last issue that has to be addressed is how the system of limiting the injunction should be implemented within the framework of law. From the perspective of interpretation of the current Act, such implementation would be rather difficult if the Act is literally interpreted. Even if such implementation is theoretically possible, it is still necessary to discuss how specific requirements or other factors should be determined. From the perspective of legislation, options seem to be limited to the following two approaches: stipulating highly abstract requirements for the exercise of the right to seek

an injunction or stipulating, with a certain level of clarity, the factors that should be taken into consideration when the exercise of the right to seek an injunction is permitted. I have come to the conclusion that, at least, it would be reasonable to further consider the idea that two factors, i.e., the extent of damage that the infringement has caused to the patent holder and the balance of burdens between the patent holder and the infringer, should be taken into consideration.

It takes a long time to establish a legal theory to limit the exercise of the right to seek an injunction. It would be beneficial to explore different approaches to solve practical issues concerning technical standards.

(Ryuta HIRASHIMA)

## **5 Use of the compulsory license system**

While the Japanese Patent Act has provisions concerning compulsory licenses (Articles 83, 92, and 93 of the Patent Act), there have been no cases where a ruling for a compulsory license was handed down. So far, any request for such a ruling was withdrawn before a ruling was made.

In the case of an essential patent for a technical standard, the most likely scenario is the grant of a compulsory license for the public benefits (Article 93 of the Patent Act). However, it should be noted that the public benefits of the goods, etc., involved in a particular case are not the same as the public benefits of mandatory standards or voluntary standards. The case where an injunction is handed down against the production, sale, etc., of the goods disputed in a particular case does not necessarily fall under a case where “the working of a patented invention is particularly necessary for the public interests” as specified in Article 93, paragraph (1) of the Patent Act. Another issue would be how to calculate the royalty as compensation for the grant of a compulsory license.

In many cases, the owner of an essential patent is a non-practicing entity (NPE). Therefore, it is possible to use a compulsory license for an invention that is not worked by the right holder (Article 83 of the Patent Act). However, if a patented invention is not worked because the patent holder has made a business decision to withdraw from the business, it would be impossible to consider that “reasonable grounds” specified in Article 85, paragraph (2) of the Patent Act do not exist.

Under the Japanese law, administrative

organs (the JPO Commissioner or the Minister of Economy, Trade and Industry) are entitled to grant compulsory licenses. In some other countries, judicial organs are entitled to grant compulsory licenses. In China, there were some infringement lawsuits where the court that found patent infringement ordered payment of a certain amount of fee instead of granting an injunction.

As described above, some other countries have a system that permits the filing of a request with a judicial organ to seek a ruling for a compulsory license. In light of the fact that the compulsory license system is rarely used in Japan, it would be beneficial to study such system from a legislative perspective.

(Kotaro KIMURA)

## **III Abusive exercise of a patent right in the course of standardization process for telecommunications technologies**

The purpose of the antimonopoly law is to prevent and remove the adverse effects of monopoly, and create and maintain a competitive economic environment. On the other hand, the purpose of the intellectual property systems is to permit the monopoly of information in order to protect the interests of the information creator, and thereby increase the incentive for invention and creation, and promote industrial development. The creation of a competitive environment and the protection of creative activities such as invention are both aiming to further develop the national economy. For this reason, these two approaches are compared to the two wheels at the ends of an axle, heading in the same direction.

In reality, however, the direction is different between the two approaches in many cases. Sometimes, they conflict each other. This raises the issue of how they should be adjusted. This issue has recently emerged in the form of whether it is possible to raise a defense of violation of the antimonopoly law against the party exercising an IP right and to limit the exercise of the right.

The Japanese antimonopoly law specifies that, “The provisions of this Act shall not apply to such acts recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act, or the Trademark Act” (Article 21 of the antimonopoly law). If the circumstances of a particular case satisfy the requirements specified in an

intellectual property law, it would be regarded as a case of the “legitimate exercise of a right,” which is exempted from the antimonopoly law. While this provision has been interpreted in various ways, it is not always easy to find a delicate balance between the value principle of the antimonopoly law and that of the IP systems.

In recent years, the U.S. has been trying to restrict the formation, maintenance, and reinforcement of an unlawful monopoly by misuse of a patent right because there has been an increasing number of cases where a patent right is exercised in a wrongful way in the course of the standardization process for telecommunications technologies. In light of this situation in the U.S., I examined the relationships between telecommunications technologies and the competition law (antimonopoly law), more specifically, between patent rights and the competition law.

(Shuya HAYASHI)

#### **IV Issues Concerning the Management of Standardization Organizations**

This Chapter, “Issues Concerning the Management of Standardization Organizations,” examines the Association of Radio Industries and Businesses (ARIB) as an example, explaining the outline of the activities and management of the standardization organization, the policy of intellectual property rights pertaining to standards, and the declaration process.

This Chapter classifies the telecommunications standards into three groups: *de jure* standards, forum standards, and *de facto* standards, and shows into which group the ARIB standards are categorized.

Regarding the activities and management of the standardization organization, this Chapter covers the history and the recent developments of the ARIB, the outline of the standardization projects and activities of the ARIB, the organizational structure, the workflow of standardization, the outline of the ARIB voluntary standards and their relationships with the national mandatory standards. This Chapter describes what kind of intellectual property policy and declaration process the ARIB Standard Assembly has adopted for voluntary standards. This Chapter also presents the history of the intellectual property policy jointly adopted by ITU, ISO, and IEC.

Lastly, this Chapter addresses various issues

concerning the management of standardization organizations, which have been dealing with the diversification of technologies subject to standardization.

(Kouhei SATO)

#### **V Conclusion**

This paper examines, from new perspectives, cases where the holder of an essential patent exercises the right to seek an injunction. This paper also identifies issues and proposes possible solutions from a legal perspective. This Chapter will supplement the previous Chapters by analyzing the issues from an economic perspective and calling for further study on some points.

First, it is important to understand why lawsuits where the holder of an essential patent exercises the right to seek an injunction are increasing in importance. As shown in this paper, cases where the holder of an essential patent exercises the right to seek an injunction have been increasing both in and outside Japan. These cases have been receiving growing interest from Japanese companies. The United States Department of Justice recently (February 2012) completed a study as to how competition is affected by the corporate mergers and patent acquisitions conducted by Apple, Microsoft, and Google. The primary focus of this study was to find whether the essential patents of Motorola Mobility and Nortel, which were chosen as targets of such mergers, would continue to be licensed under the RAND terms. The study concluded that the market competition in the radio equipment industry, which manufactures mobile phones, PCs, tablet computers, etc., would be greatly affected by whether the holder of an essential patent is permitted to seek an injunction. The growing importance of essential patents is attributable to the facts that the rapid spread of the Internet has made it very important to accumulate, communicate, and process information in accordance with standardized systems, that standard technologies are developed based on the patented achievements of innovative activities, and that patent holders, most of which used to be manufacturing companies, have been diversified into patent management companies and other non-practicing entities (NPEs: Companies that own patents but do not work the patented inventions).

Second, the role and negative side of the right to seek an injunction need to be clarified.

The right to seek an injunction plays an indispensable role in having the royalty reflect the economic value of a patented invention. The economic value of an invention lies in the discrepancy between the economic value gained without the invention and the economic value gained with the invention. The very existence of the right to seek an injunction forces the licensor and the licensee to have negotiations to reflect the discrepancy in the royalty. Moreover, the existence of the right to seek an injunction encourages a person who hopes to exercise another person's patent right to conduct license negotiations with the patent holder in advance in order to obtain a license. In this sense, the existence of the right to seek an injunction functions as a system to ensure compensation for inventions. In view of the fact that patent applications and registered patents are open to the public, if the system of damages were the only option, the right holder would be unable to receive any compensation unless the right holder demands damages. It would be difficult for the right holder to secure sufficient compensation for the invention. This function of the right to seek an injunction is important regardless of whether the right holder is a company or an NPE.

However, in an environment where the number of essential patents is very high, the right to seek an injunction would not properly function as a system to reflect the economic value of an invention in the royalty because of the following two reasons. First, the exercise of an essential patent could block the use of a technical standard as a whole. Therefore, the fact that each patent holder is entitled to seek an injunction could make it possible for patent holders to demand an excessively high royalty relative to the actual value of the patent. Such excessive royalties for essential patents would, if accumulated, excessively deter the use of standards as a whole. Second, it is not always the case that an essential patent for a standard is recognized and licensed through negotiations before the user that hopes to use the standard starts investing in the business that requires the use of the standard. If the holder of an essential patent for a standard starts licensing after the standard becomes widely adopted, there is a risk that the patent holder could demand an excessive royalty. Companies tend to consider a license for an essential patent to be indispensable even if they have to pay an expensive royalty. This is attributable to the facts that, even if an injunction is issued, it is difficult for the company to

circumvent infringement by making technical changes and that the company, which has made a large amount of capital investment for the use of the standard, does not want to see the investment become a sunk cost.

In light of this risk, as a custom in the standardization process, a standard is adopted only after the holder of an essential patent agrees to license the patent under the RAND terms. However, even if each patent holder agrees to grant a license under the RAND terms, it would not guarantee that the total of the royalties for all of the essential patents is reasonable. It is often the case that essential patents are not finalized at the time when the standard is established. In many cases, some of the companies that participate in the standardization process do not disclose essential patents. There is also a possibility that some essential patents are owned by third parties. In some cases, a patent is not essential even if the patent holder claims it is. In the case of an essential patent that is included in a cross license pool, the patent holder does not necessarily designate the essential patent and demand the conclusion of a license agreement in advance. Due to these circumstances, it is difficult for a company hoping to use a technical standard to obtain a license for every essential patent for the standard before investing in the business that requires the use of the standard.

Even if an essential patent is recognized ex post, the right to seek an injunction would not be exercised if the patent holder agrees to grant a license under the RAND terms. However, in reality, many ex-post lawsuits to seek an injunction were filed in and outside Japan. Further study is necessary to find the reasons for this phenomenon. One of the possible reasons may be the insufficient information disclosure or insufficient prior patent searches (e.g., a case where a patent holder did not disclose patent information on purpose in the course of the standardization process and sought an injunction ex post or where a third party whose patent was not found in a patent search sought an injunction). Other possible reasons are as follows. First, in the case where an essential patent is transferred from one company to another, if the new patent holder considers that the transferred obligations do not include the obligation to grant licenses under the RAND terms, the new patent holder could exercise the right to seek an injunction as leverage to demand an expensive royalty. Second, if a patent is transferred from a company using a patent in business to a non-practicing entity

(NPE) such as a patent management company, the NPE would have greater bargaining power thanks to the right to seek an injunction and may therefore exercise the right in order to have the royalty reflect the increased power. Third, even if a patent holder agrees to grant licenses under the RAND terms, since the details of the license for the patent are unclear, the patent holder could demand a royalty that is expensive from the viewpoint of users.

There are many other issues that need further research. First, it is necessary to examine how much royalties a user of a technical standard has to pay in total and whether the accumulated total of royalties is excessive or not. The patent pool system and the cross license system have been used in an effort to lower the accumulated royalties. Therefore, it is also important to examine what effect these systems have on the royalties. Second, it is also important to examine cases that are subject to legal proceedings and find when essential patents were recognized, in particular, whether essential patents were recognized in the course of the standardization process and were made available for licensing under the RAND terms. Third, further clarification of the RAND terms is necessary. Some cases currently subject to legal proceedings seem to have been attributable to the difference between the patent holder and users in terms of the interpretation of the RAND terms. A clear understanding of the RAND terms is indispensable for the court and administrative agencies to determine whether the patent holder is demanding an excessive royalty. The importance of the clarification of the RAND terms has long been pointed out. Fourth, it is necessary to examine whether a patent holder whose right to seek an injunction is limited can obtain an adequate amount of compensation by using a system of damages, and if not, then what system should be established instead.

In the preceding Sections, I examined various issues and proposed some future research topics, hoping to see further study on these topics.

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