Keynote Speech
Toward Smoother SEP Licensing

1. Introduction [Title page]

Good morning, everyone. My name is Naoko Munakata, Commissioner of the Japan Patent Office, JPO. On behalf of the organizer, I'd like to offer you a warm welcome, and also take this opportunity to make a few remarks.

[It's a relief to see such clear, settled weather this week, and I'm delighted to see so many people here today despite the amount of pollen floating around.]

This symposium came together in an extremely short period of time, and I'm very grateful to all our speakers, who managed to make the time in their busy schedules to be here today, as well as to our co-sponsor, the Research Institute of Economy, Trade and Industry, for taking on board our sudden proposal and extending such generous support. My JPO staff too were of course rushed off their feet! Organizing an event of this scale in such a short time frame would never have been possible without so much help, and my warm thanks go out to you all, as well as to each and every participant for taking the time to come along today.

The symposium attracted such strong interest both in Japan and abroad that all the places were filled within days of applications opening. We changed to a slightly larger venue to accommodate more people, but still ended up turning away close to a hundred applications. For the sake of all those who were unable to attend, the symposium is being broadcast on the video-sharing website Niconico, which I hope is also reaching an international audience.

The JPO is currently developing a guide for Standard Essential Patent (SEP) negotiations to forestall SEP disputes or at least assist their early resolution. We put up an initial draft on the JPO website last Friday for public comment, and also asked our symposium speakers—with very short notice—to have a look through the text. I look forward to wide-ranging discussion at the symposium today energizing the public comment process and drawing out a broad spectrum of views.

2. SEP issues and background [Slide 1]

Allow me to provide some background to the development of the guide.

There is a fundamental conflict between what is sought from patents—the granting of monopoly rights—and from standards, which is the widespread use of technology. As telecommunications technologies advance, efforts are being made to standardize the latest technologies while also protecting them with patents, with the tension between these two endeavors becoming increasingly marked in recent years.

Standardization associations have responded to the growing number of SEP disputes by developing rules requiring SEP licenses to be extended on "fair, reasonable and non-

discriminatory," or FRAND, terms in order for a patented technology to be included in a standard.

While there has been concern over potential hold-up, whereby SEP use leads to an injunction being taken out on business providing key social infrastructure and services, recent years have seen cross-border convergence on injunction standards in SEP cases, with most courts allowing injunction in only a limited number of situations.

In some cases, however, there have been issues with hold-out, whereby certain implementers are not responding in good faith to requests from patent-holders for licensing negotiations exactly because they anticipate that the court will not allow an injunction.

Change in parties involved in licensing negotiations [Slide 2]

The spread of the Internet of Things, or IoT, in which various types of infrastructure and equipment connect via the Internet, is also bringing about a major change in the parties involved in licensing negotiations.

With telecommunications technologies now being used by a whole range of business types, members from the auto and service industries, for example, are being drawn into telecoms licensing negotiations. Small and medium enterprises too of course are not immune.

The kind of cross-licensing that traditionally took place among telecoms companies is now far more difficult, and gaps are also emerging in parties' respective perceptions of reasonable royalty levels. In addition, where telecoms firms possess the capacity to determine whether or not a patent is truly essential to the implementation of a standard, there are instances where firms in other industries lack that technical knowledge.

Need to create a guide [Slide 3]

Since I took office last summer, I have been looking at what we as the administration can and should do to address this situation, seeking the views of a wide range of parties including company representatives, professionals, government institutions and members of the judiciary from around the world.

In Japan, there was some feeling that we should create a system whereby the JPO determines licensing terms in response to requests from implementers, but given the direction of court rulings and actual practice here and abroad, I decided to lay out the basic information which might be sought by parties entering into SEP licensing negotiations.

More specifically, I decided to create a guide on approaches to negotiations and those issues arising in relation to methods of calculating royalties, etc., so that even small and medium enterprises with limited licensing negotiation experience can understand what a company needs to do to be recognized as having approached negotiations in good faith, how an implementer can avoid injunction, and how a patent-holder can increase the likelihood of receiving appropriate compensation.

While the concern has been expressed that the guide might impose unnecessary regulations that limit negotiating flexibility, it is not legally binding. The original title of “guidelines” was also changed to “guide” to avoid any misperception of regulation.

The guide is not a recipe for negotiations that will automatically produce appropriate royalty rates. To repeat, it was designed simply to serve as a reference in approaching negotiations.

Another criticism has been that a guide is too vague a prescription for actual dispute resolution, and certainly, the guide is not intended to solve individual disputes. With 5G about to spawn a whole range of new services, however, we still have no idea which of these will prove to be hits and how much profit they will make. It is extremely difficult to set prices when technologies and markets are in the process of major change. We should let convergence be achieved through market trial and error. Should any issues arise in that process, anti-monopoly authorities and courts will doubtless make their own decisions. Individual royalty decisions, however, are not something in which I feel that the JPO should intervene. Rather, I hope that a space will emerge in Japan for international arbitration, whereby experts with extensive knowledge in this area support dispute resolution as arbitrators. I will go into further detail on international arbitration later.

At this point, I would like to overview the various panels arranged for this symposium.

(1) Panel 1: Approaches to SEP Licensing Negotiations [Slide 4]

First, Panel 1 will discuss how to approach SEP licensing negotiations.

The guide offers some notes on factors for consideration in terms of the scope of information that should be provided by the parties at each stage of negotiations, along with response times, drawing on the framework provided by the Court of Justice of the European Union in the 2015 case between Huawei and ZTE.

Patent-holders have complained that implementers sometimes delay negotiations by, for example, failing to take part in negotiations without explanation, or refuse to conclude a confidentiality agreement while demanding information that includes confidential content.

Implementers, on the other hand, note cases where they cannot enter negotiations because patent-holders have not provided claim charts (in other words, materials on the relationship between patents and standards), or where patent-holders refuse to provide claim charts unless a confidentiality agreement is concluded.

Panel 1 will examine approaches to these issues.

(2) Panel 2: Forestalling Inter-Industry Conflicts in a 5G Era [Slide 4]

Panel 2 will consider which businesses in the supply chain should be party to negotiations.

The guide lays out some factors for consideration in terms of the level of the supply chain from which businesses (for example, end-product manufacturers or component manufacturers) should be party to the conclusion of licensing agreements or should be involved in the negotiations.

Some patent-holders have observed that where end-product manufacturers are asked to be party to licensing negotiations, it is not appropriate for them to turn around and refuse that request.

Implementers suggest that where component manufacturers as suppliers have asked to be party to licensing negotiations, it is discriminatory of patent-holders to refuse to negotiate, as well as contravening FRAND obligations.

Panel 2 will consider these issues.

(3) Panel 3: Royalty Calculation Methods that Satisfy FRAND Terms [Slide 5]

Panel 3 will focus on royalty calculation methods.

The guide lays out some factors for consideration in terms of how to determine a base for calculating royalties.

Some patent-holders suggest that where SEP technologies contribute to the functions of an end product as a whole and to driving demand for that product, an Entire Market Value, or EMV, approach should be taken.

Implementers have argued that if an SEP technology is contained in a component comprising the smallest salable patent-practicing unit (SSPPU), an SSPPU approach is appropriate.

Patent-holders also say that if a technology is used in different end products, the royalty rate and amount should differ according to the use—in other words, a use-based licensing approach.

Implementers counter that the same royalty rate and amount should be paid for any single standard technology, regardless of how it is used. For a patent-holder to apply different royalty rates and amounts, they argue, constitutes discrimination and contravenes FRAND terms.

Panel 3 will explore these issues.

(4) Panel 4: Utilization of International Arbitration [Slide 6]

Panel 4 will tackle international arbitration.

SEP disputes tend to be international, with rights contested simultaneously in a number of countries.

Going to court in multiple countries to resolve these disputes carries the risk of different rulings emerging, with the other demerit being the length of time required to resolve a dispute.

ADR such as mediation and arbitration, however, enables disputes over multiple rights in multiple countries to be settled as a package.

Arbitration awards in particular can be enforced internationally under the New York Convention, opening the way for the expeditious and effective resolution of international disputes.

We think that international arbitration would be an effective means of resolving international SEP disputes, which has prompted us to hold a mock international arbitration on June 29 to present the option of undertaking arbitration procedures in Tokyo.

A number of key figures in intellectual property dispute resolution around the world—including the eminent Randall Rader, who is actually taking part in today's panel discussion—will participate in the exercise as arbitrators, demonstrating the possibilities for resolving SEP disputes through international arbitration.

Panel 4 will examine the appeal of international arbitration as well as the issues presented.

4. Conclusion

To create the guide, we asked for proposals at the end of September last year, receiving around 50 responses from various quarters. We have also continued to talk with experts from industry, academia and law in Japan and overseas.

We have now put together a draft guide and uploaded it to our website as of March 9 for public comment with a deadline of April 10.

The guide will be developed together with users and will not be a once-off exercise but rather a work in progress that will evolve over time. We look forward to continuing to receive feedback from you all to ensure that it remains a "living" guide.

For myself, I can't wait to see what discussion emerges today on the various issues.

The public debate format may dispose the discussion more towards extreme and heated exchanges than attempts to find common ground, but I am sure our moderators will manage to draw out the true intentions of our participants to some extent!

In closing, I hope that the symposium proves to be a productive and meaningful experience for us all.

Thank you.