



KDDI CORPORATION

3-10-10 Iidabashi, Chiyoda-ku,
Tokyo, 102-8460, Japan

January 30th, 2015

European Commission
DG Enterprise and Industry
Unit A4 - Industrial Competitiveness Policy for Growth
Avenue d'Auderghem 45, 1040 Brussels, Belgium

Observations Submission on Patent and Standard Questionnaire

I'm sending you to provide our observation on Patent and Standards Questionnaire issued on 14th of October, 2014. Please find the attachment, and contact me should you need a clarification regarding our observation.

The following information is our profile as you requested.

Name of Organization : KDDI Corporation

Type of Respondent : Enterprise

Field of Business Activity : Telecommunication

Location of Headquarter : 3-10-10, Garden Air Tower, Iidabashi, Chiyoda-ku, Tokyo
102-8460, Japan

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Best regards,

Nobuyoshi Amemiya

Senior Staff,

Intellectual Property Dept., KDDI Corporation

No.	Question	KDDI's answer
4.1.2	<p>Issues and consequences:</p> <p>In your experience, what are the typical issues that arise in the context of transfers of standard essential patents? Are such transfers leading to more or less fragmentation of SEP ownership? Are these transfers leading to more or less disputes/litigation? What is their impact on royalty rates for the transferred patents and on the total royalty rate for all patents essential for a standard?</p>	<p>Transfers of SEPs could bring disputes in cases when compliance with FRAND license obligation is not promised by an assignee, or an assignee doesn't recognize and comply with such obligation. For example, FRAND license terms that were expected when the FRAND declaration was declared would not be offered to users. This occasion will result in severe matters like patent hold-up, royalty rate increasing and litigation.</p> <p>It is assumed that if a certain SEP is transferred, such SEP's royalty rate will be set highly compared to before the transfer to recoup the acquisition cost.</p> <p>Then, if the licensing of transferred SEPs becomes major in certain standards, the rate for non-transferred SEPs will be influenced by such higher rate of transferred SEPs.</p>
4.1.3	<p>Non-practicing entities:</p> <p>Have you encountered transfers of standard essential patents to entities that do not produce or market products including the technologies covered by these standard essential patents? What particular consequences have you observed?</p>	<p>Yes, KDDI has experience where it had been sued for infringement of SEP transferred to the entity that doesn't produce or market products including the standard technology.</p>
4.2.1	<p>Impact on effectiveness:</p> <p>Is there a risk that SEP transfers circumvent existing patent policy rules of standard setting organizations or render them less effective? Please explain and if possible cite specific examples.</p>	<p>Yes, KDDI presumes that transfers of SEPs cause circumvention of existing patent policy rules as obligations undertaken according to FRAND declarations are not properly or entirely taken over from initial owner to successor.</p>
4.2.2	<p>Specific rules:</p> <p>In your area of interest, are there specific rules governing SEP transfers and what is your experience with them? Where there are no specific rules, would you see a need for such rules? What should be their objectives (achieving transparency about ownership, providing legal/business certainty, reducing litigation risks,</p>	<p>Yes, ITU set the rule that patent holders who transfer SEPs by a reasonable effort are obligated to have the assignees agree to be bound by a FRAND declaration. Additionally, SSOs are discussing them to amend as a mandatory obligation. KDDI supports such SSO's efforts.</p> <p>In every way and on occasion, FRAND licenses must be guaranteed for standard implementers.</p> <p>For that purpose, two things are needed to be made an</p>

<p>facilitating smooth licensing process, fostering research and innovation activity, etc.)?</p>	<p>explicit;</p> <ol style="list-style-type: none"> 1) how to impose assignees who SSO's IPR policies are not applied to an obligation under FRAND declaration; and 2) how and who will take risks in case of failure to impose the FRAND obligation to SEP assignees.
<p>4.2.3 Transfer of FRAND commitment:</p> <p>How can it be ensured that the new owner of the transferred SEP is bound by the FRAND licensing commitment given by the initial owner? What can standard setting organizations do in this regard? What do the sellers of the SEPs need to do? Should the licensing terms (including royalty rates) practiced by the initial owner influence the interpretation of the concept of "FRAND" for the new owner?</p>	<p>According to Japanese patent law and Civil law, in case that initial holder transfers of SEPs subject to its FRAND declaration. A standard user may not assert the defense arising from the said declaration, unless a FRAND license has been agreed between initial holders and users.</p> <p>KDDI supports that SSOs would make any rules with regard to transfers of SEPs.</p> <p>However, KDDI is concerned that such SSO's SEP transfer rules will be enforceable (i) against whom, (ii) in which jurisdiction. If SSO's rules will not be mandatorily applied to assignees, any other mandatory measures (including law and/or any authorities' directives) should be considered to be made by SSOs and/or authorities.</p>
<p>5.1.1 Target areas:</p> <p>What are the situations/external factors which render a patent pool useful? Are you aware of specific standards for which a patent pool would be useful but where there has been a failure to create one?</p>	<p>A patent pool is considered as useful and beneficial under certain situations:</p> <ol style="list-style-type: none"> (1) in where there has been a huge number of existing SEPs, SEP holders and users all over the world; and/or (2) when users want to enhance the efficiency of being licensed at once. However, in case that there are varieties of SEP holders whose licensing policy/strategy are very different each other, it would be troublesome for them to reach consensus among licensors and to organize a patent pool.
<p>5.1.2 Benefits of patent pools:</p> <p>What are the benefits of patent pools in the above situations (Q 5.1.1) respectively for patent holders and/or patent users? What aspects in patent pool governance are particularly relevant in practice to ensure the realization of these benefits?</p>	<p>For both of SEP owners and users, a patent pool works for retrieving and/or paying reasonable royalty at once from multiple holders/users without bilateral negotiation. Moreover, transparency of a royalty rate and equitability of licensing terms are guaranteed especially for users.</p> <p>KDDI presumes that there are a few key factors to allow a patent pool to work efficiently or beneficial for holders and users as follows;</p>

		<ul style="list-style-type: none"> - major holders/users participation; and - reasonable royalty setting corresponding to achievement rates of SEPs at each patent pool.
5.2.1 Decision to participate in pool:	What factors influence a patent holder's decision to participate in a pool or not?	The key factor is whether a participation in a pool is commercially reasonable (i.e. more income and less costly) and less stressful when compared to bilateral negotiation with users regarding licensing terms.
5.3.2 Role of SSOs:	What contribution can standard setting organizations make with regard to patent pools? Should they provide guidance patent pools? Should they provide and/or select patent pool administration services?	SSOs will be able to advocate holders/administrators to organize a pool, and for holders/users to participate in. SSOs could also express the basic principle or nature of pool more clearly, for example, which would therefore pursue public benefit. Additionally, if SSOs encourage organization or participation, it is desirable that they will be able to design an appropriate pool or assign an administrator to manage the running of the pool themselves.
5.3.3 Role of public authorities:	What contribution can public authorities make to facilitate patent pool creation? What role could publicly owned patents play? Are there specific features of non-EU legal systems that could be useful also in the EU? Under what conditions and to what purpose would public financial support be beneficial?	KDDI supports that public authorities will be able to publicly set up official pools by themselves and provide any kind of incentives to participants of such public pool. (i.e., tax-break system and financial support etc.)
6.1.1 Notions "fair" and "reasonable":	How, in your view, should the terms "fair" and "reasonable" be understood? Which of the above methodologies do you consider particularly appropriate, which other methodologies do you find important and what could be an appropriate mix of references?	KDDI believes that it is important for Patent Holders to stipulate a certain information disclosure process for facilitating a fair and reasonable negotiation in good faith (in another word, "arm's length negotiation") between Patent Holders and potential licensees, so that both parties may avoid unwanted and ineffective litigations, disputes and lengthy costly bargaining, and further may make it much easier to reach the reasonable agreement as practically prompt as possible.
6.1.5 Other methods of ensuring reasonableness of licensing terms and conditions:	Can patent pool prices for a given standard be a	It is observed that a royalty rate announced by a patent pool is considered as a good example of terms which were discussed and set by the approval of participants.

proxy for FRAND terms and conditions? What are the limits of the use of patent pools as a proxy? How can bias coming from such a method be avoided?

6.2.1 Existing guidance:

To your knowledge, what guidance on FRAND definition already exists (regulators, standard setting organizations, courts)? Which of this guidance do you consider as particularly useful? Would you welcome additional guidance? If so, on what specific aspects of FRAND?

The Japanese Intellectual Property High Court (IPHC) provided a certain basic criteria of calculation method of FRAND rates in the judgment that was sentenced on 16th of May, 2014 and to Samsung and Apple. This judgment will be helpful.

In detail, please find the sentence from the following link.
http://www.ip.courts.go.jp/eng/vcms_lf/25ne10043full.pdf

6.2.2 Unilateral ex-ante disclosure:

Would you welcome a larger role for unilateral ex-ante disclosure of licensing terms in order to facilitate the licensing of SEPs? What form could it take? How should SSO mechanisms be shaped to facilitate this instrument? Should they be mandatory or voluntary? Should the disclosure only concern the most restrictive terms?

KDDI supports that unilateral ex-ante disclosure is very helpful for holders and users to encourage SEP licensing. Licensing terms should be determined by good faith negotiations between the holder, or its successors in interest, and potential licensees, under which either party must be independent, non-coercive and fully disclose all material information necessary to adequate review of the terms at issue.

It is also desirable that ex-ante disclosure is to be made an explicit mandatory process on IPR policy.

6.2.3 Ex-ante setting of parameters:

Alternatively, would it be efficient to set FRAND parameters - within the limits of competition law - at the beginning of discussions of a technical committee within or outside an SSO in order to facilitate the future FRAND licensing? Such parameters could be: the royalty base (at end product or component level, if component what component (s)), royalty type (lump sum, per unit price, percent value of a product/component). What other parameters could be discussed upfront to make licensing more practical, without violation of competition rules?

Yes, such advanced parameters setting would be efficient and practical to encourage users to take SEP license. Furthermore, such parameters should be reconsidered and adjusted in a timely manner.

<p>6.3.2 Determination of portfolio license value:</p> <p>How can the value of licenses over large portfolios be determined if there is disagreement over the validity, essentiality/infringement or enforceability of (some) patents included in the portfolio? Is sampling (i.e. the review of a representative set of patents) a good approach for the evaluation of a patent portfolio? If so, how should sampling be done?</p>	<p>In any case, the evaluation of licensed patent portfolio should be made by fair and reasonable means as agreed by both parties, if evaluation over the large patent portfolio on a patent by patent basis is doesn't work well and is hard to be made.</p>
<p>6.5.1 Current business practices:</p> <p>On what level of the value chain (e.g. component, bundle of components, final product) does SEP licensing currently take place in the fields of standardization in which you are active/interested? Is this business practice applied by all patent holders/implementers or are there different business practices?</p>	<p>As part of the telecommunications sector, KDDI recognizes that while SEP licensing takes place, a final product is considered part of the objective value chain. It assumes business customs in each sector and the context of patent would have an impact on the decision of objective SEP licensing, although no detailed information about other sectors.</p>
<p>6.5.4 Impacts of changes:</p> <p>What are the advantages of giving or denying the patent holder the right to license only on one level in the value chain and thus of allowing or prohibiting that he refuses licenses to implementers on other levels? Please distinguish between impacts on patent holders, on component makers, on end product makers and on the standardization system itself.</p>	<p>Looking back to the concept of FRAND declaration, "giving or denying the patent holder the right to license only on one level in the value chain and allowing or prohibiting that he refuses licenses to implementers on other levels" should not be allowed.</p> <p>KDDI believes that FRAND licensing should be made at any level.</p>
<p>7.1.1 Pertinence of the issue:</p> <p>In your experience how often do disputes over SEPs arise, notably in comparison to patents that are not standard essential but comparable? Are there typical circumstances that make disputes particularly likely to arise? What role do business models or product life-time cycles have in this regard?</p>	<p>In the Japanese telecommunication sector, mobile network operators and handset manufacturers have been often litigated by the entity that has SEPs but doesn't produce or market products including standard technology.</p>
<p>7.2.1 Usefulness of alternative dispute resolution:</p> <p>In your experience, does ADR currently play an</p>	<p>In the case of attempting to solve SEP disputes in Japan it is regarded that courts are more reliable due to a number</p>

<p>important role in resolving SEP disputes? Is it regularly considered / discussed when SEP disputes arise? Do you see any trend in its prevalence?</p>	<p>of achievements and a more effective solution rather than ADR which does not play a strong role in solving disputes.</p>
<p>7.2.4 Benefits of ADR: What are the benefits of alternative dispute mechanisms applied to SEP disputes respectively for patent holders and/or patent users? What are the most important conditions to ensure that these benefits materialize?</p>	<p>ADR has some profitable aspects for holders that help them to settle negotiation with users, on a portfolio basis and all over the world in just one-trial.</p>
<p>7.3.4 Voluntary/mandatory: What are the benefits and risks of making ADR mandatory for the resolution of SEP disputes? What consequences would this have for participation in standardization, for licensing negotiations and for the implementation of a standard? If ADR would be made mandatory: Should it be linked to membership in SSOs, or to the fact of contributing a patented technology to a standardization process, or other? Should there be an opt-in/opt-out possibility at the declaration stage? Should ADR replace litigation completely or should it be a mandatory step (e.g. mediation) before litigation?</p>	<p>ADR should not be made a mandatory resolution of SEP disputes as answered in 7.2.4, ADR is beneficial just for holders. KDDI understands that a mandatory ADR resolution means the deprivation of rights to be judged in court. (Everyone is equally entitled to such rights.)</p>
<p>7.4.2 Scope of ADR: Which issues such as rate, validity, essentiality and infringement should be addressed by ADR in SEP disputes? Which territory should be covered? When is the adjudication of a global license suitable and when not? Should ancillary claims also be addressed and if so, how?</p>	<p>Any means of defenses and protections that users are allowed to do in litigations should not be restricted.</p>
<p>8.2 Protection against abuses: How can it be ensured (at the same time) that injunctions based on standard essential patents are not abused to either exclude companies from implementing a standard or to extract unfair,</p>	<p>It should be made an explicit that "SEP licensors shall not seek an injunctive relief against willing licensees who have willingness to take FRAND license in SSOs' IPR policy." or "It shall not be allowed to seek an injunctive relief for patents subject to FRAND undertaken against willing</p>

<p>unreasonable or discriminatory royalties from them?</p>	<p>licensees who have willingness to take FRAND license in SSOs' IPR policy.”</p> <p>On the other hand, it may be allowed to seek an injunctive relief against unwilling licensees who don't have willingness to take FRAND license. Therefore, a judgment regarding such "unwilling" behavior should be strictly examined. Furthermore, SSOs may provide an explicit standard or criteria to define or determine "unwillingness".</p>
<p>8.4 Consequences of banning injunctions:</p> <p>Are you aware of national jurisdictions that have banned injunctions based on standard essential patents or that have restricted injunctions even against unwilling implementers (court cases or legislative changes)? Did this impact on the licensing negotiations, on the royalty rates and/or on the risk of getting no remuneration at all? How did patent holders react in these jurisdictions?</p>	<p>Yes, in Japan, seeking an injunctive relief against unwilling licensees is not prohibited at this time; although Japan IPHC has judged that the decision of unwillingness should be strictly examined in case of Apple v Samsung, on 16th of May, 2014.</p>
<p>- The end of the question</p>	<p>The end of the answer</p>