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The Honorable Elzbieta Bieńkowska  
European Commission  
DG Enterprise and Industry  
Unit A4 - Industrial Competitiveness Policy for Growth  
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RE: Contribution to DG Enterprise and Industry, European Commission  
Public Consultation on Patents and Standards

Dear Commissioner Elzbieta Bieńkowska:

NTT DOCOMO, Inc. ("DOCOMO") is pleased to have the opportunity to present its views with respect to the European Commission's request for public comments on Patents and Standards.

DOCOMO is a mobile telephone operator with the largest number of subscribers (more than 60 millions) in Japan, and provides mobile phone services through the use of communication systems implementing the telecom standards, such as UMTS, set out by Standard-Setting Organizations ("SSOs"). DOCOMO has also been contributing to the development of technical frameworks for the standards at the SSOs through technical proposals that introduce innovative technologies resulting from our R&D efforts. As a result of the R&D efforts, DOCOMO now owns patent portfolios including patents recognized essential to implement standards, Standard Essential Patents ("SEPs"). Thus, DOCOMO is unique because DOCOMO implements others' SEPs by operating standard compliant apparatus manufactured by others and, at the same time, it conducts R&D by itself and creates innovative technologies to practice the standards, some of which have resulted in SEPs and helped DOCOMO recoup the R&D expenditures. Thus, DOCOMO plays roles of both SEP user and SEP holder in the telecommunication industry.<sup>1</sup>

DOCOMO understands that the topic "A modern framework for standardisation involving intellectual property rights," on which the European Commission requests public comments, necessarily pertains equally to both SEP users and SEP holders. The basic position of DOCOMO, being both SEP user and SEP holder, towards the topic is that the

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<sup>1</sup> Cyber Creative Institute, *Evaluation of patents declared to ETSI as essential to LTE related standards*, 2013. <http://www.cybersoken.com/english/research/lte.html>.

framework for standardisation should not be established more favorably to one of SEP users and SEP holders than to the other but should be established to strike the balance of interests between SEP users and SEP holders toward a maximum benefit to society at large.

In this submission, DOCOMO presents its overall comments in this communication on all of the 8 major questions but answers in the Attachment only some of the individual questions that are relevant to DOCOMO.

1. Standardisation involving patents is common in the telecommunication industry and in the consumer electronics industry. Which **other fields of standardisation** comprise patent-protected technologies or are likely to do so in the future?

#### (1) Other Fields Of Standardisation Situated Similarly To The Telecommunication And Consumer Electronics Industries Or Likely To Be Situated Similarly To These Industries In The Future

The standardisation of technology has also been prevalent in fields related to the telecom and CE (“Consumer Electronics”) industries, such as fields of data compression, data transmission, data recording and semiconductor memories, in which patent protected technologies play an important role. It should also be noted that as IOT (“Internet of Things”) proliferates among all segments of society, and a variety of things such as humans, animals, goods and machines become connectable on the network, it is expected that the standardisation of technology will become prevalent as well in fields which are currently considered less related to the telecom and CE industries, and patents essential to standards will play an important role in the future in these currently less related fields.

As well known, the standardisation of technology is widely practiced in the telecom and CE industries, and disputes involving enforcement of patents that cover standards, or SEPs, have become increasingly common in these industries. This is because, from DOCOMO’s point of view, rules and practices which adequately balance the interests of SEP users and SEP holders have not been well developed. For the same reason, disputes involving enforcement of SEPs have started seen in the related fields, such as fields of data compression, data transmission, data recording and semiconductor memories.

Even in fields currently considered less related to the telecom and CE industries, as products with communication functionality proliferate, and services diversify into new areas relying more on communication, it is inevitable that a communication device implementing telecom standards will become an indispensable functional module in the products and become an indispensable instrument for rendering the services. As products and services evolve with communication devices, it is expected that disputes involving enforcement of SEPs will become common in the fields currently considered less related to the telecom and CE industries.

#### (2) Other Fields In Which Globalization Progresses

In these days, globalization is rapidly growing in the automotive, medical and industrious machinery industries. In order not to be left alone behind, the companies in these industries are moving away from adopting independent specifications or inflexible specifications resulting from government regulations and focusing more on adopting compatible specifications in various technologies. It is therefore expected that in the fields in which globalization is rapidly growing, the standardisation of technology will become

prevalent as we see now in the telecom and CE industries, and patents essential to standards will play an important role in the fields.

### (3) Expected Onward Trends

With the evolution of products and services equipped with communication functionality coupled with globalization, it is expected that the issues unique to "standardisation involving patents," which are currently widely recognized in the telecom and CE industries, will become commonly recognized at an increasing rate in other fields in the future.

To understand better how "the framework for standardisation involving patents" should be shaped, we need to bear in mind that the issues unique to "standardisation involving patents" will inevitably arise in various industries, and therefore need to carefully monitor the movements of industries other than telecom and CE industries.

2. A variety of **rules and practices** govern standardisation involving patents. Which elements of these rules and practices are working well and should be kept and/or expanded? Which elements on the other hand can be improved?

#### (1) Rules And Practices To Be Kept And Expanded

The patent declaration system is one of the rules and practices which DOCOMO thinks should be kept and expanded. The system requires SEP holders to make the FRAND (Fair Reasonable and Non-Discriminatory) commitments in order to facilitate the use of SEPs by those who implement standards, and also requires SSOs to develop standards so as to avoid using technologies for which the FRAND commitment is not obtained. This system assures that any users, who are willing to pay a licensing royalty on the FRAND terms, can use standard compliance technologies and thus provides a basic framework for promoting the standard. The patent declaration system should be kept and expanded, while further improvement to the system will be sought for.

#### (2) Considerations Taken Into Account Regarding Improving Patent Declaration System

The patent declaration system should serve a basic function to maintain the ecosystem surrounding standardisation involving patents. A perfectly balanced ecosystem benefits both SEP users and SEP holders. In a perfectly balanced ecosystem, SEP users are allowed to implement the standard without undue burden, and SEP holders are able to recoup their R&D expenditures adequately. In order to establish such a perfectly balanced ecosystem, the patent declaration system needs to be improved with the following two points taken into account.

First, DOCOMO believes that royalties from licensed SEPs should be at levels preferable to encourage SEP users to implement the standard, and enable maintenance and expansion of their businesses. Please note however that the SEP users should not unreasonably be treated more favorably. The licensing of SEPs is an important vehicle for SEP holders to recoup their R&D expenditures. The royalties from licensed SEPs should, at the same time, be at levels preferable to give SEP holders incentives to make further R&D investments. Thus, the royalties from licensed SEPs should be at levels preferable to reconcile the interests of both SEP users and SEP holders.

Second, DOCOMO believes that new rules for enforcement of SEPs should also be required such as to reconcile the interests of both SEP users and SEP holders. For instance,

the majority of arguments seem to favor lessening the injunctive power residing in SEPs. One may think reasonable under the FRAND commitment that the injunctive power of SEPs should be lessened in order to protect SEP users from abusive enforcement of SEPs. However, from the viewpoint that licensing of SEPs is an important vehicle for SEP holders to recoup their R&D expenditures, it cannot be justified to create a *per se* rule of lessening the injunctive power of FRAND-declared patents. After all, it is desirable to establish rules under which the risk of injunction under SEPs, which SEP users' businesses may suffer, is reduced, while SEP holders are enabled to timely and efficiently receive FRAND compensations from licensing of SEPs.

### (3) Rules And Practices To Be Improved

#### 1. Essentiality Evaluation Of SEP

Many SSOs have adopted an IPR policy which allows patent holders to make the FRAND declarations if the patents "might be essential" to the standards. Such an IPR policy is beneficial in that patents for which the FRAND commitment is available and patents for which the FRAND commitment is not available can be distinguished before the final version of the standard is delivered, or while the standard is still in draft form. However, the policy could create a problem that non-essential patents are allowed to be included in FRAND-declared patents.

Since there is a possibility that FRAND-declared patents may include non-essential patents, it is necessary, when FRAND-declared patents are offered for license, to review the patents in order to determine whether the patents offered for the license are in fact SEPs. When a pro-rata number of the offered patents among the entire FRAND-declared patents for the standard is an issue, the entire FRAND-declared patents for the standard need to be similarly reviewed. Needless to say, these reviews may take unduly long time.

Thus, the fact that FRAND-declared patents may include non-essential patents hinders timely and efficient licensing of SEPs and causes encumbrance to both SEP users and SEP holders. The rule and practice for evaluating the essentiality of patents should be improved to increase the transparency of patents.

This issue is discussed more in details in the comments on Question 3 as it relates to patent transparency.

#### 2. Promote The Utilization Of Patent Pool Licensing

Under the rules and practices of SSOs, establishment of a patent pool and participation therein are at the discretion of patent holders. For this reason, there are some instances where multiple patent pools have been formed for a single standard, and standard implementers are forced to deal with some or all of these patent pools in order to receive all SEP licenses necessary for them to conduct their businesses. This hinders timely and efficient licensing of SEPs. This problem should be resolved to promote use of patent pool licensing.

This issue is further discussed in the comments on Question 5 as it is more relevant to it.

#### 3. License Fee Calculation Method

Since there is no unanimous interpretation of the term "fair and reasonable" contained in the FRAND commitment, it is usually the case that desired license royalties are different

between a SEP user who seeks a license and a SEP holder who offers the license, and the difference between the desired license royalties sometimes causes a patent dispute between the SEP user and the SEP holder.

By setting a license royalty to be fair and reasonable, the need to address all future contingencies is eliminated in FRAND licensing deals, and FRAND licensing deals thereby become economical. On the other hand, the FRAND terms allow license royalties to be flexibly set according to the circumstances where the parties are situated. DOCOMO believes that it is preferable to flexibly set FRAND license royalties according to the circumstances where the parties are situated and does not take a position against it. However, since FRAND license royalties are allowed to be flexibly set, inconveniences have actually arisen that license negotiations linger, or the parties are unable to reconcile their differences and turned to legal resort for resolution. Calculation methods are highly needed that can provide FRAND license royalties easily agreeable by both SEP users and SEP holders under various circumstances.

This matter will be discussed more in detail in the comments on Question 6 as it is more relevant to it.

#### 4. Restriction On Injunctive Relief

Some opinions which have been rendered by the European Commission and the Japanese Intellectual Property High Court hold that an injunctive relief is not available to a SEP holder who has made the FRAND commitment when a potential licensee, or a SEP user, expresses an intent to agree to the FRAND terms.<sup>2 3</sup>

DOCOMO agrees that an injunctive relief should not be made available to a SEP holder who has made the FRAND commitment when a SEP user is cooperative in trying to timely and efficiently conclude the license deal under the FRAND terms. However, the FRAND rule or practice will no longer function to adequately balance the interests of SEP user and SEP holder if the SEP holder is deprived of an injunctive relief simply because the SEP user merely agrees to receive a license on the FRAND terms. There may be cases where the SEP user's agreement to the FRAND terms is ostensible, and the SEP user is in reality not helping speedy conclusion of the license deal and prolongs the license negotiation simply to extract concession from the SEP holder for better license terms.

Accordingly, a guideline for adequately balancing the interests of SEP users and SEP holders is needed which helps determine under what circumstances an injunctive relief should be made available or should not be made available when the parties are unable to move forward in a license negotiation.

This issue will be discussed more in detail in the comments on Question 8 as it is more relevant to it.

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<sup>2</sup> European Commission, Press release IP/14/489, *Commission finds that Motorola Mobility infringed EU competition rules by misusing standard essential patents*, April. 29, 2014.

European Commission, Press release IP/14/490, *Commission accepts legally binding commitments by Samsung Electronics on standard essential patent injunctions*, April. 29, 2014.

<sup>3</sup> *Apple. v. Samsung Electronics.*, 2013 (Ra) No.10007, Intellectual Property High Court in Japan, May. 16, 2014. [http://www.ip.courts.go.jp/eng/vcms\\_lf/25\\_ra\\_10007zenbun.pdf](http://www.ip.courts.go.jp/eng/vcms_lf/25_ra_10007zenbun.pdf)  
*Apple. v. Samsung Electronics.*, 2013 (Ra) No.10008, Intellectual Property High Court in Japan, May. 16, 2014. [http://www.ip.courts.go.jp/eng/vcms\\_lf/25\\_ra\\_10008zenbun.pdf](http://www.ip.courts.go.jp/eng/vcms_lf/25_ra_10008zenbun.pdf)

3. **Patent transparency** seems particularly important to prevent achieve efficient licensing and to prevent abusive behaviour. How can patent transparency in standardization be maintained/increased? What specific changes to the patent declaration systems of standard setting organizations would improve transparency regarding standard essential patents at a reasonable cost?

#### (1) Patent Transparency

As discussed in the comments on Question 2, there is a possibility that non-essential patents may be included in FRAND-declared patents. This obscures the patent transparency because it is not certain how many FRAND-declared patents offered for license are in fact SEPs and how many SEPs are offered for license *pro rata* over the entire SEP patent portfolio for the standard.

#### (2) Rules And Practices To Be Improved Regarding Patent Transparency

The transparency of patents may be improved if a rule is established that requires FRAND-declared patents to be evaluated for its essentiality. It should be helpful to improve the transparency of patents if such evaluation is performed by a small number of independent evaluators or independent evaluation firms under a unified rule, and a SSO compiles and publicizes the evaluation results. It is expected that the rule will eliminate an unduly time consuming review of the essentiality of FRAND-declared patents by parties negotiating for license.

It is appropriate that the cost for the essentiality evaluation is borne by patent holders. Since patent holders bear the cost for evaluation of the essentiality, standard implementers should fully respect the evaluation results and should not be allowed to deny the determined essentiality without legitimate reasons.

The essentiality evaluation of FRAND-declared patents performed according to the above method will enable a SEP user and a SEP holder, who are in a license negotiation, to obtain the objective information on the total number of SEPs in the patent portfolio for the standard and the total number of SEPs owned by each SEP holder, and enable to calculate a FRAND license royalty *pro rata* within the upper limit of aggregated license royalties, based on the number of SEPs held by the SEP holder in the entire SEP portfolio.

An appropriate timing for evaluating the essentiality of FRAND-declared patents should be when the final version of the standard is delivered and the scopes of the FRAND-declared patents are fixed.

Specifically, when the standard is still in draft and before the final version of the standard is delivered, it is important to identify, at as an early stage of standard drafting as possible, patents for which the FRAND commitment will not be available and draft the standard so as to avoid practice of such patents in implementation of the standard. For this reason, the FRAND declaration may be allowed to be made for “might be essential” patents as currently practiced. Thereafter, when (1) the final version of the standard is delivered and (2) the scopes of the FRAND-declared patents are fixed, the patent holders should be required to present for essentiality evaluation their FRAND-declared patents that the patent holders believe are still SEPs. In addition, a support from public authorities may be helpful to make the essentiality evaluation more reliable to both standard implementers and patent holders.



### (3) Rationalization Of Cost Burden

In order to maintain the balanced ecosystem surrounding standardisation involving patents, the cost for the essentiality evaluations that patent holders bear (as mentioned above) should be a rational one. For example, it is desirable that the task for essentiality evaluation is assigned only to a single independent evaluation firm or a small number of independent evaluation firms so that they can accumulate the knowhow for evaluation. The accumulated knowhow will help them reduce the cost for evaluation.

In the present license practice, patent holders are required to prove the essentiality of their FRAND-declared patents with reasonable certainty at their expense when a question is raised on the essentiality of their FRAND-declared patents. It should therefore be noted that it will not necessarily add to the cost born by patent holders even if patent holders bear the cost for the proposed essentiality evaluation by independent evaluators.

SEP holders should be able to present their own evaluation results separately from the evaluation results from independent evaluators. It will be more advantageous for standard implementers if independent evaluators and SEP holders both present their evaluation results. The SEP users will be able to compare the evaluation results and have more accurate understanding on the essentiality of the patents.

4. Patents on technologies that are comprised in a standard are sometimes **transferred** to new owners. What problems arise due to these transfers? What can be done to prevent that such transfers undermine the effectiveness of the rules and practices that govern standardisation involving patents?

### (1) Problems In Transferring SEPs

Transfer of SEPs to a business operating company that offers products or services will normally not cause any FRAND issues because the business operating company usually assumes the same FRAND commitment as the transferor made. However, if SEPs are transferred to an entity like a PAE (Patent Assertion Entity) that aims solely at charging as a large amount of license royalty as possible, FRAND issues may arise. By asserting that it has not assumed the FRAND commitment or by arbitrarily interpreting the FRAND terms for its benefit, the PAE may request very high non-FRAND based license royalties, although the PAE probably asserts that such very high royalties still fall within the range of the FRAND terms, or file an injunction to enjoin sales or offers of products or services in order to force standard implementers to accept higher license royalties.

In a situation where two business operating companies (non-PAEs) with SEPs seek a license from each other to conduct their businesses, since these companies negotiate the terms of licenses with an understanding that they will be able to reach an agreement, they usually allow the other company to conduct its business, or to practice the SEPs, even before they conclude the licensing deal.

However, during such a license negotiation by the business operating companies, if one company transfers its SEPs to a PAE, the other company's belief that it can conduct the business even before the licensing deal is concluded will become no longer viable. If the PAE who has received the SEPs prohibits the other company from engaging the pre-licensing business activities, asserting that these activities constitute patent infringement, the other company and the PAE will no longer be on the same ground in the license negotiation, and the other company will be situated in an extremely disadvantageous position. The other company

will probably be forced to accept a license on unfair terms because it cannot stop the business, and the potential damage would therefore grow large during the negotiation.

## (2) Solutions To The Problem

In order to solve the problem associated with SEP transfers, it is necessary that a transferee is required to assume the same FRAND commitment as the transferor made. For example, when a SEP holder makes the FRAND declaration, the SEP holder should be required to accept an obligation to explain to a transferee, when its SEP is transferred in the future, the encumbrances attached to the SEP including the FRAND commitment before the SEP holder transfers the SEP to the transferee. Transfer of the SEP may be allowed only if the SEP holder has accepted such an obligation. It is also advisable that an IPR policy is developed and defined so that SSOs can impose the obligation on a transferee to assume the FRAND commitment when a SEP is transferred. Such an IPR policy can preclude a PAE who has received SEPs from asserting that it has not assumed the FRAND commitment, arbitrarily interpreting the FRAND terms for its own benefit to charge very high non-FRAND based license royalties or filing an injunction to enjoin sales or offers of products or services in order to force standard implementers to accept higher license royalties.

Some countries seem to have a view that even if IPR policies provide for imposition of the obligation on transferees to assume the FRAND commitment, the FRAND commitment will not necessarily be succeeded by the transferees. Even in such countries, legal theories must exist that can justify imposition of the obligation on a transferee to assume the FRAND commitment without altering interpretation of legal relationship defining the relative positions of the transferor and the transferee of SEPs.

Thus, we agree with the view expressed in the report regarding a fact-finding study done by DG Enterprise and Industry.<sup>4</sup> In fact, ITU and ETSI have already set out their IPR policies under which the FRAND commitment needs to be inherited from a transferor to a transferee upon SEP transfer to mitigate disputes arising from SEP transfer. Other SSOs should desirably have similar policies.

## (3) SEPs Without FRAND Declaration

Theoretically speaking, a party that has not joined a standardisation process at all may have a patent essential to the standard. In such a case, both transferor and transferee of SEPs may not be encumbered by the FRAND commitment. However, if abuses of SEPs, such as rejection of license for unreasonable grounds, demand for unduly high license royalties and indiscriminate injunction, are allowed, standards will no longer operate as initially planned. It is desirable to set out an IPR policy that makes SEPs not encumbered with the FRAND commitment equally as available for license as SEPs encumbered with the FRAND commitment are used.

5. Patent pools combine the complementary patents of several patent holders for licensing out under a combined licence. Where and how can **patent pools** play a positive role in ensuring transparency and an efficient licensing of patents on technologies comprised in standards? What can public authorities and standard setting organizations do to facilitate this role?

## (1) Role Of Patent Pool

<sup>4</sup> European Commission, *Patents and Standards – A modern framework for IPR-based standardization* -, March. 25, 2014, p.192.



A patent pool benefits both SEP users and SEP holders because there is no need for individual license negotiations between SEP users and SEP holders. The SEP users are assured that the patents they are licensing-in are all those already determined essential and can license-in only SEPs on the FRAND terms without any undue essentiality review, so that smooth implementation of the standard is realized. The SEP holders can license-out their SEPs on the FRAND terms and are ensured of the adequate level of recovery of their R&D expenditures.

## (2) Proactive Roles Expected For Patent Pool

### 1. Role As One-Stop-Shopping For License

In order to fully facilitate the role of a patent pool, a single patent pool should ideally be formed for a standard and used by all SEP holders. If such a patent pool can be formed, SEP users will be ensured, by simply paying for a license royalty, of the use of SEPs free from any infringement claims, and SEP holders will also be ensured of FRAND based compensations without costly individual license negotiations.

### 2. Role As An Independent Evaluator For Evaluating Essentiality Of FRAND-Declared Patents

As commented in relation to Questions 2 and 3, FRAND-declared patents may include non-essential patents. As discussed above, this problem can be resolved by subjecting FRAND-declared patents to mandatory essentiality evaluation by a small number of independent evaluators or independent evaluation firms under a unified rule. However, with the progress of patent pool utilization, the evaluators designated by a patent pool to evaluate the essentiality can accumulate knowhow from the essentiality evaluations and may become independent evaluators for evaluating FRAND-declared patents.

### 3. Role For Benchmarking FRAND Based License Fee

The license royalties to be paid to a patent pool are usually determined in a transparent process by the SEP holders of the patent pool who discuss on and comprehensively evaluate the values of their SEPs and thus can be referenced to determine FRAND based royalties. For example, these license royalties can be referenced by a SEP user and a SEP holder who are negotiating for a license outside the pool to determine a FRAND based royalty.

## (3) Promote Utilization Of Patent Pool Licensing

In order to promote utilization of patent pool licensing, the patent pool should be formed on a framework friendly for both SEP users and SEP holders who use the pool. For example, when SEP holders collaborate with an aim at creating an ideal pool such as a single patent pool, the SEP holders need to establish an organization and a system carefully configured to not cause any conflicts with laws such as a competition law. Public authorities are expected to provide political and legal support for the patent holders to establish a lawful framework for the patent pool.

6. Many standard setting organizations require that patents on technologies included in their standards are licensed on **"fair", "reasonable" and "non-discriminatory"** (FRAND) terms,

without however defining these concepts in detail. What principles and methods do you find useful in order to apply these terms in practice?

### (1) Basic Principles For FRAND Terms

As discussed above, by setting a license royalty to be fair and reasonable, the need to address all future contingencies is eliminated in FRAND licensing deals, and FRAND licensing deals thereby become economical. On the other hand, the FRAND terms allow license royalties to be flexibly set according to the circumstances where the parties are situated. The FRAND terms do not require establishment of uniform licensing terms. Rather, the licensing terms established under the FRAND term are allowed to vary according to the standard involved and the product and services involved. The licensing terms established under the FRAND terms are allowed to vary according to the business relationship between a SEP user and a SEP holder negotiating for a license. Therefore, when the FRAND declaration is made to a SSO at its early stage of formation at which time a future licensee is unforeseen, it is impossible to define the details of the FRAND terms for a license which may be granted in the future.

However, the FRAND terms need to be interpreted to maintain the balanced ecosystem surrounding standardisation involving patents, and to serve this purpose, the principles and methodologies to be used to define the FRAND terms must be the ones to adequately balance the interests between SEP users and SEP holders. Therefore, the "Fair and Reasonable" term of the FRAND declaration needs to be interpreted to serve the interests of both SEP users and SEP holders so that the license royalty derived from the terms should be at a level preferable for SEP users to sustain continuation and growth of their businesses, while the level of license royalty should also be preferable for SEP holders to recover their R&D expenditures at the adequate level and maintain their incentives for R&D.

Furthermore, the "Non-Discriminatory" term in the FRAND declaration is considered to require substantially similar licensing terms for SEP users situated in similar business environments unless there is a rational reason to be different.

### (2) Examples For FRAND Term Application

With the developments of case laws in various countries and with the increasing number of reference license royalties set out by patent pools, the methodology for calculating FRAND license royalties is expected to form its shape in the future.

The Intellectual Property High Court in Japan set out a guideline for calculating the FRAND based license royalty in the *Apple v. Samsung* case.<sup>5</sup> Specifically, the Court calculated the license royalty, using the following formula:

“Revenue × Standard Contribution Rate × Royalty Rate Cap<sup>6</sup> / Total Number of SEPs”

### (3) Other Principles And Methodologies That Need To Be Applied In Interpretation Of The FRAND Terms

<sup>5</sup> *Apple v. Samsung Electronics.*, 2013 (Ne) No.10043, Intellectual Property High Court in Japan, May. 16, 2014. [http://www.ip.courts.go.jp/eng/vcms\\_1f/25ne10043full.pdf](http://www.ip.courts.go.jp/eng/vcms_1f/25ne10043full.pdf)

<sup>6</sup> The Court set forth the Cap is applied from the standpoint of preventing the aggregate amount of royalty from being unreasonably high.

In a situation where a FRAND based license royalty is calculable, if a SEP user rejects the FRAND based license royalty, or a SEP holder requests payment of license royalty higher than the FRAND based license royalty, the license negotiation between the parties may linger. If the license negotiation lingers, the SEP user will become unable to resolve the IPR risk timely, so that the SEP user's business operation may be hindered. If the license negotiation lingers, the cost associated with the license negotiation will increase, so that the SEP holder cannot expect the adequate level of recovery of its R&D expenditures. It is therefore advisable to set out a guideline for providing a speedy and efficient resolution to a lingering license negotiation in addition to the principles and methodologies for calculating the FRAND based license royalty.

There is a view that favors restricting a SEP holder, in a situation where one member located at a tier of a value chain for manufacturing a standard compliant product agrees to take a license on the FRAND terms, from asserting the SEP on members located at other tiers of the value chain, on the ground that the SEP holder will be sufficiently compensated by the one member of the value chain under the FRAND terms.

It is well known, however, that a time duration and resource to be spared for a license negotiation vary significantly depending on with whom to be negotiated in a value chain. Also, the current law permits a patent holder to collect license royalty from any members located at tiers of a value chain unless the patent is exhausted. Therefore, it is advisable to allow a SEP holder according to the current law to arbitrarily select one or more members located at one or more tiers of a value chain for manufacturing a standard compliance product until an appropriate and efficient rule and practice are established which govern license negotiation involving a FRAND-declared patent.

In case of the telecommunication industry, for example, it is desirable to allow a SEP holder to go after a member arbitrarily selected from tiers of a value chain and request the member to take a license, irrespective of whether the member is the final product manufacturer or a component manufacture, as long as the member practices the holder's SEP which is not exhausted.

7. In some fields standard essential patents have spurred disputes and litigation. What are the causes and consequences of such disputes? What **dispute resolution mechanisms** could be used to resolve these patent disputes efficiently?

#### (1) Reasons That SEPs Are Used In Disputes And Litigations

Compared to non-essential parts, it is easier to prove infringement of SEPs. For this reason, SEP holders can, with less burden, resort to license offers under SEPs to standard implementers and to patent infringement actions under SEPs against standard implementers. Since SEPs may be mandatory in nature or in some cases optional, the fact alone that a product implements a standard does not necessarily confirm infringement of a specific SEP. However, if a SEP is of the mandatory nature, the SEP holder may assert infringement of the SEP on the ground that implementation of the standard is tantamount to infringement of the SEP.

In implementing a standard, standard implementers usually have no options but to practice SEPs of the mandatory nature. Therefore, the fact that a standard implementer implements a standard usually precludes the standard implementer from arguing non-infringement and forces the standard implementer to admit infringement at an early stage of license negotiation or litigation.

In addition, the telecommunication industry, as the result of rapid proliferation of smart phones, now has a strong competition among companies. It can be seen that (1) some of the business operating companies use their SEPs to restrain the businesses of their competitors, and (2) PAEs acquire SEPs from business operating companies that have withdrawn from the industry or shrunk their businesses and use the acquired SEPs to demand unreasonably high license royalties.

## (2) Results Of Disputes And Litigations

A court decision has been rendered by the Intellectual Property High Court in Japan in which the Court held that, in the event that a standard implementer expresses an intent to receive a license on the FRAND terms, a demand for a license royalty higher than the FRAND based license royalty and a threat to file an injunction constitute abuse of SEPs and cannot be tolerated.<sup>7</sup> Similar decisions are also found in Europe and the United States which restrict, based on the FRAND commitment, enforcement of FRAND-declared patents within the meaning of FRAND declaration.<sup>8</sup>

Although the above decision by the Intellectual Property High Court in Japan is expected to function to lessen disputes involving SEPs, no detailed guidelines are released that define conditions for determining what constitute “an intent” to take a FRAND license. It is hoped that some detailed guidelines will come out from decisions to be made in currently in-progress disputes and pending litigations that determine whether or not these disputes and litigations fall within the meaning of FRAND declaration and thus should be resolved according to the FRAND terms.

## (3) Means For Efficient Dispute Resolution

In the event that a standard implementer and a patent holder cannot reach an agreement for license terms, the most common way to resolve the dispute is to resort to a patent litigation in which a court will resolve an issue of whether the standard implementer practices SEPs and render the final disposition as to whether the royalty offered for licensing the SEPs accords to the FRAND terms. However, a decision by a court may be costly. A litigation to resolve a dispute may consume a lot of time and cost even if the dispute involves only one patent. Therefore, a litigation may not be a practical vehicle to resolve a dispute involving a portfolio license in which a number of patents are licensed in a lump. Furthermore, there is a jurisdiction issue. A court decision may be enforceable only with SEPs issued in the jurisdiction where the court is located. Therefore, a litigation may not be an effective vehicle, either, to resolve a dispute involving a global license in which a number of patents pending in multiple countries are licensed in a lump. In other words, a court may not be the best place to obtain a comprehensive resolution of a dispute involving a portfolio license or a global license.

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<sup>7</sup> *Apple. v. Samsung Electronics.*, 2013 (Ne) No.10043, Intellectual Property High Court in Japan, May. 16, 2014.

*Apple. v. Samsung Electronics.*, 2013 (Ra) No.10007, Intellectual Property High Court in Japan, May. 16, 2014.

*Apple. v. Samsung Electronics.*, 2013 (Ra) No.10008, Intellectual Property High Court in Japan, May. 16, 2014.

<sup>8</sup> *Microsoft Corp. v. Motorola, Inc.*, Case No.C10-1823JLR, United States District Court for the Western District of Washington, Apr. 25, 2013.

In these days, decisions have come out from administrative agencies and courts in various countries which restrict, based on the FRAND commitment, the injunctive power of SEPs within the meaning of FRAND declaration. However, outside the meaning of FRAND commitment, the injunctive power of SEPs should be made exercisable to the maximum extent allowable by law. Examples which are considered outside the meaning of FRAND commitment include a situation where a SEP user does not respond in good faith to a license offer. It is unreasonable to restrict the injunctive power and force a SEP holder to patiently sit with such an insincere SEP user at a table for a license negotiation. If the SEP holder has global SEP portfolio, the SEP holder would be forced to spend unduly long time and unduly high cost to resolve issues in multiple countries. In order to serve the purpose of efficiently operating a standard at the balance of interests between SEP users and SEP holders, a rule and practice have to be established which allow SEP holders to obtain a speedy and efficient resolution of a dispute for all of their multi-national SEPs. It is advisable to allow the exercise of injunction against a SEP user to the full extent allowable by law, without unduly expanding the scope of FRAND commitment, to realize speedy and efficient enforcement of SEPs.

#### (4) ADR

ADRs, in comparison to patent litigations, present a more adequate and less costly vehicle for both standard implementers and patent holders to obtain a comprehensive resolution of a dispute involving a portfolio license or a global license. However, unless otherwise both of a standard implementer and a patent holder agree to use an ADR, it cannot be used. In order to promote the use of ADR, we agree with the report regarding a fact-finding study that it is desirable to make use of an ADR mandatory when certain conditions are met.<sup>9</sup>

8. How can holders of standard essential patents **effectively protect** themselves against implementers who refuse to pay royalties or unreasonably delay such payment? How can it be ensured that **injunctions** based on standard essential patents are not used to (a) either exclude companies from implementing a standard or (b) to extract unreasonable, unfair or discriminatory royalties?

#### (1) Basic Approach

The IPR Policy of SSOs requires its members to make the FRAND declaration in which the patent holders disclose their potential SEPs timely and declare to license their SEPs on the FRAND terms. Relying on the FRAND declaration, a SEP user expects the availability of the FRAND license through a negotiation with the SEP holders, and with the reliance on the FRAND declaration, may have made a large investment in the facilities for implementing the standard. Such reliance and investment are worth protecting.

It is also desirable from the standpoint of general consumers to quickly and efficiently resolve disputes involving SEPs and thereby enable SEP users to distribute their standard implementing products and services in a more timely manner at a lower cost. Therefore, the business operations of SEP users who agree to the FRAND terms and cooperate fully to resolve a dispute involving SEPs should be protected from abusive enforcement of SEPs.

<sup>9</sup> European Commission, *Patents and Standards – A modern framework for IPR-based standardization* -, March. 25, 2014, p.180-181.

On the other hand, SEP holders have already made a large R&D investment in developing novel technologies necessary to implement the standard. If recovery of the R&D investment is hindered, the SEP holders will lose incentives to further develop novel technologies, and standardisation will become stifled. Since recovered investment is usually reinvested in improving the technologies which are then used to sustain continuation and growth of the standardisation, the FRAND based license royalties need to be at levels preferable for SEP holders to adequately recover their R&D investments.

Where a SEP holder has a global patent portfolio and a SEP user operates business at a global scale, a large number of SEPs may be involved in a license offer. If the license negotiation is required to resolve issues related to individual SEPs, the license negotiation will take unduly longer time and the SEP holder's timely and adequate recovery of its R&D investment will become impossible. As a result, the SEP holder may have to give up a FRAND compensation and accept royalties lower than the FRAND based license royalty.

In particular, by taking advantage of the FRAND declaration, an insincere SEP user may assert that an injunction is not allowed, or assert a license royalty that is significantly lower than the FRAND based license royalty. If the SEP user is allowed to be insincere, the license negotiation will be prolonged. If the license negotiation lingers, the cost associated with the negotiation will increase, and the R&D investment recoverable by the SEP holder will decrease accordingly, resulting in decrease of incentives for R&D investment. A decrease in R&D investment will stifle technology innovation and in long run impede standardisation efforts. Therefore, although the SEP users need to be protected, the SEP holders need to be sufficiently compensated to adequately recover their R&D investments.

## (2) Efficient Protection Of SEP Holder By Taking Position Of SEP User Into Account

From a viewpoint of a SEP user, a timely payment of the FRAND based license royalty promotes a healthy and balanced ecosystem surrounding the standardised technology. Under such circumstance, there is no need to excessively protect the SEP holder, i.e., there is no need to allow the SEP holder to file an injunctive relief based on the SEPs or demand a license royalty beyond the FRAND based license royalty.

On the other hand, from the SEP holder's point of views, without a timely and efficient compensation from the SEP user, the balanced ecosystem surrounding standardisation will become no longer sustainable. That would negatively affect the incentives for new R&D investments, and might impede introduction of new technologies to standardisation and eventually hinder technological development. Therefore, in the event that a timely and efficient compensation cannot be expected from an insincere SEP user, an injunction based on the SEPs should be allowed without unreasonably expanding the scope of the FRAND commitment. The SEP holder should also be able to demand to a bad faith SEP user a license royalty beyond the FRAND based license royalty. It is believed that these remedies against an insincere or bad-faith SEP user do not contradict with the intent of the Intellectual Property High Court in Japan expressed in the above decision.<sup>10</sup>

## (3) Measures Against Abusive Injunction

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<sup>10</sup> *Apple. v. Samsung Electronics.*, 2013 (Ne) No.10043, Intellectual Property High Court in Japan, May. 16, 2014.

*Apple. v. Samsung Electronics.*, 2013 (Ra) No.10007, Intellectual Property High Court in Japan, May. 16, 2014.

*Apple. v. Samsung Electronics.*, 2013 (Ra) No.10008, Intellectual Property High Court in Japan, May. 16, 2014.



As discussed in (a) and (b) of this Problem, an injunction based on a SEP has been abused in some cases. A decision rendered by the European Commission set forth a condition under which an injunctive relief should not be granted "when a standard implementer is willing to take a FRAND license".<sup>11</sup> The above decision rendered by the Intellectual Property High Court in Japan set forth a condition under which an injunctive relief should not be granted "when a standard implementer has an intent to receive a FRAND license". Further, the policy statement published jointly by the United States Department of Justice and the United States Patent and Trademark Office states that "[a]n exclusion order may still be an appropriate remedy 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 terms."<sup>12</sup>

With the help of these decisions by authorities or courts, the development of policy statements by government organizations and the reform of the IPR policies by the SSOs, a similar condition is expected to develop in various countries under which SEP users can avoid imposition of abusive injunction on their business operations by expressing their intent to pay the FRAND based license royalty in a timely manner. If such a condition is adopted as a rule, it will be possible to protect SEP users from imposition of abusive injunction on their business operations.

#### (4) Decision Criteria For Granting Injunction Based On SEP

In the discussions made so far, we have raised the issues to the SEP holders that SEP users do not respond in good faith to license offers. If a SEP user does not respond in good faith to a license offer, the SEP user may be regarded as not entitled to the protection under the FRAND commitment. Against such an insincere SEP user, the SEP holder should be granted an injunctive relief despite the fact that the SEP holder made the FRAND declaration. In deciding whether the injunctive relief should be granted, it is desirable to consider how the public interest will be affected by the injunction, how sincerely the parties negotiated during the course of dealing, and whether a timely and efficient measure was taken to resolve the dispute involving the SEPs.

There is a view that if a SEP user agrees to be bound by a court's or other governmental authorities' determination on the FRAND terms, the SEP user is considered willing to accept a license on the FRAND terms. However, if such a view is given authoritative weight, it will be impossible to make an unwilling SEP user accept a portfolio license or a global license in a timely and efficient manner. Therefore, authoritative weight should not be given to such a view when determining whether a SEP user responds in good faith with a license offer.

In reality, it is desirable that the decision on the willingness should be made in consideration of how sincerely the parties negotiated during the course of license dealing, e.g., whether the negotiation schedule proposed by the parties manifested the parties' desire to conclude the negotiation in a timely matter and whether the parties observed the set schedule.

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<sup>11</sup> European Commission, Press release IP/14/489, *Commission finds that Motorola Mobility infringed EU competition rules by misusing standard essential patents*, April. 29, 2014.

European Commission, Press release IP/14/490, *Commission accepts legally binding commitments by Samsung Electronics on standard essential patent injunctions*, April. 29, 2014.

<sup>12</sup> United States Department of Justice and United States Patent & Trademark Office, *POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS*, Jan. 8, 2013, p.7.



Yours sincerely,

A handwritten signature in black ink, appearing to read "Takashi Komoro".

Takashi Komoro  
Managing Director  
Intellectual Property Department  
NTT DOCOMO, INC.

RE: Contribution to DG Enterprise and Industry, European Commission  
Public Consultation on Patents and Standards

[Attachment]

**Q 3.1.1 Scope of transparency issue/Priority areas:** Is there sufficient patent transparency in the fields of standardization that are of interest to you? In which of these standardization field(s) is patent transparency particularly good and in which field(s) is it insufficient? Please explain.

DOCOMO's primarily focused area for standardization is the telecommunication area. It cannot be said that patent transparency is sufficiently ensured in the area because there seem to be standard essential patents ("SEPs") present in the area which are in fact not essential, although the patent holders have declared the patents as essential. This is partly caused by the fact that many standard setting organizations ("SSOs") have an IPR policy that requires patent holders to make the FRAND declaration even for patents which "might be essential" and does not require the strict essentiality to all of FRAND-declared patents.

As we do not have sufficient knowledge about the operation of standardization in any other areas than the telecommunication area, we refrain from commenting on the operation of standardization in the other areas. (The same shall apply hereinafter unless otherwise stated.)

**Q 3.1.5 Consequences/risks:** What are the consequences of insufficient patent transparency? What risks occur, and what are the (financial) impacts if these risks materialize? If appropriate, distinguish between ex-ante/ex-post transparency and between the different aspects of patent transparency above.

For example, insufficient transparency causes uncertainty as to whether respective FRAND-declared patents are in fact essential and further cause uncertainty as to how many patents are in fact essential among the FRAND-declared patents. The former uncertainty causes an extra burden for a potential licensee to determine whether it is necessary to receive a license on the FRAND terms for a FRAND-declared patent. The latter uncertainty makes it difficult to accurately calculate a FRAND based *pro rata* license royalty. Under these circumstances, disputes and litigations between a potential licensee, or a potential standard implementer, and a patent holder are more likely to happen. As well known, the resolutions of such disputes and litigations usually require a lot of time and cost. The above uncertainties could cause inconveniences that the risk of injunction on the SEP user's business operation grows, and the SEP holder becomes unable to adequately recoup the R&D expenditures.

**Q 3.3.1 Initial accuracy:** In your experience, what is the reliability of patent declarations at the time when they are made? In which fields of standardization and on which aspects of the declaration would initial accuracy need to be improved? What causes of initial inaccuracy are particularly detrimental to the usefulness of patent declarations?

Since there are a substantial number of non-essential patents included in the FRAND-declared patents in the telecommunication area, the reliability of the declaration for patent essentiality is not high. It is understandable that during the standard specification setting process, there is a need to obtain the FRAND declaration for patents which may be used to implement the standard in the future, and there is also a need to identify patents for which the FRAND declaration may not be obtained. These needs are caused by the fact that it is necessary during the standard specification setting process to determine which patented

technologies will be available for implementation of the standard and which patented technologies will not be available for the purpose.

Since prior to or during the standard setting process, the standard specifications are not yet detailed enough to set forth the conditions for essentiality, the strict essentiality cannot be required to FRAND-declared patents or may not need to be required for the FRAND declaration. Therefore, prior to or during the standard setting process, a patent holder should be allowed to make a preliminary FRAND declaration when the patent holder has a certain ground to believe that her patent is or may be essential. Needless to say, however, the FRAND declaration should not be allowed to be made for a clearly non-essential patent because the reliability of the FRAND declarations would be eroded. Once the final version of the standard specifications is delivered, the conditions for determining essentiality are clear. Thus, once the final version of the standard specifications is delivered, these preliminarily FRAND-declared patents should better be evaluated to confirm their essentiality in order to improve the reliability of the declarations.

**Q 3.3.2 Updating requirement:** Should declarants be asked to update their patent declarations at key events such as those mentioned above? What would be the respective advantages and disadvantages?

In order to improve the reliability of the FRAND declaration, it is desirable to request evaluation of the essentiality of a patent when the following two conditions are met: (1) completion of standardization; and (2) grant of the patent.

Mandatory evaluation of the essentiality may be advantageous in that patent transparency can be improved with the evaluated and thus more accurate essentiality, while it may be disadvantageous to patent holders because it increases burden on the patent holders. It may be more disadvantageous than advantageous to request frequent evaluation of the essentiality of declared patents before the above two conditions (1) and (2) are met, because the reliability of the evaluated essentiality still has a limited value, and the burden on the patent holders would excessively increase.

**Q 3.3.3 Check of declarations:** Should the quality of patent declarations be submitted to a check by someone other than the declarant? Who should perform this check (peer review by members of the standard setting organization; standard setting organizations themselves; third parties on behalf of the standard setting organizations; patent offices; etc.)? What should be the scope of the check (essentiality for the standard; validity; enforceability; other)? Who should bear the cost of such a check? If you think the declarant should bear (part of) the cost, how can it be prevented that this creates an incentive to disrespect the declaration obligation?

When the above-mentioned two conditions (1) and (2) are met, it is desirable to evaluate the essentiality of FRAND-declared patents in order to improve the transparency. The evaluation should be performed not by patent holders but by a small number of independent third-party evaluators in order to secure the objectivity of evaluation. Third parties to SSOs or Patent Offices may be more suitable for this role as they are less prejudiced in the evaluation results.

It is believed reasonable that the cost for reevaluation should be borne by patent holders who hold the patents at the time of the evaluation. There are some issues to be addressed to elaborate the framework for evaluation, such as how much should be the reasonable cost for evaluation, whether the evaluation criteria should be unified among independent evaluators, and how much authoritative effects should be given to the evaluation

results for benefit of patent holders (e.g., how much obligation should be burdened on standard implementers to respect the evaluation results), etc.

It is understandable that some patent holders may be hesitant to make a FRAND declaration because of the cost associated with the declaration and the restrictive nature of the FRAND commitment to be attached to their patents. In order to encourage patent holders to make the FRAND declaration, a rule and practice may be needed under which patent holders are not required to have all of their FRAND-declared patents evaluated but are allowed to have evaluated only some of the patents that the holders believe are essential, and a potential standard implementer can request evaluation of patents during a license negotiation.

**Q 3.3.4 Essentiality check (in particular):** Depending on your answer to the above question, how can the essentiality check be performed in practice? What are the average cost of checking essentiality (for third parties) and what could be done to minimize these costs? Do you see a set-up of such a check that is particularly cost and time efficient? How can it be avoided that this check creates incentives for not respecting the declaration obligation?

It is advisable that a small number of independent evaluators perform the essentiality evaluation according to unified evaluation rules. Qualified candidates for the independent evaluators include, if selected from the already existing entities, evaluators designated by patent pools, or if it is possible to form new entities, patent offices, subordinate organizations of SSOs or patent evaluation firms formed jointly by companies.

At present, it costs about 1 million yen (7000 euros) per patent for evaluation where patent pools use independent evaluators for evaluation.

In order to minimize the cost for evaluation, patent essentiality evaluation work should be handled by a small number of independent evaluators to take advantage of a scale merit to lower the overall evaluation fees.

During a license negotiation, a standard implementer and a patent holder sometimes spend a substantial time and cost to evaluate the essentiality of offered patents. However, incurrence of such a substantial time and cost does not guarantee that the essentiality of the FRAND-declared patents is eventually proven to satisfaction of the potential standard implementer or disproven to satisfaction of the patent holder, and the license negotiation may develop into a patent litigation. The proposed essentiality evaluation scheme, if introduced, will be able to yield evaluation results which should be useful for the parties to resolve their issues on the license terms. Therefore, the proposed essentiality evaluation scheme can be a vehicle to provide speedy resolution for negotiating parties, although the scheme requires an evaluation fee, which should be considered less costly, given the speedy resolution of the issues.

As discussed in the last paragraph of Q3.3.3., in order to encourage patent holders to make the FRAND declaration, a rule and practice may be needed under which patent holders are not required to have all of their FRAND-declared patents evaluated but are allowed to have evaluated only some of the patents that the holders believe are essential, and evaluation results are compiled and publicized by SSOs.

**Q 3.5.2 Public patent landscaping:** Public patent landscaping in the context of standardisation would be an exercise where (1) patents that are relevant to the particular technological/product area to which the standard relates are identified and (2) this information is then shared with all interested parties. Do you see benefits of such public patent landscaping and in which areas would this be particularly useful? Who should perform this

exercise (e.g. patent offices, commercial service providers, public authorities) and how could this exercise be financed?

The Public patent landscaping as questioned here appears to have an advantage. It is considered particularly useful in the operation of the telecom standards. It is assumed that patent holders will evaluate and declare that their patents are relevant to the particular technological/product area to which the standards relate and that SSOs manage centralized information sharing. It is advisable that the essentiality evaluation is performed by a small number of independent evaluators at the expense of patent holders, and the cost for information sharing is borne by SSOs.

**Q 5.1.1 Target areas:** 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?

Under the circumstance that a large number of SEPs exist, and therefore a large number of patent holders and licensees are involved, a patent pool is believed to be useful.

For some standards, however, patent pools seem not to be functioning well. For example, the benefit of a patent pool is to provide a one-stop shop for patent licenses. However, where multiple patent pools exist for a single standard, and SEPs are distributed in these multiple patent pools, no single patent pool can provide a one-stop shop for patent licenses and is attractive to SEP holders with a large number of SEPs. None of the pools is also attractive to potential standard implementers because they cannot obtain a comprehensive license from one pool. Therefore, ideally, there should be a single patent pool for a single standard with nearly all SEPs recognized for the standard. If this can be achieved, patent pools will become highly beneficial and useful.

**Q 5.1.2 Benefits of patent pools:** 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?

Patent pools provide the benefit of speedy and efficient patent licensing for both potential standard implementers and SEP holders. Potential standard implementers can receive licenses on the FRAND terms under patents which are all determined SEPs and thus can smoothly implement the standard technologies free from any infringement claims. SEP holders can receive the FRAND based compensations and adequately recoup their R&D expenditures.

In order for a patent pool for a standard to function well, it is necessary to collect as many SEPs for implementing the standard as possible in the pool. A single patent pool with all SEPs recognized for the standard is ideal. In addition, it is important that license royalties are set at the appropriate level and that as many major players (i.e. major standard implementers and SEP holders) as possible join the pool.

**Q 5.1.3 Alternatives to patent pools:** What alternatives to patent pools do you see to achieve efficient licensing in situations where ownership of patents which are essential to a standard is widely dispersed?

As an alternative to patent pools, a third party organization may be established to which standard implementers voluntarily pay license royalties, without entering into licenses with individual SEP holders, when the standard implementers begin producing equipment that implement the SEPs. The third party organization may be given a function to distribute the



collected license royalties *pro rata* to the SEP holders in accordance with, for example, the numbers of owned SEPs.

**Q 5.2.1 Decision to participate in pool:** What factors influence a patent holder's decision to participate in a pool or not?

The following factors are considered influencing SEP holders' decision to participate in a patent pool:

- How many SEP holders among the entire SEP holders for a standard managed by the pool have participated?
- Are compensations from license royalties set by the pool sufficient to adequately recoup the R&D expenditures?
- Compared to the economic benefit expected from entering individual license negotiations, will the license royalty set by the pool be more advantageous?
- Are the other license terms and conditions, other than the license royalty, set by the pool reasonable?

**Q 5.2.2 Incentives for pool participation:** How can this balance be influenced positively? What incentives can be provided by public authorities and/or standard setting organizations to increase patent pool participation?

If major players (large SEP portfolio holders and SEP users implementing the standard at large scale) participate in a pool as licensors and licensees from the onset of its establishment, benefits can be expected from the convenience of one-stop shopping and from receipt of the adequate level of license royalties and thereby provide an incentive for minor players to participate in the pool. The incentive for minor players will grow larger as a sum of SEPs owned by major pool participants becomes larger proportionally to the entire SEPs recognized for the standard. A single pool for a standard will become sufficiently attractive to minor players if it possesses the entire SEPs recognized for the standard.

There is a concern that a single patent pool with a large SEP portfolio may have some conflicts with the competition laws. In order to address the concern to thereby promote the incentive to participate, it is helpful that government organizations and SSOs work to provide a legal environment, by means of establishing policy and presenting interpretation of law, for example, in which formation of a single patent pool with a large SEP portfolio may be encouraged.

**Q 5.3.1 Right moment for pool creation:** What is the right moment in the standard setting process to start the process of creating a patent pool? What part of work on setting up a patent pool start could/should be done in parallel to the standard setting discussions?

It should be noted that parties without SEPs are not entitled to join the discussion for establishing a patent pool. Therefore, it is premature to start discussing establishment of a patent pool while the standard is still in draft. The earliest reasonable timing for the discussion for establishing a pool is right after the final version of the standard is delivered.

**Q 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?

Since SSOs are in a neutral position independent from licensors and licensees, they may set a guideline for FRAND based license royalties, which is expected to function to facilitate negotiation for license.

Furthermore, SSOs manage and publicize details attributed to respective FRAND-declared patents. This means that the SSOs should be capable of managing a patent pool appropriately and eligible to become pool managing entities if a single patent pool is aimed at, for instance.

**Q 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?

The term “fair and reasonable” should be construed to ensure license royalties to be at levels preferable to maintain the ecosystem for standardization (i.e., levels preferable for SEP users to sustain their business operations for implementing a standard, while for SEP holders to adequately recoup their R&D expenditures).

The rules and practices for interpreting the term “fair and reasonable”, which are adopted by the SSO for the standard, other SSOs managing similar standards and patent pools related to these SSOs, may be useful resources for understanding how the term should be interpreted. Case laws may also provide useful insights regarding interpretation of the term. However, the rule and practice that may be relied upon for interpreting the term have not yet clearly been established. Further clarification of the term requires development of policy and case law.

**Q 6.1.2 Examples of non-FRAND licences:** Are you aware of cases of licenses of standard essential patents that, according to you, do not fulfil the FRAND terms and conditions? Please be as specific as possible.

There is a case in Japan where a PAE, asserting that it owned SEPs essential to the UMTS standard, filed litigations for damages and sought injunctions against mobile telephone operators without prior negotiations. In these cases, the PAE requested a royalty of 5% of the sales price per product.<sup>1</sup>

**Q 6.1.3 Time required for negotiations:** In your experience, how long does it take, on average, to negotiate FRAND terms? What does the length of negotiations depend on? Is it more or less difficult/fast to reach an agreement on FRAND terms and conditions for standard essential patents licenses compared to other similar patent licensing deals?

According to our experience, a license negotiation usually takes substantial time in reviewing the validity and essentiality of a patent offered for the license. It sometimes takes as long as half a year to negotiate FRAND terms.

Since the lengths of FRAND negotiations vary in cases, and comparisons with other patent licensing cases are difficult, we do not provide a comment to this question.

**Q 6.1.4 Initial offer or outcome:** Do the terms "fair" and "reasonable" relate to the initial offer of the patent holder or to the actual outcome of negotiations? Are you aware of FRAND adjudication cases where there was a large difference of terms and conditions between the last offers of the licensor on the one hand and the last offer of the licensee on the other?

<sup>1</sup> *IPCom. v. Eaccess.*, 2009 (Wa) No.8390, Tokyo District Court in Japan, Aug. 30, 2011.  
*IPCom. v. Eaccess.*, 2009 (Wa) No.17937, Tokyo District Court in Japan, May. 31, 2012.  
*IPCom. v. Ymobile.*, 2011 (Wa) No.27102, Tokyo District Court in Japan, Jan. 24, 2014.

DOCOMO believes that both the initial offer by a SEP holder and the actual outcome of negotiation should be “fair and reasonable”.

Since there is no clear rule for interpreting the FRAND terms, there is presumably a gap in interpretation between a potential SEP user and a SEP holder. An initial offer may be acceptable if it falls within a range of the generally accepted meaning given to the term “fair and reasonable.” Conversely, an outrageous offer beyond the range of the generally accepted meaning of the term is considered not meeting the FRAND terms.

There was a litigation in Japan where the Court set out guidelines for resolving FRAND issues. One of the guidelines set forth a methodology for calculating a FRAND based license royalty.<sup>2</sup>

**Q 6.1.5 Other methods of ensuring reasonableness of licensing terms and conditions:** Can patent pool prices for a given standard be a 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?

Although patent pools are license administering firms having private and voluntary nature, they are transparent in that many SEP holders converse to value, for licensing, their SEPs in the portfolio. The license royalties resulting from such valuation are useful in deciding the FRAND based license fees.

However, the license royalties as set out by pools may not be applicable universally to all licenses because the products for which license royalties need to be determined and the products dealt with by the pools for determining license royalties are different, and the course of dealing is different in every licensing negotiation. Therefore, it is important to note that even a license royalty beyond the license royalties authorized by patent pools may be justified if a potential SEP user refuses in bad faith to accept a license offered by a patent pool.

**Q 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 Intellectual Property High Court in Japan set out a guideline for calculating the FRAND based license royalty in *Apple. v. Samsung Electronics*.<sup>3</sup> Specifically, the Court calculated the license royalty, using the following formula:

$$\text{“Revenue} \times \text{Standard Contribution Rate} \times \text{Royalty Rate Cap}^4 / \text{Total Number of SEPs”}$$

**Q 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?

<sup>2</sup> *Apple. v. Samsung Electronics.*, 2013 (Ne) No.10043, Intellectual Property High Court in Japan, May. 16, 2014. [http://www.ip.courts.go.jp/eng/vcms\\_if/25ne10043full.pdf](http://www.ip.courts.go.jp/eng/vcms_if/25ne10043full.pdf).

<sup>3</sup> *Apple. v. Samsung Electronics.*, 2013 (Ne) No.10043, Intellectual Property High Court in Japan, May. 16, 2014.

<sup>4</sup> The Court set forth the Cap is applied from the standpoint of preventing the aggregate amount of royalty from being unreasonably high.

Unilateral ex-ante disclosure of license terms, which usually tend to be excessive for the benefit of SEP holders, will probably not benefit SEP users. Therefore, we do not wish unilateral ex-ante disclosure of license terms to be widely adopted. If unilateral ex-ante disclosure of license terms is to play a larger role in the future, the appropriate rules for disclosure to maintain the ecosystem should be adopted.

**Q 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?

It is possible and even beneficial to set FRAND parameters for reference within the limits of competition law. Other parameters presently under discussions in the market include the total number of SEPs, the maximum cumulative royalty rate, and SEP holder's contribution to standardization at a SSO (e.g. ratio in number of adopted contribution papers).

**Q 6.3.1 Advantages of portfolio licensing:** What are the advantages of portfolio licences respectively for the patent holder and for the implementer? How important is the so-called "freedom to operate" or "patent peace" between companies? Please cover in your answer also issues of scope (e.g. geographic scope, product scope, inclusion of future patents).

The benefits from portfolio licensing are as follows;

- Either SEP users or SEP holders do not need to deny or defend the essentiality or validity of all of the patents in the portfolio.
- SEP users are guaranteed to operate their businesses free from infringement claims under the entire patents in the portfolio and also guaranteed to operate new businesses in the future as long as the operation of the new businesses fall within the scope of the patents in the licensed portfolio, thereby eliminating the cost that would be incurred by SEP users in the future if the license was on an individual patent bases, not on a portfolio basis.
- SEP holders may present their global patent portfolios, which include patents pending in multiple countries, for portfolio licensing and adequately recoup their R&D expenditures.

**Q 6.3.2 Determination of portfolio license value:** How can the value of licences 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?

Sampling, in which patent holders present representative patents for evaluation of the essentiality and validity, is actually practiced to appraise the value of large portfolios. It would cause substantial time and cost to both standard implementers and patent holders if every patent in a large portfolio was to be reviewed. Sampling is an effective and efficient method that helps mitigate the burden of both parties and achieves timely and efficient licensing of the patents in the portfolio.

Since patent holders are familiar with their patents in the patent portfolios and responsible to explain the need of a license, the patent holder should at least preliminarily select representative patents from the portfolio in the sampling process.

**Q 6.5.1 Current business practices:** 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?

In the telecom field, SEP licensing takes place usually at the tier of final products. This practice is widely accepted by many licensors and licensees in the telecommunication area. However, where the scope of a patent is directed exclusively to a component, SEP licensing may take place at the component level.

**Q 6.5.3 Need for clarity:** Is this issue, in your opinion, currently addressed in the patent policies of the standard setting organizations in your area of activity/interest? Is there a need for more explicit rules or should this be left open?

The issue of need-for-clarity is not currently addressed in the IPR policies in the telecom field. Some of the participants in standardization have proposed to address this issue in the patent policies, but substantive discussions have not yet taken place.

Regarding a value chain, there is a view that favours restricting a SEP holder, in a situation where one member located at a tier of a value chain for manufacturing a standard compliance product agrees to take a license of the SEPs on the FRAND terms, from asserting the SEP on members located at other tiers of the value chain. The background information as to why such a view has been introduced is not clear to us, and therefore we do not have sufficient knowledge to decide whether a clear rule is needed to resolve the value chain issue. Until the background reason becomes clear through discussions in standardization activities, we will refrain from making our comments on whether a clear rule is necessary to address the value chain issue.