

Study Group on Licensing Environment of Standard Essential Patents Interim Report

Ministry of Economy, Trade and Industry, Japan

FSA Statement

Brussels, 27 July 2021 – Fair Standards Alliance (FSA) welcomes efforts undertaken by the Japanese Ministry of Economy, Trade and Industry to study the licensing environment of Standard Essential Patents (SEPs). On 26 July 2021, the Ministry of Economy, Trade and Industry (METI) published the “Study Group on Licensing Environment of Standard Essential Patents Interim Report” and its English translation [https://www.meti.go.jp/shingikai/economy/patent_license/pdf/20210726_3.pdf] (‘Interim Report’).

With the increasing use of Standards Essential Patents (SEPs) in technologies that impact all aspects of our lives, it is important to ensure transparency and predictability of SEP licensing negotiations both for licensors and licensees. FSA appreciates the efforts of the Government of Japan’s METI to explore means that can enhance such transparency and predictability.

As METI continues its study of SEP licensing, we recommend that METI consider positions and resources available on the [FSA website](#), including FSA’s [Key Principles](#) for FRAND Licensing as well as our [position paper](#) on the use (and misuse) of confidentiality obligations in FRAND licensing negotiations. The latter concludes that *“While voluntary provisions regarding confidentiality certainly are permissible, the use of SEP leverage to force potential licensees to accept excessive secrecy is improper. In addition to harming the particular licensees involved, such practices harm the public interest in ensuring a robust and fair SEP licensing ecosystem”*.

Further industry perspectives can be found in the guidance contained in the CEN-CENELEC Workshop Agreement (CWA) [95000](#) on *Core Principles and Approaches for Licensing of Standards Essential Patents*. The CWA elaborates in Section 5.5 on the type of non-confidential information that SEP holders generally should be willing to provide to prospective licensees, without secrecy requirements. The fifth Core Principle concludes: *“Neither party to a FRAND negotiation should seek to force the other party into overbroad secrecy arrangements. Some information, such as patent lists, claim charts identifying relevant products, FRAND licensing terms, aspects of prior licensing history and the like are important to the evaluation of potential FRAND terms, and public availability of those materials can support the public interest in consistent and fair application of FRAND [...]”*. A list of the kinds of information that should be provided in the course of a licensing negotiation is detailed in Annex B.

The guidance included in these resources can help improve predictability and transparency in licensing negotiations regardless of the industry sector and can be particularly valuable to small and medium-sized enterprises that may have limited expertise or experience in negotiating SEP licenses.

In addition to discussing transparency, the Interim Report touches on other topics, including licensing “hold up” and alleged “hold out,” patent pools, joint licensing negotiations by multiple potential licensees, and licensing within a supply chain. As METI continues its study of SEPs, we would encourage METI to take the following into account:

- In considering the challenges impacting SEP licensing, it is important to note that comparing hold-up with hold-out creates a false equivalence between the two issues. “Hold-up” is uniquely a SEP issue, which arises when a FRAND SEP owner uses market power gained from the inclusion of a patented technology in a standard to extract excessive and non-FRAND terms from licensees. In contrast, the concept of “hold out” is not unique to SEPs, and national patent systems are designed and well-equipped to accommodate any purported “hold out.”
- Patent pools have the potential to ease SEP licensing burdens, but to date many pools exhibit non-FRAND behaviours. FSA described a number of these issues in its [position paper](#) on *Patent pools and licensing platforms in SEP licensing* (also available in Japanese). As METI considers the utilization of patent pools as one mechanism for licensing SEPs, we recommend that METI emphasize that while SEP licensees can choose to negotiate licenses through patent pools, they should also have the choice and flexibility to negotiate licenses directly with SEP owners should they so desire. A patent licensee who chooses to negotiate directly with an SEP owner, rather than through a patent pool should not be considered to be an unwilling or a bad faith licensee. Neither should a potential licensee be deemed unwilling or in bad faith if it chooses to test patents in litigation rather than enter into a pool or bilateral license.
- METI’s discussion of a mechanism for joint licensing negotiations for multiple potential licensees is an interesting proposal that merits further study.
- A critical element to provide predictability in SEP licensing is the assurance of a SEP license to all interested parties, regardless of their position in a supply chain. The ability of any interested party to get a SEP license is essential to maintain its incentives to innovate and compete on the market. As METI considers the issue of burdens on licensing within a supply chain, it should closely consider how the inability of a company to obtain license, solely because of its position in the supply chain, imposes burdens on that company. The [FSA position paper](#) on *Competitive and Industry Harms Related to Refusals to License SEPs and Other Forms of “Level Discrimination” in SEP Licensing* discusses this issue in greater detail, while the additional supporting reference [paper](#) provides additional context. Also, regarding the statement: “[i]t is important for the Japanese government to consider a larger direction (such as the allocation of burdens in entire commercial distribution including the distribution from semiconductor supply to service provision)”, there is no explanation as to why allocation of burdens may be on service providers. In most cases, it is standard business practice for technology covered by SEPs to be implemented higher in the supply chain, by chip or component manufacturers. Service providers are therefore mere purchasers or users that are normally protected by exhaustion and indemnification commitments provided by such upstream suppliers. There does not seem to be any justification for why the Japanese government should seek to explore burdens being imposed on service providers. It is important to bear in mind that this direction may hinder the development of Society 5.0 (promoted by the Japanese government) where IT service is one of main businesses that will enable this transition. Expanding patent disputes toward downstream entities will increase social costs, including transaction and allocation costs, within the value chain. Such an approach will exacerbate, rather than reduce disputes involving SEP licensing.

- We urge METI to continue the important work in providing guidance to limit FRAND SEP injunctions and ensure that SEPs are properly valued to account for the value of their own claimed inventions, and not more.

We look forward to the opportunity to engage with METI on this important matter and encourage METI to continue to seek input from a broad cross section of industries that are being impacted by the challenges of getting license to SEPs.

The FSA

The FSA is an association of 48 companies, large and small, representing mainstream industry on matters central to innovation and economic development. FSA advocates for the development, use and promulgation of standardised technologies critical to rollout of the Internet of Things, 5G and other standards. FSA's mission is to promote fair practices for innovation, adoption and use of these technologies, and to enable the millions of jobs and trillions of Yen in economic growth that will accompany their widespread adoption. FSA members:

- Employ more than 500,000 people within Japan alone;
- Spend more than YEN 18 trillion on R&D and innovation each year;
- Span multiple industry sectors, such as telecom, automotive, smart energy, broadcasting, and semiconductors;
- Own more than 500,000 patents; and
- Achieve an annual turnover of more than YEN 260 trillion.

For further information about the FSA and its members, see <http://www.fair-standards.org/>