

# Japan's new FRAND policy may point towards more active enforcement

Japan's Fair Trade Commission has published its interpretation of competition law with regard to FRAND-incumbent patents, which clearly shows the influence of the European Court of Justice's 2015 decision in *Huawei v ZTE*

By Kentaro Hirayama

**O**n January 21 2016 the Japan Fair Trade Commission (JFTC) published amended IP guidelines to the Anti-monopoly Act, which took effect immediately. According to the JFTC, the amendment was promulgated to show the principles underpinning the protection of IP rights under the act, especially with regard to standard-essential patents (SEP).

In July 2015 a draft amendment to the IP guidelines, which were originally published in 2007, was publicly released. It immediately triggered a heated outcry from both domestic and foreign companies, which accused the guidelines of being too simplistic and over-restrictive of the rights of patent holders. Within a month 54 comments had been submitted: 22 from companies, 19 from individuals and 13 from industry groups. Most of the comments asked for a better balance between the rights of SEP holders and those of licensees. In particular, concerns were raised with regard to the draft guidelines' strict attitude towards invalidating an SEP holder's right to seek injunctive relief against an infringer that is violating the SEP.

The JFTC carefully reviewed all comments and has now published the partially revised guidelines in response. The amended guidelines first provide an explanation about the business circumstances in which a standard-setting organisation should establish its IP policy, describing principles for patent licensing and other IP rights essential for implementing such standards. In particular, SEP holders generally make clear their intention to license their SEPs under fair, reasonable and non-discriminatory (FRAND) terms for the production or sale of products implementing such standards, which would ensure broad use of the standards. The amended guidelines also emphasise that FRAND declarations would promote R&D for technologies using the standards and promote the investment, production and sale of products implementing them.

Based on such an understanding, the JFTC has made clear that it will be deemed unfair exclusionary conduct if an SEP holder either refuses to license or files a lawsuit to request an injunction against a party that is willing to pay for a licence on FRAND terms and thereby impede fair competition. The JFTC also made clear that this ruling shall apply not only to parties which have submitted FRAND declarations

to standard-setting organisations, but also to parties taking over FRAND-encumbered SEPs.

The most controversial issue is the criteria that determine whether a party should be deemed a 'willing licensee' (ie, an infringer that is willing to take a licence on FRAND terms). The newly published IP guidelines make it clear that this judgement should be based on the specifics of each individual case and subject to the negotiation attitudes of both the SEP holder and the infringer. In this respect, it is now widely understood that the European Court of Justice's (ECJ) landmark decision in *Huawei v ZTE*, which was handed down in July 2015, has been woven into the published version of the amended IP guidelines, although the JFTC has not used the same clear, concrete language found in the ECJ judgment (eg, alleged infringers should diligently respond to offers from SEP holders and should not adopt delaying tactics). The JFTC guidelines do establish that infringers will not be deemed 'unwilling licensees' even if they challenge the validity of the declared SEP, as long as they have negotiated in good faith and within normal business practices. This might potentially compromise SEP holders' rights, to some extent.

In addition, one relatively minor issue in the initial draft guidelines was that the wording could be read as holding that an SEP holder's refusal to license is a *per se* violation of the Anti-monopoly Act, regardless of the existence or possibility of anti-competitive effects. The amended guidelines clarify that asserting an SEP will not be deemed an illegal private monopolisation (Article 3) or unfair trade practice (Article 19), unless there is actual harm to, or a tendency to impede, fair competition.

Regulatory enforcement against the abuse of IP rights has been relatively rare so far, but the new guidelines could change that. In light of the JFTC commissioner's repeated statements that intellectual property and antitrust will be one of the priority issues in his enforcement of the Anti-monopoly Act, both Japanese and foreign rights holders should be cautious about any possible changes in enforcement trends. **iam**

*"Regulatory enforcement against the abuse of IP rights has been relatively rare so far, but the new guidelines could change that"*



**Kentaro Hirayama** is of counsel at Morrison & Foerster, Tokyo, Japan