

Client Alert

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JFTC Wields Antitrust Law to Enforce FRAND Obligations of Standard Essential Patents

By Louise Stoupe and Chihiro Tomioka

On January 21, 2016, the Japan Fair Trade Commission (“JFTC”) published revisions to its guidelines for the Antimonopoly Act (“AMA”). The new guidelines make it a fair trade practice violation for holders of a standard essential patent (“SEP”) with fair, reasonable, and non-discriminatory (“FRAND”) obligations to refuse to license or bring an injunctive action against a willing licensee of their SEP.

Typically, FRAND obligations arise when a patent owner participates in a standard setting organization (“SSO”) that sets the technical requirements for a particular procedure or technology. The SSO then requires holders of patents that are essential to the standard to license their patents on fair and reasonable terms. This prevents the patent holders from wielding control over essential technology and potentially restricting competition, development, and research related to the standard. The holders of SEPs also stand to benefit from the royalties they gain from cooperating with the SSO, as the organization will exclude technologies from the standard when a patent holder does not agree to FRAND terms. Many countries, including Japan, have turned to antitrust provisions to enforce these FRAND terms.

QUALCOMM AND THE JFTC

The original 2007 guidelines for the AMA did not directly address whether violations of FRAND obligations also violated antitrust law. The ambiguity resulted in many legal battles. For example, on September 28, 2009, the JFTC issued a cease and desist order against Qualcomm for violation of its FRAND obligations. Qualcomm holds several SEPs with FRAND obligations related to CDMA technology. It nevertheless required licensees to license their patents at no royalty to Qualcomm in order to use Qualcomm’s SEPs. Qualcomm has since appealed the JFTC order holding that Qualcomm’s practices violated unfair trade practices under Article 19 of the AMA. The appeal is still pending. JFTC, *Cease and Desist Order Against Qualcomm Incorporated*, at 1 (Sept. 30, 2009).

THE GUIDELINES

Although the JFTC has not yet issued a decision on Qualcomm’s appeal, the amended guidelines to the AMA now state that holders of an SEP with FRAND obligations risk violating fair trade practices if they refuse to license their patents to a willing licensee or bring an injunction against an alleged infringer. This will make it more difficult for holders of an SEP with FRAND obligations to enforce their patent rights and could also lead to disputes over what constitutes a willing licensee.

The new guidelines present a broad definition of a willing licensee. Even a party that intends to dispute the validity, essentiality, or infringement of the SEP can be considered a willing licensee if the party “undertakes licensing negotiations in good faith in light of the normal business practices.” JFTC, *Guidelines for the Use of*

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Intellectual Property under the Antimonopoly Act, at 11 (Jan. 21, 2016). It remains to be seen how these guidelines will affect decisions surrounding the licensing of SEPs.

CONCLUSION

The JFTC's recent amendment to the guidelines for the AMA illustrates the global trend of using antitrust principles to enforce FRAND obligations. There have been many cases in Europe illustrating this trend, including the Court of Justice of the European Union's ("CJEU") decision in 2015 that the holder of an SEP must take several steps (such as alerting the alleged infringer and offering a license on FRAND terms), before it can bring an injunction against the alleged infringer to avoid violating EU competition law. Case C-170/13, Huawei Technologies Co. Ltd. v. ZTE Corp.

Contact:

Louise Stoupe

81 3 3214 6522

lstoupe@mofo.com

Robert Hollingshead

81 3 3214 6522

rhollingshead@mofo.com

Kei Amemiya

81 3 3214 6522

kamemiya@mofo.com

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