

Good Faith Negotiation Guidelines for Standard Essential Patent Licenses

March 31, 2022

Ministry of Economy, Trade and Industry

1. Background of the Establishment of the Guidelines

In recent years, disputes have arisen worldwide on licensing Standard Essential Patents (SEPs) due to the widespread use of standards and the complication of technologies required for such standards. In particular, as the Fourth Industrial Revolution progresses in which many products will be computerized and processing data will create new added-value, SEP licensing among different industries, especially those in which Japan has strengths (e.g., automobiles, construction machinery and factories), is expected to expand in the future. Therefore, it is crucial for Japan to consider measures to resolve such disputes efficiently.

In light of this situation, the Competition Enhancement Office and the Intellectual Property Policy Office of Ministry of Economy, Trade and Industry (METI) held the “Study Group on Licensing Environment of Standard Essential Patents”¹ (hereinafter referred to as “the Study Group”). The Study Group, comprised of representatives from industry and experts on intellectual property and competition law, has discussed the measures preferable for Japan. Considering problems faced by SEP holders and implementers caused by low predictability and transparency due to the absence of clear rules on the SEP licensing negotiations² as well as international trends, METI indicated that “the Japanese government will promptly consider and externally disseminate the rules on good faith negotiations that should be complied with by both SEP holders and implementers” in the interim report of the Study Group published in July 2021³, so that good faith negotiations between the parties may encourage early settlements and avoidance of unnecessary disputes, leading to the development of Japanese industries. Following this policy, METI asked domestic and foreign companies, etc., about their opinions on actions at each of the four main steps of SEP licensing negotiations⁴

¹ Eight meetings were held from March 12, 2021 to March 18, 2022 until METI established the Guidelines. Competition Enhancement Office and Intellectual Property Policy Office of METI served as the secretariats. The relevant departments of METI (Policy Planning and Research Division, Trial and Appeal Policy Planning Office, and General Coordination Division of Japan Patent Office (JPO); International Electrotechnology Standardization Division, Technical Regulations, Standards and Conformity Assessment Policy Division, and Strategic Standardization Section of Industrial Science and Technology Policy and Environment Bureau; IT Industry Division of Commerce and Information Policy Bureau; and Automobile Division, and Policy Planning and Coordination Division of Manufacturing Industries Bureau) and Intellectual Property Strategy Headquarters of Cabinet Office, attended as observers from the government. In addition to the experts and the representatives to the relevant organizations of industries (Japan Business Federation (JBF), Japan Intellectual Property Association (JIPA), Japan Electronics and Information Technology Industries Association (JEITA), Japan Automobile Manufacturers Association, Inc. (JAMA) and the Japan Chamber of Commerce and Industry (JCCI) who attended the meetings, member companies of JEITA and JAMA observed the meetings (only in the cases where that member companies hoped to do so).

² The following problems were pointed out; business risks for companies in diverse industries, low predictability of the results of litigations, difficulties in enforcing competition law, and risks that legitimate exercise of rights is not permitted.

³ “Study Group on Licensing Environment of Standard Essential Patents Interim Report” (released on July 26, 2021) provided direction that “the Japanese government will promptly consider and externally disseminate rules on good faith negotiations that should be complied with by both SEP holders and implementers, taking into account international discussions, in order to realize an appropriate licensing environment through improvement of transparency and predictability of the SEP licensing negotiation processes.”

⁴ Competition Enhancement Office and Intellectual Property Policy Office of METI asked a total of 16 stakeholders (half of them are domestic and the other half are foreign), mostly companies, to investigate their opinions on their actions at each step of SEP licensing negotiations, as such information may contribute to establishing the Guidelines. Moreover, the offices also asked opinions on the same

(see “4. Actions to be taken at each step of the license negotiation” below), and METI also asked opinions on the same contents on the website. The Study Group discussed good faith negotiations with reference to these opinions. METI then established the “Good Faith Negotiation Guidelines for Standard Essential Patent Licenses” (hereinafter referred to as “the Guidelines”), considering the results of the discussions.

2. Standing of the Guidelines in SEP Licensing Negotiations

The Guidelines are the norms of good faith negotiations provided by the Japanese government to be followed by SEP holders and implementers involved in SEP licensing negotiations, including Japanese patents, to realize an appropriate licensing environment through improvement of transparency and predictability of the negotiations.

The Guidelines are not legally binding and do not guarantee that, even if followed, negotiations can be judged to be in good faith in each individual case as there are no clear global rules for SEP licensing negotiations⁵. However, METI expects that various parties related to SEP licensing negotiations, such as those in the negotiations and the judiciary, utilize the Guidelines, because METI established the Guidelines considering opinions of domestic and foreign companies, etc., industries and experts on intellectual property and competition law in Japan.

3. Subject of the Guidelines

The Guidelines apply to licensing negotiations⁶ of SEPs subject to FRAND commitments⁷.

SEP licensing negotiations are mainly classified into the following two negotiations depending on who are the parties: (i) negotiations conducted between a SEP holder who owns SEPs and an implementer (hereinafter referred to as “bilateral negotiations”) and (ii) negotiations conducted between a patent pool management company, who does not own SEPs and contracts with SEP holders, and an implementer (hereinafter referred to as “negotiations by PP”).⁸

contents on the website (from January 19 to March 8, 2022) to confirm a wide range of opinions that may be useful for reference, and a total of 12 domestic and foreign stakeholders submitted their opinions.

⁵ For example, concerning the treatment of claim charts when a SEP holder makes a licensing offer to an implementer, the Federal Court of Justice of Germany stated in *Sisvel v. Haier* (Federal Court of Justice (Bundesgerichtshof), decision of May 5, 2020 – KZR 36/17) that further technical or legal explanations or information, such as claim charts, is typically sufficient but would not be required. On the other hand, the SEPs Expert Group, which was set up by the European Commission, provided a proposal (Proposal 51, Rating: 4.5/5) in “Group of Experts on Licensing and Valuation of Standard Essential Patents ‘SEPs Expert Group’” (published in January 2021) that when a SEP holder asserts its patents against an implementer, in addition to the information listed under proposal 50, it should provide high level claim charts for the SEPs on the patent list or, if the SEP holder has a relatively large portfolio of SEPs, for a sufficient number of representative SEPs (without requiring the implementer to first sign a non-disclosure agreement (“NDA”).

⁶ SEP licensing negotiations including Japanese patents. If challenging the essentiality of patents subject to a license in licensing negotiations revealed that some or all the patents do not satisfy the essentiality (i.e., such patents are not SEPs), the Guidelines do not apply to the licensing negotiations of such patents. While the Guidelines do not apply to licensing negotiation of patent not subject to FRAND commitments, there is a view that actions in licensing negotiations of patents that are not subject to FRAND commitments but that the patent holder claims are essential for a standard should be the same as actions in licensing negotiations for SEPs subject to FRAND commitments.

⁷ Commitments that SEP holders provide licenses under fair, reasonable, and non-discriminatory (FRAND) terms and conditions (the “FRAND Terms”). Generally, members of a standard-setting organization make FRAND commitments regarding the SEPs of a standard developed in the organization prior to the formulation of the standard.

⁸ Mainly in Europe, studies on how implementers jointly conduct licensing negotiations by forming Licensing Negotiation Groups are underway mainly from the viewpoint of competition law.

The general view is that the exercise of rights to injunctive relief by SEP holders who own SEPs against implementers who are willing to obtain a license under FRAND terms in good faith is restricted.⁹ On the other hand, patent pool management companies, who do not own SEPs and do not exercise the rights by filing a lawsuit on their own, are considered less flexible negotiations than SEP holders as they conduct negotiations under contracts with SEP holders. Therefore, the Guidelines provide the norms of good faith negotiations to be followed by the parties in bilateral negotiations and do not apply to negotiations by PP. However, the Guidelines also apply to negotiations conducted by a patent pool management company who owns the SEPs subject to the negotiations and negotiations conducted by a SEP holder and an implementer after negotiations by PP are suspended and transition to bilateral negotiations¹⁰.

In addition, negotiations by PP are common in practice, and even when negotiations by PP transition to bilateral negotiations, it could be expected that negotiations after such transition will be smoother if the patent pool management company provides sufficient information prior to the transition to bilateral negotiations. Therefore, it is desirable that patent pool management companies work on ensuring transparency using the Guidelines as one reference.¹¹

4. Actions to Be Taken at Each Step of SEP Licensing Negotiations

The following are the actions to be taken by a SEP holder and an implementer at each of the four main steps in SEP licensing negotiations.

While the framework based on the four steps, widely known worldwide, is useful in SEP licensing negotiations, not all licensing negotiations proceed in this order exactly. Therefore, the Guidelines do not deny that the SEP holder takes the actions in STEP 3 together with STEP 1 or that the implementer takes the actions in STEP 4 together with STEP 2. Moreover, if the parties go through all four steps once but they cannot reach an agreement, the parties may alternatively repeat the same actions as those specified in STEP 3 and STEP 4 thereafter.

<Four main steps in SEP licensing negotiations> ([] indicates party taking actions in each step):

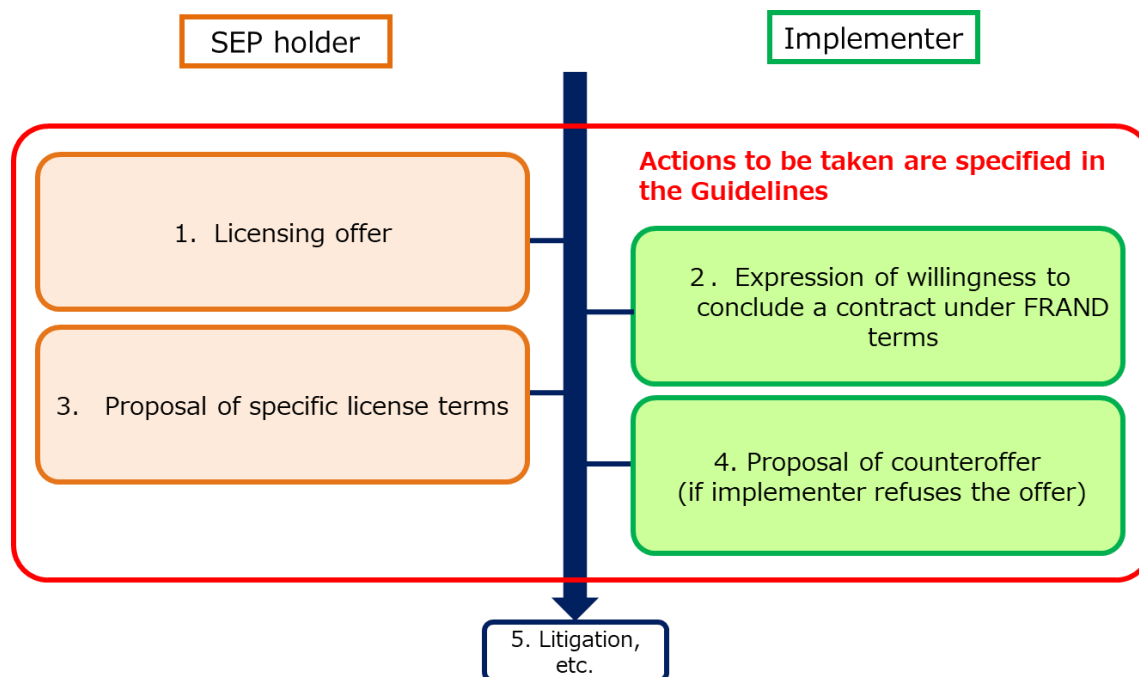
- STEP 1: Licensing offer [SEP holder]
- STEP 2: Expression of willingness to conclude a contract under FRAND terms [Implementer]
- STEP 3: Proposal of specific license terms [SEP holder]
- STEP 4: Proposal of counteroffer (if the implementer refuses the offer proposed at STEP 3)
[Implementer]

⁹ “Study Group on Licensing Environment of Standard Essential Patents Interim Report” (released on July 26, 2021)

¹⁰ In the case that negotiations by PP transition to bilateral negotiations between a SEP holder and an implementer, they do not need to provide the same information provided to the other party before the transition.

¹¹ For example, MPEG LA, which is a patent pool management company for SEPs of standards such as digital video coding, publishes the following information for each license program: a list of patent numbers, corresponding standard numbers, a comparison table of patent claim numbers and section numbers of corresponding standards (“Cross-Reference Chart”), a summary of license terms including royalties, SEP holders, and licensees (implementers).

<Image of the four main steps in SEP licensing negotiations>



(1) STEP 1: Licensing offer [SEP holder]

When a SEP holder makes the licensing offer regarding SEPs to an implementer, the SEP holder should provide the following information regarding the patents subject to the license (hereinafter referred to as “the subject patents”) to the implementer, either voluntarily or at the implementer’s request.

- a list of patent numbers
- claim charts mapping patent claims to standards element by element (When there is a large number of the subject patents, the claim charts are made for representative patents.)
- information indicating that the implementer’s products comply with the corresponding standard
- information indicating the existence of FRAND commitments and corresponding standard numbers¹²

When the SEP holder provides the claim charts mapping patent claims to standards element by element, it is desirable that the SEP holder does not include them in the scope of a non-disclosure agreement (hereinafter referred to as “NDA”) if requested by the implementer.¹³

¹² The SEP holder does not need to prepare new documents to provide this information. It is sufficient for the SEP holder to provide existing documents, such as licensing declaration forms submitted to standard-setting organizations, if the documents indicate the existence of FRAND commitments and corresponding standard numbers for the subject patents.

¹³ This shall not apply when the claim charts include non-public information, such as interpretations of words by the SEP holder. However, even if the SEP holder provides the claim charts under an NDA, the SEP holder should not preclude the implementer from disclosing them to its suppliers, attorneys, patent attorneys, etc., if the implementer needs their knowledge to proceed with its own licensing negotiations. On the other hand, even if the SEP holder provides claim charts without an NDA following the implementer’s request, the implementer should not disclose them to third parties without the SEP holder’s consent for purposes other than the licensing negotiations, such as publishing them on the Internet.

(2) STEP 2: Expression of willingness to conclude a contract under FRAND terms [Implementer]

If the SEP holder has taken the actions specified at STEP 1 (Licensing offer), the implementer should express its willingness to obtain a license for the subject patents under FRAND terms to the SEP holder. Even if the implementer expresses the willingness while reserving to challenge the essentiality, validity, or infringement of the subject patents in the negotiation process as appropriate, its willingness to obtain a license under FRAND terms in good faith is not denied.

Even after the implementer expresses the willingness, the SEP holder should not preclude the implementer from disclosing the information provided by the SEP holder to the suppliers, attorneys, patent attorneys, etc., if the implementer needs their knowledge to proceed with its own licensing negotiations.

(3) STEP 3: Proposal of specific license terms [SEP holder]

If the implementer has taken the actions specified at STEP 2 (Expression of willingness to conclude a contract under FRAND terms), the SEP holder should provide specific license terms, including royalties, to the implementer. In addition to explaining how the royalties are calculated, the SEP holder should explain that the license terms are FRAND by using appropriate information such as information concerning third-party licenses¹⁴, royalty rates of patent pools, and court cases so that the implementer can objectively understand that the license terms are FRAND.

(4) STEP 4: Proposal of counteroffer (if implementer refuses the offer proposed at STEP 3) [Implementer]

If the SEP holder has taken the actions specified at STEP 3 (Proposal of specific license terms) and the implementer does not accept the license terms proposed by the SEP holder, the implementer should provide specific license terms, including royalties, as a counteroffer to the SEP holder. In addition to explaining how the royalties are calculated, the implementer should explain that the license terms are FRAND by using appropriate information such as information concerning third-party licenses¹⁵, royalty rates of patent pools, and court cases so that the SEP holder can objectively understand that the license terms are FRAND.

¹⁴ In the Guidelines, the term “third-party licenses” indicates license agreements that the SEP holder or the implementer has entered into with third parties in the past. There are cases where NDAs with the third parties prevent the SEP holder or the implementer from providing the other party with information concerning the third-party licenses.

¹⁵ Same as above note.