Standard-Essential Patents and the Japanese Competition Law in Comparison with China, the US and the EU

著者	Takigawa Toshiaki
journal or publication title	The Antitrust Bulletin
volume	62
number	3
page range	483-493
year	2017-08-15
権利	Copyright (C) 2017 SAGE Publications. Reprinted by permission of SAGE Publications.
URL	http://hdl.handle.net/10112/11405

doi: 10.1177/0003603X17718683

Standard-Essential Patents and the Japanese Competition Law in Comparison with China, the US and the EU

Toshiaki Takigawa*

Abstract

Despite having committed to FRAND (fair, reasonable and nondiscriminatory) terms, not a few standard-essential-patents (SEPs) owners have engaged in holdup (such as suing for injunction,

---

* Professor, Faculty of Law, Kansai University, Osaka, Japan. E-mail: takigawa@kansai-u.ac.jp

This is the accepted version to be published in *The Antitrust Bulletin*, 2017, Vol. 62(3), pp. 483-493, posted in the Kansai University Repository, by permission of SAGE Publications.

or levying very high royalty), which have triggered antitrust/competition actions in the US, the EU, China, Japan and Korea. This article focuses on the Japanese situation, highlighting its difference with the Chinese one. The Japanese competition agency (JFTC) as well as Japanese IP High Court have closely studied the jurisprudence in the US and the EU, coming up with solutions in line with those adopted by the US and EU courts and agencies. By contrast, Chinese agencies and courts have devised unique methods for tackling SEP/FRAND issues. First, a Chinese antimonopoly agency has utilized the exploitative-abuse provision of the Chinese competition law for ordering a SEP owner to reduce its royalties to Chinese licensees, regardless of the SEP owners' FRAND commitment. Second, a Chinese court utilized "non-discriminatory" portion of FRAND commitment, for mandating virtually the same royalty to be levied on Chinese licensees as that levied on Apple. These methods either leave too much latitude to the agencies, or lack a convincing rationale.

Key Words

standard-essential-patents, FRAND, holdup, exploitative abuse, injunction suits, JFTC, NDRC, SAIC, IP Guidelines, Qualcomm, non-assertion-of-patents, NAP, *Apple v. Samsung*, *Huawei v. ZTE*

Introduction

Standard-essential-patents (SEPs) represent those patents which have become essential to users of technical standards, thanks to the patents' incorporation into standards by standard-setting-organizations (SSOs). In exchange, SSOs have obliged the patentees to commit to FRAND (fair, reasonable and nondiscriminatory) terms, regarding royalty as well as other terms for licensing the SEPs.

Nevertheless, despite having committed to FRAND, not a few SEP owners have engaged in holdup (such as suing for injunction, or levying very high royalty), which have triggered antitrust/competition actions in the US, the EU, China, Japan and Korea. This article focuses on the Japanese situation, highlighting its difference with the Chinese one, with the objective of shedding additional light on the issue of SEP/FRAND and competition law.

For each aspect of SEP/FRAND, a general competition-law issue is first explained, referencing treatments in the US and the EU, followed by explanation on the Japanese situation, highlighting differences with the Chinese one.

I. Regulatory Choice between Exclusionary-abuse and Exploitative-abuse

In both the US and the EU, SEP owners engaging in holdup have been condemned as infringing the competition law, when the holdup amounted to undue exclusion of competitors: exclusionary conduct or exclusionary abuse. Indeed, the US antitrust agencies accuse unilateral conduct only

when the conduct falls into illegal exclusion of a competitor—“monopolization” in the antitrust terminology.

European situation is more complex. European Commission, based on the EU competition law (Article 102 TFEU), condemns unilateral conduct by a dominant enterprise, when the conduct falls into not only exclusionary-abuse, but also exploitative-abuse,¹ which comprises unduly high prices as well as other undue terms of trade against trade-counterparts.

Condemning unilateral conduct as exploitative-abuse is controversial because the condemnation tends to cause over-interference into business dealings. Fear of over-interference is legitimate because, first, those enterprises which have legally gained dominant position need to be allowed to exploit the position, for the sake of securing innovation incentives; second, objectively identifying undue exploitation (typically, unduly high price) is prohibitively difficult.² For these reasons, European Commission has in recent years refrained from condemning exploitative-abuse.³ On top of these reasons, condemning patentees for

---

¹ Article 102 TFEU does not define “abuse”; still, the Article has been interpreted by the EU courts and scholars to cover exploitative abuse: *See* ALISON JONES & BRENDA SUFRIN, EU COMPETITION LAW: TEXT, CASES AND MATERIALS (5th ed., 2014), at 367.

² *See* the European Commission, *Excessive Prices -- European Union*, Submission to OECD (October 17, 2011), Competition Committee, Working Party No. 2 on Competition and Regulation, paras 8-10 (noting, first, practical difficulties facing competition authorities in intervening against exploitative conduct; second, positive effects of high prices and high profits in a market economy).

³ The Commission’s Article 102 Guidance Paper limits its guidance on exclusionary abuse, with a brief note on exploitative abuse that the Commission intervenes “in particular where the

exploitative-abuse is particularly problematic, given that patentees (and to a lesser degree, owners of other IPs) have been granted legal rights to exploit their monopoly of the patented technologies.

Consequently, the US and the EU antitrust/competition agencies currently limit condemnation of single patentees to cases of illegal exclusionary-conduct. As for Japan, Japanese competition agency (Fair Trade Commission: JFTC) has followed the US and the EU agencies, in not condemning patentees for their exploitative-abuse, instead focusing on exclusionary-abuse.

To be sure, Japanese competition law (the Antimonopoly Act; the AMA) is equipped with a provision prohibiting exploitative-abuse—Article 2 (9) (v) which prohibits “abuse of superior bargaining power”.⁴ Nevertheless, the JFTC has refrained from utilizing the exploitative-abuse provision against patentees; most prominently, the JFTC has condemned “non-assertion-of-patent (NAP) licensing-clause adopted by Microsoft and Qualcomm, as exclusionary abuse,

---

protection of consumers and the proper functioning of the internal market cannot otherwise be adequately ensured.”-- Guidance On The Commission’s Enforcement Priorities In Applying Article 82 Of The EC Treaty [now Article 102 TFEU] To Abusive Exclusionary Conduct By Dominant Undertakings, [2009] OJ C45/7, para 7.

⁴ Article 2-9 (v) of the Japanese competition law (Antimonopoly Act: AMA), translation available at http://www.jftc.go.jp/en/legislation_gls/amended_ama09/index.html (last visited December 16, 2016).

rather than exploitative abuse—specifically the exclusion of Japanese licensees (such as Toshiba and Sony) as competitors to Microsoft or Qualcomm.⁵

In continuation of its hesitancy to utilize exploitative-abuse regulation against patentees, the JFTC, in its recent amendment to its IP Guidelines, which aims at SEP/FRAND issues, expressed viewpoint on SEP owners' injunction suits, which is in line with those adopted by the US and the EU antitrust/competition agencies: SEP owners are condemned when they engage in exclusionary abuse, rather than exploitative abuse.⁶

---

⁵ JFTC Hearing Decision—Microsoft (September 16, 2008), 55 Shinketsushu 380; JFTC Cease and Desist Order against Qualcomm (September 30, 2009), 56 (2) Shinketsushu 65, abbreviated English translation available at <http://www.jftc.go.jp/en/pressreleases/yearly-2009/sep/individual-000038.html> (last visited December 16, 2016). Both decisions condemned the non-assertion-of-patent (NAP) clause as handicapping Japanese licensees in competing with either Microsoft or Qualcomm. Qualcomm appealed the JFTC Order to the JFTC Hearing, whose proceeding is still going on (at the end of 2016).

⁶ JFTC, Guidelines for the Use of Intellectual Property under the Antimonopoly Act (2007, revised 2016), at Part 3 [Monopolization] (1) (i) (e) (“Refusal to license or bringing an action for injunction...may fall under the exclusion of business activities of other entrepreneurs by making it difficult to research & develop, produce or sell the products adopting the standards”); also similarly at Part 4 [Unfair Trade Practices] (2) (iv), translation available at http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.files/IPGL_Frand.pdf (last visited December 2, 2016).

Consequently, among major competition agencies, Chinese antimonopoly agencies stand out as the ones that condemn exploitative-abuse by patentees. First, National Development and Reform Commission (NDRC) has condemned Qualcomm⁷ for infringing the exploitative-abuse clause of Chinese Antimonopoly Law (AML Article 17 (1) which prohibits unfair high price). NDRC applied the AML Article 17 (1) to several of Qualcomm's licensing clauses (such as non-assertion-of-patents: NAP) levied on Chinese licensees. NDRC treated the NAP clause as equivalent with royalty-free grant-back, thus determining infringement of AML Article 17 (1), arguing "it was unfair for the Party to request for licensees to license back the patents for free"⁸

To be sure, NDRC also identified exclusionary-abuse character in several of Qualcomm's licensing clauses. Still, NDRC has put weight on exploitative-abuse in Qualcomm's licensing clauses, with the objective of ordering Qualcomm to reduce its royalties to Chinese licensees; after negotiation with NDRC, Qualcomm substantially reduced royalties to Chinese licensees.⁹

---

⁷ NDRC Penalty Decision against Qualcomm [2015] No. 1 (February 9, 2015), Chinese original available at http://www.ndrc.gov.cn/gzdt/201503/t20150302_666209.html (last visited December 16, 2016), English translation by Norton Rose Fulbright, *Competition Law in East Asia*, Issue 74 (April 1, 2015).

⁸ *Id.*, translation, at 21.

⁹ See Qualcomm Press Release, "Qualcomm and China's National Development and Reform Commission Reach Resolution - NDRC Accepts Qualcomm's Rectification Plan - Qualcomm Raises Midpoints of Fiscal 2015 Revenue and Non-GAAP EPS Guidance," (February 9, 2015) ("Qualcomm will charge royalties of 5% for 3G devices (including multimode 3G/4G devices) and 3.5% for 4G devices (including 3-mode LTE-TDD devices) that do not implement CDMA or WCDMA, in each case using a royalty base of 65% of the net selling price of the device."),

Second, Chinese antimonopoly agencies' willingness to utilize exploitative-abuse regulation is further witnessed by the agencies' recently published IP Guidelines' drafts: both NDRC and State Administration for Industry and Commerce (SAIC) have published Chinese IP Guidelines' drafts, which include a section prohibiting unfairly high royalty.¹⁰

There exist reasons for denial or reluctance by antitrust/competition agencies in the US, the EU and Japan of applying exploitative-abuse regulation to patent licensing-clauses: first, preservation of innovation-incentives; second, difficulty in coming up with proper level of royalties. This difficulty is buttressed by the fact that NDRC did not (or could not) explain the basis on which it came up with the new royalty to Chinese licensees; the new royalty has been reached through virtual settlement between NDRC and Qualcomm¹¹, settlement being inherently opaque.

---

available at

https://www.digchip.com/companies_news/2015/2015_02_09.php#LA2763209022015-1 (last visited December 16, 2016).

¹⁰ NDRC, a draft of *the Antimonopoly Guidelines in Relation to the Abuse of Intellectual Property Rights* (December 31, 2015), Chinese original available at http://www.sdpc.gov.cn/gzdt/201512/t20151231_770313.html (last visited December 16, 2016), English translation—Norton Rose Fulbright, *Competition Law in East Asia*, Issue 84 (January 2016); SAIC, a draft of *Guidelines on the Prohibition of the Abuse of Intellectual Property Rights Eliminating or Restricting Competition* (February 4, 2016), Chinese original available at http://www.saic.gov.cn/zwgk/zyfb/qt/fld/201602/t20160204_166506.html (last visited December 16, 2016).

¹¹ See Qualcomm Press Release, *supra* note 9.

II. Identification of Market power held by a SEP owner

Abuse-of-dominance (or monopolization in the US) provision of competition law requires competition agencies to identify dominant position (namely, market power) as a necessary condition for concluding infringement of law by the targeted enterprise. This requirement is common among the US, the EU and Chinese competition agencies.

Japan is anomaly on this point: the JFTC is required to identify merely “risk of harming competition”, under the unfair-trading-practices provision of the AMA (Article 2 (9)). Still, the JFTC, in recent years, has come to identify certain degree of market power in the targeted enterprises, for exclusionary-abuse cases.

For identifying market power, competition agencies have often encountered difficulty in delineating relevant market. For instance, the JFTC, in its Microsoft decision (concerning NAP clause imposed on Japanese licensees of Windows),¹² identified certain degree of market power in Microsoft, through delineating the relevant market as “PC related audio-visual market”.¹³ However, this market may be too narrowly delineated, given that the licensees--Japanese electric-appliances manufacturers (such as Toshiba and Sony)— have developed their audio-visual technologies not specifically for PC, but for broader commercial use. If the relevant market had been broadly delineated, the JFTC could not have identified market power in Microsoft, leading to non-infringement decision.

---

¹² JFTC Hearing Decision—*Microsoft*, *supra* note 5.

¹³ *Id.* at 55 Shinketsushu 427.

By contrast, identification of market power in SEP owners has been usually easy and straightforward, because SEPs, through network effect gained by a single standard (which becomes the winner-takes-all standard), usually bring market power to SEP owners. In other words, SEP users (mostly manufactures) usually are not able to secure alternative patents to the SEPs.

Moreover, even in case multiple standards coexist within an industry, single standard may be deemed to form a distinct market, leading to identification of market power in SEP owners. This is because those manufacturers adhering to one of several standards “have become locked in” to the standard.¹⁴ This is exactly the position taken by the European Commission, which, in Motorola case, held that Motorola, as a SEP owner, has market power because current users of the standard (GPRS standard for mobile communications) are locked in the standard.¹⁵

Consequently, the US and EU antitrust/competition agencies (and courts) have routinely identified dominance/market power in SEP owners. Similarly, in Japan, the JFTC in its Qualcomm decision, by contrast with its Microsoft decision, easily identified market power in Qualcomm because the case concerned Qualcomm’s SEP (regarding the wireless standard set up

---

¹⁴ Broadcom Corp. v. Qualcomm Inc., 501 F.3d 297, 315 (3d Cir.2007).

¹⁵ Commission Decision of 29.04.2014, C(2014) 2892--Motorola Mobility LLC, at para 231 (Due to the wide adoption of GPRS in the EEA and the need of operators and device manufacturers to base their services and products on the same air interface technology, so that devices can communicate with the network, industry players are locked-in to the GPRS technology).

by European Telecommunications Standards Institute).¹⁶ Furthermore, the JFTC, in its IP Guidelines, expresses that a standard technology is likely to be found as influential in the technology or product market.¹⁷

China is no exception in this global trend: Chinese antimonopoly agencies (and Chinese courts) have identified dominant position in SEP owners¹⁸, and this identification has received little criticism from commentators, as compared with much controversy surrounding finding of abusive nature in the SEP owners' holdup conduct.

Most prominently, NDRC's draft IP Guidelines explains how to judge dominance regarding a SEP owner: The Guidelines do not identify dominance solely from being a SEP

---

¹⁶ JFTC, *Qualcomm*, supra note 5, translation, at 2 (3) (the NAP clause tends to "further strengthen Qualcomm's influential position in the market pertaining to the technologies").

¹⁷ JFTC IP Guidelines, supra note 6, at Part 2 (4) (ii).

¹⁸ See NDRC Qualcomm decision, supra note 8, English translation, at 15 (each wireless SEP is unique such that no actual or potential supply-side substitutability exists after each wireless SEP is adopted, issued and implemented by the relevant wireless communications technology standard. Therefore, each wireless SEP licence separately constitutes an independent relevant product market.). Also see Guangdong Appellate Court, *Huawei v. IDC* (holding that IDC has market power, since IDC, as an owner of a SEP in the 3G standard, is able to block new entrants)-- (2013) Yue Gao Fa Min San Zhong Zi Nos. 305, 306, abbreviation (in Chinese) available at http://cdnet.stpi.narl.org.tw/techroom/pclass/2014/pclass_14_A137.htm (last visited December 12, 2016).

owner, but takes into consideration several market factors—such as existence of substitutable standard.¹⁹ This viewpoint by NDRC is compatible with the global trend.

III. Basis for identifying undue exclusion in SEP owners' holdup conduct

To fulfill another condition for condemning exclusionary-conduct, competition agencies are required to identify undue character in the exclusion. This is because the competition law does not deem exclusion itself as evil; excluding (or disadvantaging) competitors is inherent in competition process. This perception is commonly held by competition agencies in the US, the EU, China and Japan. Consequently, alleged holdup by SEP owners—typically, injunction suits against licensees who refuse to pay up the royalty—may be condemned only when the holdup is imbued with undue character.

A. Reasons for not allowing SEP owners to bring injunction suits against willing licensees

A Large part of holdup has been injunction suits brought by SEP owners against their licensees. And the US courts have held that a SEP owner infringes the antitrust law when the owner brings an injunction suit against a licensee who has shown willingness to negotiate on FRAND-conditioned royalty. This point has most persuasively been put forth by Judge Posner in *Apple v. Motorola*, in which the judge said: “By committing to license its patents on FRAND terms,

---

¹⁹ NDRC's draft Chinese IP Guidelines, *supra* note 10, at III (I) 3.

Motorola committed to license [its SEP] to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent.”²⁰

A parallel viewpoint has been expressed by the US FTC in its consent order to Google (Motorola). The FTC essentially held that a SEP owner may proceed with an injunction suit only after it has gone through proper negotiation procedure, on which the FTC, through settlement with the defendant (Google/Motorola), came up with a kind of model procedure for negotiating A FRAND royalty.²¹

This antitrust standpoint (a SEP owner is authorized to proceed with injunction suit only after going through proper negotiation with willing licensees) has come to be shared by the EU and Japanese competition agencies as well as courts.

B. Treatments in the US and the EU: their Influence on Japan

1. The US jurisprudence's influence on Japanese IP High Court

In Japan, the JFTC and Japanese IP High Court have tackled the SEP/FRAND issues. As common with the US and the EU, SEP/FRAND conflict has materialized in Japan in the form of FRAND royalty disputes, which have prompted SEP owners to bring injunction suits (as well as

---

²⁰ Apple, Inc. v. Motorola, Inc., 869 F. Supp. 2d 901, 914 (N.D. Ill. 2012).

²¹ Federal Trade Commission, Analysis of Proposed Consent Order to Aid Public Comment (January 3, 2013), at 6-8.

damage-recovery suits) against their licensees, who in turn have retaliated by bringing counter-suits against the SEP owners.

In Tokyo, such an injunction suit was brought by Samsung, a SEP owner, against its licensee, Apple, who responded with a counter-suit, accusing Samsung of engaging in illegal holdup. Apple's suit led to the IP High Court decision,²² which held it illegal (under Civil Law's abuse-of-rights provision) for the SEP owner (Samsung) to seek injunction against the licensee (Apple) who have shown willingness to negotiate on a FRAND-conditioned royalty. The Court, in turn, sustained Samsung's right to seek damage recovery (up to the amount of a FRAND royalty) from Apple, proceeding to come up with a concrete level of a FRAND royalty.

The High Court, in preparation for concluding this decision, apparently had studied the discussions and court decisions in the US on SEP/FRAND, since the Court had sought public comments in preparation for this decision, for which Japanese scholars and attorneys responded with comments heavily influenced by commentaries and court decisions in the US.

In this case, the Japanese High Court encountered little difficulty in rejecting injunction sought by a SEP owner against its licensee, because the licensee (Apple) clearly expressed willingness to go into negotiation on a FRAND royalty, whereas the SEP owner (Samsung) instantly brought injunction suit, without going into negotiation. The High Court, therefore, did

---

²² IP High Court ("Chizai-Kosai", Tokyo), Apple v. Samsung (May 16, 2014), Japanese version only available at http://www.ip.courts.go.jp/vcms_lf/H25ne10043_zen1.pdf (last visited December 10, 2016). The IP High Court is a Japanese equivalent of the U.S. Court of Appeals for the Federal Circuit (C.A.F.C.), which singlehandedly deals with appellate decisions on IP related suits.

not need to go through difficult stipulation on balancing interests of a SEP owner against those of its licensee, as exercised by the US FTC's consent decision on Google/Motorola.

2. European Court's Huawei v. ZTE Decision: Its influence on JFTC's Revised IP Guidelines

For properly balancing interests of a SEP owner and its licensees, Japanese commentators as well as the JFTC have got greater inspiration from the EU jurisprudence than from the US one. This is because the European-Court-of-Justice (ECJ)'s Huawei v. ZTE decision has presented clearer and more easily understood viewpoint, as compared with the US FTC's complicated one in its consent decision on Google/Motorola.

Indeed, JFTC's recent revision of its IP Guidelines (aimed at SEP/FRAND issues) clearly shows influence from ECJ's Huawei v. ZTE decision²³, which is exemplary in delicately balancing interests of a SEP owner and its licensee. The ECJ essentially held, first, a SEP owner infringes the EU competition law (Article 102 TFEU) when the owner brings injunction suit, before going into negotiation on a FRAND royalty with the licensee²⁴; second, an injunction suit, nevertheless, is sustained (namely, it does not infringe the competition law) when the licensee, who does not consent to the licensing condition put forth by the SEP owner, does not come up with security measures "in accordance with recognised commercial practices in the field, for example by providing a bank guarantee or by placing the amounts [for a SEP royalty] necessary on deposit."²⁵

---

²³ C-170/ 13 Huawei v ZTE, EU:C:2015:477 (Judgment).

²⁴ *Id.* at paras 53, 60.

²⁵ *Id.* at paras 66-67.

Prior to concluding the revised Guidelines, the JFTC on July 2015 put its draft to public comments. The draft expressed that it infringes the Japanese competition law (the Antimonopoly Act: the AMA) for a SEP owner to seek injunction against a licensee who has shown willingness to go into negotiation on a FRAND-conditioned royalty.

For adopting this criterion, the JFTC apparently followed the US jurisprudence on SEP/FRAND, most plausibly from *Apple v. Motorola* (N.D. Ill. 2012). Consequently, the draft Revised-Guidelines stood on a sound footing.²⁶ Still, the draft may be criticized as lacking in consideration for legitimate interests of SEP owners, since the draft allows SEP licensees to indefinitely prolong FRAND-royalty negotiation, resulting in “reverse holdup”.

This deficiency has become apparent to astute commentators in Japan, after their encountering ECJ’s *Huawei v. ZTE* decision, which got published after the JFTC had sought public comments for its draft Revised-Guidelines. Several commentators (including this author) presented comments to the JFTC, urging the JFTC to prevent reverse-holdup, through modelling the revised Guidelines after the ECJ *Huawei v. ZTE* decision.

---

²⁶ Nevertheless, influential commentators in the US delivered to the JFTC a public comment, expressing a contrary view on inclusion of SEP/FRAND issues in the competition law Guidelines, for fear of overregulation, noting that civil suits are sufficient to deal with SEP/FRAND issues: *Public Comment* (August 3, 2015) by D.H. Ginsburg (the First Appellate Court Judge) and Joshua Wright (FTC Commissioner, at the time of the comment), available at the FTC website: <https://www.ftc.gov/public-statements/2015/08/comment-commissioner-joshua-d-wright-judge-douglas-h-ginsburg-japan-fair> (last visited December 10, 2016).

In response, the JFTC revised its draft, resulting in the finalized IP Guidelines, in which the JFTC took into consideration SEP owners' interests, through specifying conditions for identifying "willing licensees": "Whether a party is a 'willing licensee' or not should be judged based on the situation of each case in light of the behavior of the both sides in licensing negotiations etc. (for example, the presence or absence of the presentation of the infringement designating the patent and specifying the way in which it has been infringed, the presence or absence of the offer for a license on the conditions specifying its reasonable base, the correspondence attitude to the offers such as prompt and reasonable counter offers and whether the parties undertake licensing negotiations in good faith in light of the normal business practices) ."²⁷

C. China

Chinese antimonopoly agencies (and courts) have yet to adopt a standpoint on SEP/FRAND, which is in line with those expressed by the US, the EU and Japanese competition agencies. Instead, a Chinese antimonopoly agency (National Development and Reform Commission: NDRC) has ordered a SEP owner (Qualcomm) to reduce its royalty to Chinese licensees, by use of exploitative-abuse regulation. Subsequently, NDRC as well as SAIC (State Administration for Industry & Commerce) have published Chinese IP Guidelines' drafts, in which they expressed

---

²⁷ JFTC, Guidelines for the Use of Intellectual Property under the Antimonopoly Act (revised, January 2016), at Part 3 (1) (e) (i), English translation available at http://www.jftc.go.jp/en/legislation_gls/monopoly_guidelines.files/IPGL_Frand.pdf (last visited December 10, 2016).

viewpoints on SEP/FRAND. Nevertheless, their viewpoints are opaque, in comparison with those expressed by the US, the EU and Japanese competition agencies as well as courts.

The problem with NDRC's Qualcomm decision²⁸ is that it did not deal with holdup by a SEP owner (Qualcomm), despite Qualcomm's patents being SEPs. Instead, NDRC cracked down on exploitative (as well as exclusionary) abuse by the dominant enterprise, not specifically targeting SEP/FRAND issue. NDRC held that licensing terms inflicted by Qualcomm on Chinese licensees (such as royalty-free license back) constitute exploitative-abuse (infringement of AML Article 17 (1) which prohibits unfairly high price), leading to ordering Qualcomm to reduce its royalties.

By contrast, drafts for Chinese IP Guidelines specifically deal with the SEP/FRAND issues. Among the drafts issued by NDRC and SAIC, NDRC's draft specifically deals with injunctive suit by a SEP owner, expressing: "if the holder of standard essential patent with a dominant market position uses injunctive relief to force a licensee to accept any unreasonably high license fees or other unreasonable licensing condition proposed by the holder, such conduct may eliminate or restrict competition."²⁹

Nevertheless, this statement is too general, raising the question of criteria, whereby NDRC judges illegality of an injunctive suit. On this point, the NDRC's draft lists factors to consider in judging whether the injunctive suit "eliminates or restricts competition", but these factors (such as manners of royalty-negotiation) are all too general. Crucially, the factors do not include the fact that the SEP owner has committed to FRAND, as a condition for a SEP owner to be found infringing the AML. By contrast, intervening into injunction suits by SEP owners

---

²⁸ *Supra* note 7.

²⁹ NDRC, Chinese IP Guidelines draft, *supra* note 10, at §III (II) 6,

without FRAND commitment has never been attempted by competition agencies in the US, the EU or Japan, for fear of curtailing legitimate right of patentees.

Consequently, the NDRC's draft leaves Chinese antimonopoly agencies wide latitude in condemning an injunction suit brought by a SEP owner, to the detriment of innovation incentives. Chinese antimonopoly agencies might study the European Court's Huawei v. ZTE Decision, as well as the JFTC's revised IP Guidelines, for coming up with viewpoints which properly balance interests of a SEP owner and its licensees.

IV. How to calculate the proper level of a FRAND royalty

The solution to SEP holdup ultimately necessitates proper calculation of a FRAND-conditioned royalty. This is because difference of opinion between a SEP owner and its licensees on proper level of a FRAND royalty has caused competition-law suits (or complaints to competition agencies) brought by unhappy licensees. Nevertheless, the competition agencies, in the US, the EU and Japan, have all refrained from calculating proper level of a FRAND royalty.

However, calculating a FRAND royalty cannot be left out of competition-law solution of SEP/FRAND issues, because merely prohibiting injunction suits causes the parties to go back to negotiation on a FRAND royalty, indefinitely prolonging the negotiation. Competition agencies, nevertheless, are lacking in capacity for calculating proper level of a royalty, given that they are not price-regulation agencies. This dilemma has been resolved by the US FTC as well as the European Court of Justice, in their SEP holdup cases, by soliciting the SEP owner and its licensees to go to court (or go into arbitration), in case they could not reach agreement

themselves.³⁰ And indeed, courts in the US as well as in Japan have deduced concrete levels of FRAND royalties. By contrast, in China, an antimonopoly agency (NDRC) has itself come up with concrete level of a FRAND royalty, in its Qualcomm decision.

A. Commonality in the US and Japan for deducing a FRAND royalty

A US federal district court, in its *Microsoft v. Motorola*, has shown how to deduce reasonable level of a FRAND royalty, and subsequently the Japanese IP High Court also deduced “reasonable” royalty conforming to FRAND, through a method which apparently got inspiration from that of the US court.

As for the US, W.D. Washington district court, in *Microsoft v. Motorola*³¹, calculated reasonable level of a FRAND royalty to be levied on Microsoft by Motorola (a SEP owner). The court took following steps for its calculation. First, the court referred to the royalty level reached by the patent-pool (to which both Microsoft and Motorola had joined), reasoning that a royalty reached by a patent-pool properly balances interests of SEP owners and licensees. A pool royalty is for the total package of all the patents in the pool; an individual royalty for a patent-pool member is calculated by dividing the pool royalty by number of patents in the pool. Second, the court added certain rate to the individual royalty rate, in order to reflect distinct value of

---

³⁰ ECJ, *Huawei v ZTE*, *supra* note 23, para 68 (“where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay.”)

³¹ *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217 (W.D.Wash) (April 25, 2013).

Motorola's SEP, since the individual royalty is calculated without reflecting different values of individual patents in a pool. Thus, the court eventually calculated the FRAND royalty (to be received by Motorola) as three times the rate of the individual royalty in the pool.

As for Japan, the Japanese IP High Court calculated a proper level of a FRAND royalty, through a method, which apparently got inspiration from the US *Microsoft v. Motorola*. The IP High Court decision -- *Apple v. Samsung*³² -- deals with Apple's counter-suit against Samsung's injunction suit. Prior to these suits, Samsung had demanded that Apple (as a licensee of Samsung's SEP) pay to Samsung the royalty rate of 2 percent (of iPhone price), which, Apple accused, is excessively high for a FRAND royalty.

The High Court held that Samsung's injunction-suit infringes Japanese Civil Law (its provision prohibiting "abuse of rights"), but, in turn, sustained Samsung's right to seek damage recovery corresponding to a FRAND royalty. The Court then proceeded to calculate a reasonable royalty rate (conforming to FRAND), taking following steps.

First, the High Court deduced the degree to which the standard (UMTS standard set up by European Telecommunications Standards Institute) contributed to iPhone's value. Taking into consideration that this case concerns smart phones, which contain numerous capabilities other than mobile-communication, the Court came up with a relatively smaller number as the contributing rate—the exact number [X] is kept undisclosed in the published decision.

Second, the Court did not simply take this [X] to be sum of FRAND royalties to be received by all the SEPs, but concluded that only "5%" of [X] is the appropriate sum of FRAND royalties, on the basis that sum of royalties for the SEPs (incorporated in the standard) needs to

---

³² IP High Court, *Apple v. Samsung*, *supra* note 22.

be set at a level which is economically reasonable.³³ This opinion points to the need for avoiding “royalty stacking”. Therefore, although the Court did not (or could not) refer to a package royalty rate of a relevant patent-pool, the Court’s concern for economically-reasonable royalty rate is in parallel with that of W.D. Washington district court.

Third, the Court deduced the royalty rate to be received by Samsung. Samsung held only a single SEP in the UMTS standard; therefore, the Court determined the reasonable royalty rate for Samsung to be “(5% of X) /529” (of the iPhone price).³⁴ Here, by contrast to W.D. Washington district court, the Japanese Court did not make adjustment for reflecting distinct value of the Samsung’s SEP. This is because Samsung (or Apple) did not present any testimony regarding contents of the SEPs other than that of Samsung; Samsung’s SEP, therefore, may not be deemed more valuable than other SEPs.³⁵

B. China—NDRC Qualcomm decision and *Huawei v. IDC*

By contrast to the US and Japan, in China, an antimonopoly agency (NDRC) itself came up with a concrete level of a FRAND royalty. Concurrently, in a private-suit case, a Chinese court has calculated a concrete level of a FRAND royalty. Nevertheless, not only the NDRC’s but also the court’s methods for deducing a FRAND royalty are at odds with those adopted by the US and Japanese courts.

---

³³ *Id.* at 144.

³⁴ *Id.* at 146.

³⁵ *Id.* at 144.

First, NDRC, as a pre-condition for coming up with a FRAND royalty, determined that existing royalties levied by Qualcomm on Chinese licensees are excessively high, leading to “abuse of dominant position”, in contravention of the rule against “selling commodities at unfair high prices” (AML Article 17 (1)). Then, as the remedy for this contravention, NDRC, after negotiation with Qualcomm, came up with new royalties, the level of which is substantially cut down from that of the prior royalties.

The NDRC’s method for royalty calculation is at odds with the methods adopted by the courts in the US and Japan, on three points. First, FRAND commitment by Qualcomm had no role for the NDRC to reach the new royalty; “unfair high price” was determined from Qualcomm’s licensing clauses which were deemed unfair to Chinese licensees (such as royalty-free licensing-back). Second, NDRC principally made use of exploitative-abuse provision of the AML (Article 17 (1)) for condemning Qualcomm’s licensing clauses, which is contrasted with use of exclusionary-abuse (or exclusionary conduct) provisions of antitrust/competition laws for the US, the EU and Japanese competition agencies and courts. Third, NDRC reached new royalty through negotiation with Qualcomm, resulting in not disclosing basis for the level of the reduced royalty, leading to non-transparency.

Next, in the private-suit decision--*Huawei v. IDC*, Shenzhen regional court (affirmed by Guangdong Appellate Court)³⁶ highlighted FRAND-commitment pledged by the defendant

---

³⁶ Shenzhen Regional Court--(2011) Shen Zhong Fa Zhi Min Chu Zi Nos. 857, 858; Guangdong Appellate Court-- (2013) Yue Gao Fa Min San Zhong Zi Nos. 305, 306, abbreviation (in Chinese) available at http://cdnet.stpi.narl.org.tw/techroom/pclass/2014/pclass_14_A137.htm (last visited December 12, 2016). See Xiaoye Wang & Grace Gao, *SEPs and Competition Law* –

(IDC, an American IT enterprise) for its SEPs, which is contrasted to the NDRC decision. Nevertheless, despite focusing on FRAND commitment, the Chinese court's method for deducing a FRAND royalty is at odds with those adopted by the US and Japanese courts; the Chinese court utilized "non-discriminatory" portion of FRAND (Fair, Reasonable and Non-discriminatory), rather than "reasonable" portion, for reaching proper level of FRAND royalty. The Chinese court, then, referred to the royalty rate levied on Apple by IDC (0.0187%), which led to conclusion that IDC is mandated to levy on the Chinese licensees (Huawei) the royalty rate of 0.019%-- virtually the same rate as that on Apple.

The Chinese Court's ruling lacks convincing reasons, given that non-discrimination commitment does not automatically mandate same level of royalty to all the SEP licensees; licensees' different conditions (such as volume of licensed products) legitimizes different levels of royalties³⁷, while Apple and Huawei hold markedly different conditions: such as licensed-volumes.

Conclusion

SEP/FRAND issues involve high-technology enterprises, whose businesses span the globe. It is, therefore, hoped that major competition agencies in the world learn from each other, with a view

---

from Perspective of the Case Huawei v. IDC, in COMPETITION LAW AND IP IN CHINA STATUS (SM Maniatis, Xiaoye Wang & Ioannis Kokkoris eds., 2017).

³⁷ See Damien Geradin, *Pricing Abuses by Essential Patent Holders in A Standard-Setting Context: A View from Europe*, 76 ANTITRUST L.J. 329, 339 (2009) ("any attempt to compel licensors to offer licenses providing for identical royalty rates would prevent differential treatment based on objective differences between licensees and be, in itself, discriminatory").

to coming up with harmonious solutions. In this regard, the JFTC as well as Japanese IP High Court have closely studied the jurisprudence in the US and the EU, coming up with solutions in line with those adopted by the US and EU courts and agencies.

By contrast, Chinese agencies and courts have devised unique methods for tackling SEP/FRAND issues. First, a Chinese antimonopoly agency has utilized the exploitative-abuse provision of the Chinese competition law for ordering a SEP owner to reduce its royalties to Chinese licensees, regardless of the SEP owners' FRAND commitment. Second, a Chinese court utilized "non-discriminatory" portion of FRAND commitment, for mandating virtually the same royalty to be levied on Chinese licensees as that levied on Apple. These methods either leave too much latitude to the agencies, or lack a convincing rationale.