



## Features

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# Out of court

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**Government bodies in Asia and beyond say that alternative dispute resolution is underutilised in disputes over fair, reasonable and non-discriminatory licences. However, parties on both sides argue that it is far from a cure-all**

By **Jacob Schindler**

High-profile patent disputes over different generations of wireless technologies are still playing out in litigation taking place across the globe, from California to London, and Beijing to Delhi. However, at the same time there is a lot of concern about the step up to 5G technologies and the possibility of efficient connectivity for just about any product. In boardrooms, at patent offices and within competition authorities, decision makers want to know what the next generation of licensing will look like. Some worry that with both the number of standard-essential patents (SEPs) and the number of implementers on the rise, the cost of negotiating licences and settling disputes could increase significantly.

Some observers – mainly but not all on the government side – have envisioned a greater role for alternative dispute resolution (ADR) processes in patent fights, particularly where SEPs are concerned. Courts and regulators in Europe and the United States have both suggested that processes such as binding arbitration should be used more often by parties contesting disputes over fair, reasonable and non-discriminatory (FRAND) licences. The Japan Patent Office (JPO) took that idea a step further in 2017, proposing an administrative alternative to SEP litigation that could deliver quick and authoritative rulings on FRAND royalty rates within Japan. However, an outcry among patent owners forced the JPO to pull plans to make this process mandatory.

“Arbitration in the FRAND space is probably both underutilised and also growing,” argues Claudia Milbradt, a Dusseldorf-based partner with Clifford Chance. Milbradt and her colleagues in the firm’s IP litigation practice are being called on more and more to assist with arbitration matters that have an IP angle.

However, when it comes to tech-sector clients, it is the interaction between intellectual property, antitrust and digitisation that is keeping them most busy. In Hong Kong – a common venue for disputes involving Chinese parties – Charmaine Koo, a partner at local firm Deacons, tells a similar story. “Throughout most of my 20-year practice we really have not seen much arbitration in the IP world other than domain name UDRP [Uniform Domain Name Dispute Resolution Policy], but we definitely have worked on more such cases in the last few years,” she reports.

Binding arbitration is most commonly used to resolve conflicts arising from a patent licence that has already been signed. Practitioners report that such contract-based patent disputes are taking place with increasing frequency, particularly involving Chinese parties. Some are now questioning whether similar measures could be applied usefully in cases where there is no pre-existing patent licence. However, the reaction to the JPO plan and conversations with SEP owners and implementers suggest that caution is in order and that ADR methods may not be the magic bullet that some believe.

## Arbitration gains currency as antitrust spotlight lands on SEPs

In both the United States and Europe, regulators suggested arbitration as a way to resolve FRAND matters at the peak of the smartphone patent wars. Many of these proposals were based on the idea that SEP owners should not be allowed to pursue injunctions against willing licensees. Ling Ho, a partner with Clifford Chance in Hong Kong, says this is still the



Claudia Milbradt – partner, Clifford Chance



Charmaine Koo – partner, Deacons



Ling Ho – partner, Clifford Chance

most common reason that patent plaintiffs hesitate to try arbitration first: “When the IP owner spots infringement, they want an injunction so that they don’t have to wait years.”

Binding arbitration was a centrepiece of the remedy stemming from the Federal Trade Commission (FTC)’s 2013 investigation of Google’s (previously Motorola Mobility’s) SEP licensing practices. In a consent decree negotiated with regulators, Google agreed to offer binding arbitration to establish a FRAND licence before seeking an injunction. Arbitration was mandated because the FTC found that Google had gained undue leverage against willing licensees by threatening them with injunctions and International Trade Commission (ITC) exclusion orders.

That order applied only to Google but it was also intended as a signal to the market. Because it proposed required arbitration as a mechanism to prevent patent owners from pursuing exclusion orders, the order provoked wariness among big SEP owners. Qualcomm at the time warned that binding arbitration should not become a general guideline for SEP owners, arguing that this would precipitate “a major shift away from the current environment in which the overwhelming number of SEP licenses are privately negotiated”. The chipmaker specifically cautioned that the FTC’s settlement with Google could be “over-interpreted” by foreign regulators to the detriment of US-based innovators.

The following year, the European Commission secured an agreement from Samsung Electronics not to pursue SEP injunctions in Europe against licensees that agreed to a certain framework for negotiations. This included an option for FRAND questions to be determined by an arbitrator after a one-year negotiation period, but only if both parties agreed – otherwise a court would have its say. The commission encouraged other industry players to adopt similar dispute resolution mechanisms.

The idea of arbitration as a possible solution to the SEP antitrust problem appeared to be gaining acceptance among regulators and was also the subject of academic debate. Mark Lemley and Carl Shapiro made a bold policy proposal in 2013: standards setting organisations (SSOs) should require members to commit to resolving any FRAND disputes through binding so-called ‘baseball’ arbitration. The authors declared that “most of the litigation and debate over FRAND is unnecessary”, arguing that arbitrators could deliver more predictable, efficient and accurate outcomes.

In baseball arbitration – also known as final offer arbitration – each party submits a proposed award; after a hearing, the arbitrator must choose one or the other, with no modifications. This mitigates one of the key objections to mandatory arbitration in IP licensing disputes (one raised by Qualcomm in its comments on the FTC Google order): that the frequency of so-called ‘split the difference’ type decisions gives both sides a perverse incentive to exaggerate their demands in the run-up to the decision, thus widening the gap between parties even further. In theory, baseball arbitration gives both sides an incentive to make their most reasonable acceptable offer.

Lemley and Shapiro stressed that the system would ultimately not be mandated by any government or regulator but would be voluntarily adopted by licensors. However, major SSOs and SEP owners do not seem to agree that this system would be in everyone’s best interest, as none have committed to it.

More recently, the European Court of Justice’s influential 2015 decision in *Huawei v ZTE* appeared to pave the way for more FRAND arbitration. The court’s suggestion that FRAND rates should be decided by a court or arbitral tribunal attracted a great deal of attention. “I think it made clear to the parties involved in those proceedings that as a second step, an arbitration board may be well placed to stipulate FRAND royalties,” says Milbradt.

**Table 1.** The world’s most active arbitration forums

	2012	2013	2014	2015	2016
<b>ICC</b> (International Chamber of Commerce)	759	767	791	801	966
<b>DIS</b> (German Institution of Arbitration)	121	121	132	134	166
<b>SCC</b> (Stockholm Chamber of Commerce)	177	203	183	181	199
<b>VIAC</b> (Vienna International Arbitration Centre)	70	56	56	40	60
<b>SCAI</b> (Swiss Chamber’s Arbitration Institution)	92	68	105	100	81
<b>LCIA</b> (London Court of International Arbitration)	277	301	296	326	303
	996	1,165	1,052	1,063	1,050

<b>ICDR</b> (International Centre for Dispute Resolution)					
<b>SIAC</b> (Singapore International Arbitration Centre)	235	259	222	271	343
<b>CIETAC</b> (China International Economic and Trade Arbitration Commission)	1,060	1,256	1,610	1,968	2,183
<b>HKIAAC</b> (Hong Kong International Arbitration Centre)	293	260	252	271	262
<b>ICSID</b> (International Centre for Settlement of Investment Disputes)	50	40	38	52	48
<b>Total</b>	4,130	4,496	4,737	5,207	5,661

Source: Global Arbitration News

## Japan's bold bid for mandatory ADR runs into trouble

Fast-forward to 2017 and the conflagrations of the 4G smartphone war – which are still raging in courtrooms around the world – could pale in comparison to conflicts sparked by the massive increase in connectivity promised by 5G wireless tech. Policymakers in Japan appear particularly concerned about the prospect for patent conflict arising from what is often termed the ‘fourth industrial revolution’ (4IR). A study group convened in 2017 warned that Japanese industry risked being left behind in such a scenario. However, its plan for mandatory arbitration of SEP disputes has so far proved controversial.

As the number of declared SEPs continues to balloon, the group's April 2017 report – the authors of which include government representatives, IP academics, private practice lawyers and technology and patent experts from corporates such as Canon, NEC, Olympus and Sony – warned that “the costs required for negotiating patent licenses and settling disputes is increasing”. Particular attention was paid to the potential consequences for Japan's auto industry, which the report pointed out will be implementing more and more standards. “We will need

to find ways,” the study group concluded, “to reduce the costs of licensing negotiations and settling disputes that may hinder the smooth use of the SEPs”.

One of the measures proposed by the study group was an ADR system which would go far beyond that which had previously been recommended by regulators in the United States and Europe. The binding arbitration over SEP licences would be mandatory and instituted at the request of the implementer, rather than by the agreement of the two parties. In addition, it would be carried out by the JPO. It was summed up by the study group as follows:

*[T]he government will consider introducing an ADR system (licensing award system for SEPs) designed to deal with disputes on licensing of SEPs, which have a significant influence on society. Under this system, government will work on disputes between patent holders and possible licensees based on request by the latter, when the parties cannot reach agreements on licensing, deciding appropriate licensing fees of SEPs with due care to not unfairly harm the interests of the patent holders. In designing the system, the government will need to conduct studies with due consideration for problems related to PAEs [patent assertion entities], on which standards other than de jure standards and which SEPs other than declared 22 SEPs with FRAND terms should be in the scope of the system, and on what requirements to be appropriate for establishing the licences.*

The government did indeed include the proposal in its 2017 legislative IP plans, just one month after the study group released its report. Though the system attracted little initial notice, patent owners soon realised that it marked a radical departure. In effect, it would enact a compulsory licensing system for SEPs with the government having a final say on the royalties to be paid to the patent owner.

One Tokyo-based representative of a major SEP owner summed up the company’s concerns about the plan: “ADR as such is a very good tool, but it’s about the competence to implement that type of ADR system. The competence you need for doing licensing deals is mainly related to business issues, not too much about the patent legal issues. For the JPO to propose itself as an

arbiter of royalty rates was a little bit of an unexpected direction. After all, there are already many arbitration bodies, some of which have developed competencies on FRAND issues as well.”

The submissions to a public consultation held about the JPO arbitration system were not published but the proposal may well have elicited a considerable amount of criticism. In November, the government announced that it would set aside the ADR plan for the time being. The JPO cited two main problems with the system: first, it was only ever intended to adjudicate disputes over JPO-issued patents, making it unlikely to provide an efficient solution to SEP negotiations, which are typically global in nature. Second, the competence of the JPO to make calls about specific licensing provisions – details that are very commercial in nature – was seriously questioned by critics.

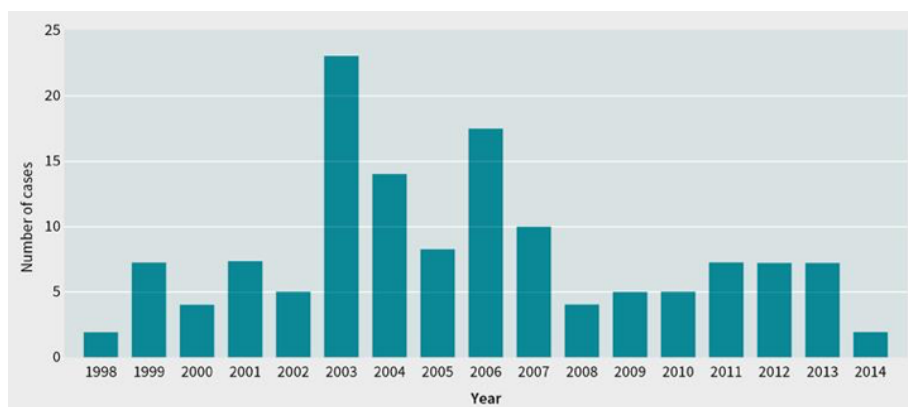
Because of this important second point, Satoshi Watanabe – partner at Shobayashi International Patent & Trademark Office and founder of WATANABE Research & Consulting – says the ADR mechanism is unlikely to resurface even as a non-mandatory or non-binding offering. “The JPO needs to demonstrate its capability in the practices of the licensing business, but that may be beyond its role,” he observes. Without significant capacity-building at the JPO, its opinions on commercial FRAND matters likely would not be sought out by patent owners.

Despite the sidelining of the ADR proposal for now, JPO Commissioner Naoko Munakata made clear in a recent speech at IPBC Asia in Tokyo that the government still sees fundamental problems in the FRAND field. The Internet of Things sector, she suggested, “has made it harder to resolve disputes based on cross-licensing agreements and has revealed a gap in parties’ respective perceptions of reasonable royalty levels”. The JPO is now working on a new set of SEP guidelines. Munakata maintained that if private parties cannot resolve crucial issues, the government will continue to weigh in. “With multilateral negotiations making little headway, it’s up to us to be creative,” he argues, calling on the JPO to grow its capacities beyond being merely a rights-granting office.



Satoshi Watanabe  
– partner at  
Shobayashi  
International  
Patent &  
Trademark Office  
and founder of  
WATANABE  
Research &  
Consulting

**Figure 1.** Number of applications to the Japan Intellectual Property Arbitration Centre between 1998 and 2014



Source: Japan Intellectual Property Arbitration Centre

## Europe calls for more arbitration, but sees transparency as a roadblock

The European Commission issued its own communication on SEP matters in November 2017, the contents of which are being hotly contested by European players in the licensing market. The rules are being closely watched by the market – not only will they set the tone for antitrust IP attention on the continent, but JPO watchers tell *IAM* their influence will likely be felt in any future guidance in Japan.

Ultimately, the communication's final form appears a boon to standards developers and appears to endorse industry efforts led by companies such as Avanci to create new 5G licensing platforms. The commission also said that it believes that arbitration and other ADR methods are “under exploited” in the FRAND arena, and that such methods can offer swifter and less costly dispute resolution. However, the communication makes it clear that “there can be no obligation” for parties to engage in this process, perhaps in reaction to the system proposed in Japan earlier in 2017.

The commission identified two main barriers to the greater adoption of ADR in FRAND disputes. The first is predictability. That is something all sides would like to see and comes back to how many arbitration centres would be able to develop procedures and lists of FRAND experts that would satisfy all parties. The second issue – transparency – is somewhat more complex, as licensors and licensees often have very different views on it. The commission notes that arbitration has been



criticised for its lack of transparency and recommends that arbitration decisions be recorded in databases maintained by SSOs. This jibes with a range of other calls in the document for SSOs to collect more and better-quality information to create databases that can assist SEP negotiations.

Xiaomi Vice President for IP Strategy Paul Lin sums up one reason why many people are sceptical about the traditional arbitration model as applied to SEPs. “I’m a strong believer that FRAND should involve transparency in terms of both process and result,” he insists. “I don’t like closed-door procedures where you don’t know how it’s being conducted and the results are non-public.” This concern is felt especially among companies that fall more heavily on the implementer side.

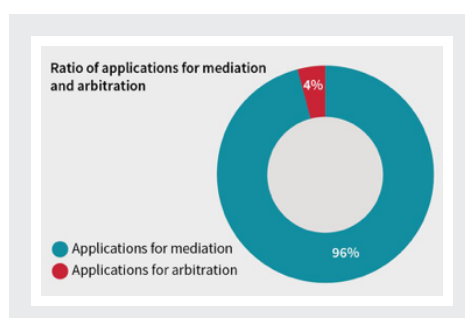


Paul Lin – vice president, IP strategy, Xiaomi

For Koo, the whole market could benefit from greater clarity around FRAND issues because approaches by courts and regulators are still very much developing. “In this area people want certainty. If a fee is determined to be unreasonable and non-FRAND, they want it to be an official public decision so they know what to do in the future. If everyone goes to private arbitration which is confidential, then all the players in the market won’t have that information.” As for the European Commission’s call to have arbitration results recorded by SSOs, Koo notes that even this might not be enough. “If people don’t know how a decision was arrived at and what principles were used to determine a reasonable rate, it doesn’t add to the body of precedents. A lot of players think that’s really important.”

Of course, how much of an arbitral award becomes public is ultimately up to the two parties. Publishing an eventual award and the reasoning behind it is relatively straightforward when both parties agree. However, some SEP owners remain sceptical about the need for the transparency measures called for by the European Commission. Standardisation

**Figure 2.** Breakdown of mediation and arbitration applications to the Japan Intellectual Property Arbitration Centre



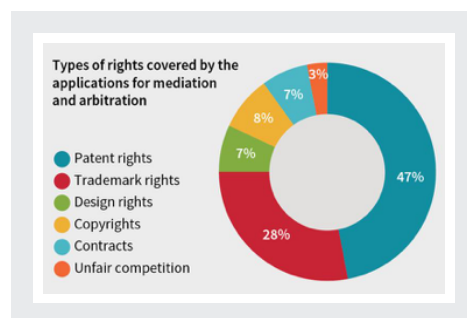
participants ought to be totally transparent about SEP declarations – although

whether that transparency should extend to licence rates is “in dispute”, according to one large SEP owner. Milbradt says that confidentiality is one of the key reasons why arbitration has been a popular mechanism for SEP disputes.

It remains to be seen whether efforts to make the arbitration process more transparent might end up undercutting its appeal to some parties. It will be instructive to see how SSOs, which are ultimately run by standards developers, respond to the idea of keeping data on arbitral awards as envisioned by the European Commission. Milbradt remains doubtful over whether it is a workable solution. “For some industry bodies to have a full picture is unrealistic,” she points out. “If two parties have a confidential agreement it’s confidential, and parties have good reason to insist on it staying that way.”

Source: Japan Intellectual Property Arbitration Centre

**Figure 3.** Types of rights in cases heard by Japan Intellectual Property Arbitration Centre



Source: Japan Intellectual Property Arbitration Centre

## How much demand is there for ADR?

Various proposals to make ADR mandatory seem to be non-starters. That means that any growth in the use of arbitration to resolve FRAND questions in the absence of a pre-existing licence will be driven by demand on both sides of disputes. The confidentiality of most arbitrations can make it difficult to gauge how much activity there is. While some lawyers report working on more SEP arbitrations – including infringement disputes – some arbitration forums show little indication of patent uptake.

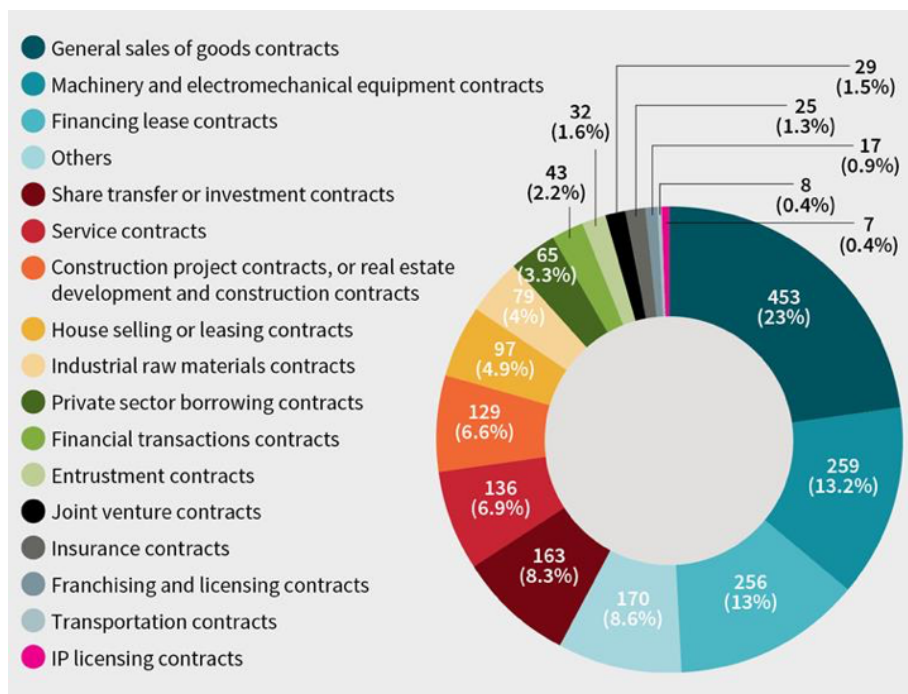
Take Japan, for example. While the JPO made ADR an important part of its 4IR reform plans, there is scant evidence that patent disputants in Japan are demanding more services of this type. Of course Japan sees only low levels of litigation – Watanabe points out that there are only around 200 new patent lawsuits per year. That lack of conflict appears to extend to arbitration as well.

There is a specialised Japan Intellectual Property Arbitration Centre but it is seldom used. While about half of the disputes it hears are related to patents, it received just two new applications in 2014 and three in 2015, the latest year for which numbers are available. Most of the work it carries out is on mediations rather than arbitrations, suggesting that if Japanese parties are looking for binding decisions, they are looking for them elsewhere.

The World Intellectual Property Organisation (WIPO) has made what appears to be the only attempt so far to create a dedicated FRAND offering within its existing WIPO Arbitration and WIPO Mediation services. The organisation created processes specific to SEP disputes in consultation with telecoms stakeholders and the European Telecommunications Standards Institute, and offered model agreements that parties could use to refer their disputes to WIPO as far back as 2013. However, according to WIPO statistics and arbitrators with significant experience in that forum, there is no indication of any FRAND dispute actually having been decided under this regime. Milbradt finds the lack of uptake curious but points out that there could well be pending cases that we do not know about. She believes that one possible reason for the lack of cases is that presently “in contract negotiations, most of the time the forum inserted into dispute resolution clauses is the International Chamber of Commerce”, but she adds: “This is no explanation why in controversies without underlying contracts parties still rarely agree to the WIPO regime.”

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**Figure 4.** Types of dispute in China International Economic and Trade Arbitration Commission cases (2015)



Source: China International Economic and Trade Arbitration Commission

Indeed, the International Chamber of Commerce's (ICC) International Court of Arbitration (ICA) has been the site of many of the big recent FRAND arbitral decisions. Nokia used binding arbitration there to determine financial terms of a patent licence with Samsung in 2016, and more recently with LG Electronics in 2017. In both cases, the parties first signed a royalty-bearing patent licence agreement and then agreed that the royalty payment obligations would be determined at the ICC ICA. "The use of independent arbitration to resolve differences in patent cases is a recognised best practice," the Finnish company's chief legal officer commented after the latter case. For both parties, this model provided certainty that a deal would be struck relatively quickly, while leaving the exact financial details to be hammered out later.

Of course one of the biggest changes to the licensing market in recent years has been the rise in prominence of Chinese implementers. And when it comes to dispute resolution clauses in IP contracts, lawyers say they tend to prefer staying closer to home. "Generally, Chinese companies don't want ICC arbitration," Ho observes. The China International Economic and Trade Arbitration Commission is the world's busiest arbitration venue by number of cases but foreign companies often steer clear of it over concerns about fairness, quality and efficiency. Like any part of a contract, the venue provided for arbitration comes down to the relative strength of parties – although lawyers

say that Hong Kong is sometimes an agreeable compromise.

“We draft a lot of joint venture and tech transfer deals with Chinese parties, and it’s usually Hong Kong arbitration provided for when it comes to disputes over IP ownership and ownership of improvements,” Ho notes.

Moreover, one of the persistent challenges of arbitration in the IP world is that different jurisdictions have different rules about whether issues such as validity are actually arbitrable. “Many countries take the view that private parties cannot come to conclusions that affect the public register in confidence without the involvement of the patent office,” Koo points out. China is one of these. In principle, validity matters cannot be determined by arbitration in China, while rulings from the Supreme People’s Court appear to suggest that infringement issues can be. However, Ho notes that we might get more clarification on these points soon, as in 2017 the State Intellectual Property Office launched a pilot programme to develop the country’s IP arbitration mechanisms, including through IP specialist venues.

Hong Kong recently moved to encourage the use of ADR in IP disputes by clarifying that both validity and infringement are arbitrable (although they are only binding between the parties) and that these decisions can be enforced in Hong Kong.

According to the Hong Kong International Arbitration Centre, IP disputes accounted for around 5% of new cases submitted in 2016 – about 14 in total. It is “a step in the right direction”, Koo says, but ultimately it is up to parties to consider which parts of any decision will be enforceable in which jurisdictions.

## Key decision factors

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Transparency, venue and scope are just the beginning of the considerations when it comes to deciding on an ADR process in a patent dispute. One feature that seems to mesh well with the nature of patent licensing is the ability to resolve disputes in a single proceeding.

“SEP negotiations are global; if you can manage to have a ruling at the end that covers all jurisdictions this is a huge advantage,” Milbradt points out. Koo recounts that this was a major factor when a client recently decided to resolve a patent infringement dispute with an alleged infringer with whom it had no previous

licence. “Instead of managing separate infringement litigations in the United States, China and Taiwan on the same patent family, they opted to consolidate it into one venue and one hearing.”

“I tend to agree from an efficiency perspective that you do a global licence rather than country by country,” Lin concedes. However, he adds that parties can also decide by mutual agreement to litigate in a single venue without using an ADR process. For example, in the recent SEP dispute between Ericsson and TCL, the two sides agreed that the rate set by the US judge would apply globally.

“Another reason why arbitration is often chosen is because of the enforceability of its award,” Koo explains. This is particularly relevant when it comes to disputes with Chinese parties. Rightly or wrongly, many Western companies are still hesitant to litigate in China, and enforceability of judgments has historically been a concern in the IP space. “China is getting really good at enforcing arbitration awards via the New York Convention,” Ho observes. “It’s not 100%, but you won’t find that anywhere.”

As to whether ADR can cut costs, that depends on the available alternatives. “So far my biggest negative for arbitration is that it is so expensive, even compared to court litigation,” Koo observes. It may be just one proceeding but parties pay for everything – the arbitrators’ time and travel (a panel of three if it is a big case), the venue itself, breakout rooms and a live transcript. If the parties are applying various local laws rather than just one, there will be fees for multiple sets of lawyers as well. As with most things in ADR, it comes down to what the parties want and that does not always match up. “Sometimes you will have cost-conscious parties haggle over which arbitrators to appoint based on their hourly rate,” Koo recalls.

However, in the end it all comes back to specialised FRAND expertise – if that does not exist in the pool of available arbitrators, then litigants are likely to stay in the courts. The core complaint about the JPO’s ADR plan was that examiners and other JPO officials simply do not have the commercial nous to give the last word on what is essentially a business negotiation. Many arbitration centres have lists of IP experts. But with patent arbitration in its infancy, their ranks are not necessarily large.

In a recently publicised case, TiVo and NPE Personalized Media Communications LLC selected the retired chief judge of the Eastern District of Texas to issue the final award in a long-running

dispute. “It all boils down to who you choose,” Koo maintains. When it comes to setting a rate, an appointee with significant experience of the commercial realities of the licensing market may even be preferable to a judge with strictly legal competencies. “You don’t just need a neutral party,” Milbradt suggests. “You need a board with expertise on the edge of both patent law and commercial questions.”

## What is in store?

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While policymakers are likely to continue encouraging ADR in IP disputes, it seems unlikely that any sort of compulsory scheme for SEP owners is on the horizon. The tail end of 2017 brought an effective endorsement of the SEP *status quo* from the European Commission as well as a notably pro-SEP owner statement from the US Department of Justice’s new antitrust head, Makan Delrahim.

Practitioners across the board say that they do expect to see the amount of arbitration stemming from disputes over existing patent licences to continue to increase. Whether it becomes as prominent in intellectual property as it is in other areas of commercial law remains to be seen, but it does seem to be on the rise.

Of course there are plenty of other visions about what form a new SEP licensing paradigm might take. Avanci and the other companies within the Marconi Group are making an ambitious attempt to update the patent pool concept for the next industrial era. So far their approach appears to have found favour with some global regulators. If an industry-led model such as this becomes successful, it could allay some of the concerns around a 5G patent war and obviate the need to steer conflicts outside the court system.

Many others feel that there is no fundamental problem with the current systems’ ability to handle the advance of technology. “In some jurisdictions, such as Germany, there exists already a very advanced court system with in-depth knowledge in patent law. I am convinced that we have the tools and the bodies to deal with the next era,” argues Milbradt. “If parties want to solve issues that’s obviously possible.” Though his company has notably been on the receiving end of SEP-based injunctions, Lin agrees. “This

is not the first time that cellular wireless has gone from one generation to another. We have survived the past 20 years, so why can't we survive the next 20?"

## Essentiality checks – new ground for patent offices?

As the Japan Patent Office (JPO) backed away from its mandatory alternative dispute resolution (ADR) proposal, it announced a different way in which it would seek to weigh in on disputes involving standard-essential patents (SEPs). In a public meeting, the JPO signalled that it will consider providing official opinions on whether a given SEP is essential to the standard under which it has been declared. The question of SEP over-declaration was one of the concerns raised by Japan's Fourth Industrial Revolution Study Group, which drew on a 2013 study by Japan's Cyber Creative Institute that found only about half of the patents declared essential to the European Telecommunications Standards Institute's long-term evolution standard were in fact essential.

The offering would fall under what is known as the HANTEI system, in which the JPO currently provides non-binding opinions on whether a particular patent covers a specific product. The service costs around \$400 and in 2016 it rendered opinions in 97 patent cases. As an official JPO opinion, Satoshi Watanabe says, HANTEI decisions are "respected to some extent in negotiations". However, Watanabe cautions that the decisions are public and not appealable, adding: "I hesitate to use it." JPO opinions on SEP essentiality, though, "could be a useful defensive tool for potential licensees to show that a particular patent is not an SEP", Watanabe thinks. At the low price point, they could be added alongside invalidity challenges in the standard defensive playbook for SEP defendants.

Japan is not the only place where this idea is being explored. The European Commission communication on SEPs called for a greater level of scrutiny on essentiality claims that would have to be performed by "an independent party with technical capabilities and market recognition". For reasons of cost efficiency, the report suggests carrying out such reviews only at one party's request and limiting them to one patent per family. Patent offices, it concludes, "may well be natural candidates" for the job.



“The JPO may be thinking it’s helping out the licensee side by determining essentiality, but it is not a great concern to us today,” one SEP owner representative told *IAM*. A licensor with a major portfolio will surely have infringed assets even if a few are determined inessential and could even initiate a few reviews itself to demonstrate its portfolio quality to potential licensees. One thing that would be more worrying would be proposals to make essentiality checks a compulsory part of the standards declaration process. Depending on how many jurisdictions required this, it could become a significant cost burden.

For the commercially minded Paul Lin, it does not much matter who makes the call on essentiality. “To me, as long as you have a mechanism that allows both sides to make their cases, I don’t care whether it’s a court decision or the patent office. At the end of the day, you need a neutral third party.” Patent office essentiality checks may not become the new *inter partes* reviews, but they could be a new part of the litigation landscape in the years to come.

## Action plan

It is a well-known mantra that litigation is rarely the most efficient way to resolve a dispute between two private parties. Arbitration has not been a big part of the litigation landscape for patents, but that may be changing.

- Numerous governments and academics have called for greater adoption of alternative dispute resolution (ADR) methods in disputes involving standard-essential patents (SEPs) in recent years.
- In 2017, the Japan Patent Office proposed creating a mandatory ADR scheme which would see it determine fair, reasonable and non-discriminatory (FRAND) rates for Japanese patents, but it has delayed the system’s implementation.
- The European Court of Justice’s decision in *Huawei v ZTE* appears to encourage arbitration in FRAND disputes, as does the European Commission’s recent communication on SEPs.
- China’s patent office is running a pilot programme to upgrade IP arbitration mechanisms, while Hong Kong recently amended its laws to encourage more IP dispute

resolution there.

- Transparency is a key roadblock: SEP licensees want greater transparency, while arbitration is traditionally a closed-door process.
- Existing arbitration forums appear to handle a relatively small but growing number of patent disputes.

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