

|   |                 |       |   |
|---|-----------------|-------|---|
| Date  | May 16, 2014    | Court | Intellectual Property High Court,<br>Special Division |
| Case number   | 2013 (Ne) 10043 |       |   |
| <ul style="list-style-type: none"> <li>– A case in which the court found that the appellee's products fall within the technical scope of the appellant's patent right.</li> <li>– A case in which the court rejected all grounds for patent invalidation as alleged by the appellee.</li> <li>– A case in which the court rejected the appellee's allegation of the exhaustion of the patent right as a result of the assignment of the component parts, holding that no reason could be found to restrict the exercise of the patent right.</li> <li>– A case in which the court found that no license agreement was formed as a result of the appellant's FRAND declaration, because such declaration cannot be regarded as an offer for a license agreement.</li> <li>– A case in which the court found that the appellant's exercise of the right to seek damages based on the patent right constituted the abuse of right to the extent exceeding the amount of the FRAND royalty, but not to the extent of the amount of the FRAND royalty.</li> <li>– A case in which the court determined the amount of the FRAND royalty.</li> </ul> |                 |       |   |

References: Article 1, paragraph (3) and Article 709 of the Civil Code, and Article 101, Article 104-3 and Article 29, paragraph (2) of the Patent Act

## 1. Background

This is a court case wherein the appellee (the plaintiff in the first instance) alleges that its production, assignment, import or other acts in relation to the products specified in the List of Products attached hereto does not constitute an act of infringement of the patent right of the appellant (the defendant in the first instance) under Patent No. 4642898 for the invention titled "method and apparatus for transmitting/receiving packet data using a pre-defined length indicator in a mobile communication system" (hereinafter referred to as the "Patent"), and seeks a declaratory judgment to confirm that the appellant is not entitled to seek damages due to the appellee's tort of infringing the Patent Right in relation to the appellee's acts as mentioned above.

In the judgment in prior instance, the court of first instance upheld all of the appellee's claims, holding that Products 1 and 3 do not fall within the technical scope of the inventions for the Patent, and that the appellant's exercise of the right to seek damages based on the Patent Right for Products 2 and 4 constituted the

abuse of right in spite of these products falling within the technical scope of the Patent. The appellant filed this appeal against said judgment.

2. Outline of the facts on which the court decision is premised

- (1) The Products conform to the UMTS (Universal Mobile Telecommunications System) standard, which is the telecommunications standard developed by 3GPP (Third Generation Partnership Project). 3GPP is a private organization established for the purposes of the dissemination of the third-generation mobile telecommunication system or mobile telephone system (3G), as well as the international standardization of the related specifications.
- (2) ETSI (European Telecommunications Standards Institute), one of the standard organizations which established 3GPP, provides the "Intellectual Property Rights Policy" as the guidelines for the treatment of intellectual property rights (IPRs).
- (3) On August 7, 2007, the appellant, in accordance with the ETSI IPR Policy, notified ETSI that the IPRs including the Patent were or were highly likely to be essential IPRs for the UMTS standard, with an undertaking that it was prepared to grant an irrevocable license on fair, reasonable and non-discriminatory terms and conditions (such terms shall be hereinafter referred to as the "FRAND Terms," and this declaration as the "FRAND Declaration").

3. Issues disputed in this court case

The issues disputed in this action are as follows: [i] whether the Products fall within the technical scope of Invention 1 (Issue 1); [ii] whether the Patent Right for Invention 2 has been indirectly infringed upon (Article 101, items (iv) and (v) of the Patent Act) (Issue 2); [iii] whether restrictions pursuant to Article 104-3, paragraph (1) of the Patent Act may be imposed on the exercise of the Patent Right for the Inventions (Issue 3); [iv] whether the Patent Right for the Products has been exhausted (Issue 4); [v] whether a license agreement in relation to the Patent Right has been formed between Apple Inc. and the appellant based on the appellant's FRAND Declaration (Issue 5); [vi] whether the appellant's exercise of the right to seek damages based on the Patent Right constitutes an abuse of right (Issue 6); and [vii] the amount of damages (Issue 7).

4. Summary of the court decision

- (1) Issue of whether the Products fall within the technical scope of Invention 1

In this judgment, the court determined that Products 1 and 3 do not fall within the

technical scope of Invention 1; whereas Products 2 and 4 fall within said scope.

(2) Issue of whether the Patent contains any ground for invalidation

In this judgment, the court rejected all five grounds for invalidation of the Patent Right alleged by the appellee.

(3) Issue of exhaustion of the Patent Right for the Products

In this judgment, the court held the appellee's allegation of exhaustion of the Patent Right to be groundless since it contains an error in the conditions precedent. The court then held as follows and rejected the appellee's allegation.

" (A) When a patentee or an exclusive licensee (hereinafter simply referred to as a "patentee" in this paragraph) assigns a product to be used exclusively for the production of a patented product (which means a product falling under Article 101, item (i) of the Patent Act if produced, assigned or otherwise handled by a third party; hereinafter referred to as "Item (i) Product") in Japan, the patent right is considered to have been exhausted for said Item (i) Product as it has attained the purposes of the patent right. In this case, it is understood that the effect of the patent right no longer extends to the use, assignment, etc. (meaning the use, assignment, export or import, or offer for assignment, etc. as provided in Article 2, paragraph (3), item (i) of the Patent Act; the same shall apply hereinafter) of said Item (i) Product and therefore the patentee is prohibited from exercising the patent right for said Item (i) Product, as long as said Item (i) Product maintains the status quo. However, it is appropriate to understand that, when a third party later produces a patented product by the use of said Item (i) Product, the patentee is not restricted from exercising the patent right in relation to such acts of production of the patented product or use, assignment, etc. thereof, because such third party has created a new product which falls within the technical scope of a patented invention by the use of a product which is out of the technical scope of such patented invention (BBS Case Supreme Court Judgment of July 1, 1997, *Minshu* Vol. 51, No. 6, at 2299; the Supreme Court judgment of November 8, 2007, *Minshu* Vol. 61, No. 8, at 2989).

Meanwhile, even in such cases, it is appropriate to understand that, if the patentee can be considered to have impliedly consented to the production of a patented product by the use of said Item (i) Product, the effect of the patent right does not extend to the production of the patented product by the use of said Item (i) Product or the use, assignment, etc. of such patented product.

This rationale is understood to also apply to the case where a Japanese

patentee (including parties deemed equivalent to a patentee, such as its affiliated companies) assigned Item (i) Product outside Japan (BBS Case Supreme Court judgment of July 1, 1997, *Minshu* Vol. 51, No. 6, at 2299).

- (B) Next, discussion is made as to the case where the assignor of Item (i) Product is a non-exclusive licensee who had received a license from the patentee (including a party who only has a license for the assignment of Item (i) Product).

In the case where the assignor of Item (i) Product is a non-exclusive licensee, it is understood that, as is the case with that mentioned in (A) above, the effect of a patent right still does not extend to the use, assignment, etc. of said Item (i) Product; whereas the patentee is not restricted from exercising the patent right in relation to the production of a patented product by the use of said Item (i) Product or use, assignment, etc. of such product. Further, even in the case where the assignor of Item (i) Product is a non-exclusive licensee, if the patentee can be considered to have impliedly consented to the production of the patented product by the use of said Item (i) Product, the effect of the patent right still does not extend to the production of the patented product by the use of said Item (i) Product or the use, assignment, etc. of such patented product, as is the case with that mentioned in (A) above.

The issue of existence of such implied consent should be determined in relation to a patentee; however, it would be necessary to separately determine this issue in relation to an exclusive licensee as well, if a non-exclusive licensee who assigned Item (i) Product had been authorized by the patentee to permit a third party to produce a patented product by using said Item (i) Product.

This rationale is understood to also apply to the case where a non-exclusive licensee who had received a license from a Japanese patentee (including parties deemed equivalent to a patentee, such as its affiliated companies) assigned an Item (i) Product outside Japan.

- (C) Next, the abovementioned rationales are applied to this court case.

...Based on the above, in this court case, it is not sufficiently proved that the appellant had impliedly consented to the production of the patented product, nor had [ the manufacturer ] been authorized to do so. Therefore, the court finds that the exercise of the Patent Right should not be restricted in relation to the acts of import or sale of the patented products produced by the use of

the Baseband Chip (Products 2 and 4). "

"The appellee's allegation concerning the exhaustion of patent right is premised on the alleged fact that the Baseband Chip had been manufactured and sold under the license agreement. As such fact is not proved, the court cannot accept such allegation as it lacks the condition precedent. Even the event that this is not the case, the appellant is not restricted from exercising the Patent Right in relation to Products 2 and 4, which are the patented products. Therefore, the court cannot accept the appellee's allegation in this respect in any case. "

(4) Issue of whether a license agreement was formed as a result of the FRAND Declaration

As explained below, the court rejected the appellee's allegation, holding that the FRAND Declaration could not be considered as an offer for a contract and no license agreement for the Patent Right was formed as a result of the FRAND Declaration.

"Under the laws of France, in order for a license agreement to be formed, at least the offer for the license agreement and the acceptance thereof is required. Nevertheless, the FRAND Declaration cannot be considered as an offer for a license agreement under the laws of France due to the following reasons. [i] The FRAND Declaration only uses the expression "prepared to grant irrevocable licenses." When compared with other possible wordings such as "hereby do license" or "commit to license," this expression is not definitive and contemplates further actions by the declarant. Therefore, the FRAND Declaration is not literally deemed a firm license grant. [ii] Even supposing that the laws of France do not require the specifically agreed compensation for formation of a license agreement, the FRAND Declaration provides no guidance for the scope of the binding effect of the contract to be formed upon the acceptance, as it has no specific terms and conditions such as a royalty rate as the consideration of the license agreement, territory or period of the license. Thus, the FRAND Declaration does not contain any terms and conditions that should be normally included in a license agreement. If the FRAND Declaration is regarded as an offer for a license agreement, it is impossible to provide the terms and conditions of the license agreement to be formed. [iii] In making the FRAND Declaration, the appellee opted for a reciprocity clause in accordance with the ETSI IPR Policy and the FRAND Declaration contains a provision setting forth that the license shall be subject to the condition that

the parties agree to reciprocate in relation to the standards. If this FRAND Declaration is understood as an offer for a license agreement, this may result in a situation where a license agreement can be formed only in relation to the patent subject to a FRAND declaration without satisfying such reciprocity condition, if there is any party who owns an essential patent for which no FRAND declaration has been made. [iv] The FRAND Declaration was made in accordance with the ETSI IPR Policy. The "ETSI Guide on Intellectual Property Rights (IPRs)", which supplements this IPR Policy, contains some expressions contemplating that the license is left to the negotiation between the parties, such as "potential licensor" or "potential licensee," and the provision that "ETSI expects its Members (as well as non-ETSI Members) to engage in an impartial and honest Essential IPR licensing negotiation process for FRAND terms and conditions" (Clause 4.4). In addition, the ETSI Guide on IPRs also contains the provisions clarifying that ETSI is not involved in the licensing negotiation, such as the provision that "Specific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI" (Clause 4.1). Further, "ETSI IPR Policy FAQs" also states that "It is necessary to obtain permission to use patents declared as essential to ETSI's standards. To this end, each standard user should seek directly a license from a patent holder" (Answer 6). Thus, ETSI is also considered to contemplate that any FRAND declaration made in accordance with the ETSI IPR Policy, including the FRAND Declaration, does not immediately give rise to a license agreement. [v] In the background history for the adoption of the present ETSI IPR Policy, some participants attempted to introduce a provision enabling the "automatic license" for users; however, this attempt failed because of strong opposition. Understanding the FRAND Declaration as an offer for a license has virtually the same effect as the "automatic license," which was abandoned in the process of adoption of the ETSI IPR Policy. Such consequence is not deemed appropriate as it contradicts with the background history of adoption of the present ETSI IPR Policy.

Based on the above, the FRAND Declaration cannot be interpreted as an offer for a license agreement. "

(5) Issue of whether the exercise of the Patent Right constitutes the abuse of right

In this judgment, the court held as follows, determining that the appellant's claim for damages constitutes the abuse of right to the extent exceeding the amount of the

FRAND royalty, but not to the extent of the amount of the FRAND royalty.

"a. Claim for damages exceeding the FRAND royalty

A party intending to engage in the manufacturing, sale, etc. of a UMTS standard-compliant product would recognize that, among the patent rights essential for the manufacturing, sale, etc. of such product, at least those owned by ETSI members require the timely disclosure in accordance with ETSI IPR Policy Clause 4.1 and the FRAND licensing declaration under ETSI IPR Policy Clause 6.1. Such party would rely on the availability of a FRAND license through an appropriate negotiation with the patentee. Such reliance is worth protecting. Accordingly, in connection with the Patent subject to the FRAND Declaration, allowing the exercise of the right to seek damages exceeding the amount of the FRAND royalty would be detrimental to the reliance of parties who manufacture or sell the UMTS standard-compliant product on the availability of such license.

Owing to such reliance of the UMTS standard users, the patent rights (including the Patent Right) incorporated into the UMTS standard can be widely disseminated among a large number of business enterprises in all parts of the world. As a result, an owner of a Standard Essential Patent can benefit from royalty income, which would be unavailable if the patent was not adopted as part of the UMTS standard. In addition, a party which makes a FRAND declaration as required by the ETSI IPR Policy, including the FRAND Declaration, declares on a voluntary basis that it is prepared to grant an irrevocable license under the FRAND Terms. Considering these circumstances, it is not so necessary to allow such owner the right to seek damages exceeding the FRAND royalty.

Hence, if a patentee who made a FRAND declaration claims damages exceeding the FRAND royalty based on such patent right, the counterparty to such claim should be entitled to refuse the payment to the extent exceeding the amount of royalty, as long as such counterparty successfully alleges and proves the fact of the patentee's FRAND declaration.

Meanwhile, if a patentee successfully alleges and proves the fact of the existence of special circumstances, such as that the prospective licensee has no intention of receiving a FRAND license, the patentee

should be allowed to claim damages exceeding the amount of the FRAND royalty. As such prospective licensee has no intention of benefiting from the FRAND declaration from the outset, no reason can be found to restrict the patentee's right to seek damages up to the amount of the FRAND royalty. Nevertheless, considering the potential detrimental consequences as mentioned above, before allowing the patentee to claim damages exceeding the amount of the FRAND royalty, scrutiny shall be made to determine the existence of special circumstances in which the prospective licensee has no intention of receiving a FRAND license.

b. Claim for damages not exceeding the amount of the FRAND royalty

As for the claim for damages not exceeding the amount of the FRAND royalty, the patentee should not be restricted from exercising such claim even where the patent is a Standard Essential Patent.

A party intending to engage in the manufacturing, sale, etc. of a UMTS standard-compliant product is presumed to have started its business understanding the necessity of paying the amount of the FRAND royalty in the future. In addition, as one of the purposes of the ETSI IPR Policy, Clause 3.2 thereof provides "IPR holders ... should be adequately and fairly rewarded for the use of their IPRs." So, in this context as well, it is necessary to ensure that the patentee is adequately rewarded.

However, if the prospective licensee successfully alleges and proves the existence of special circumstances, such as that, after discussing various circumstances in the process of the FRAND declaration and licensing negotiation, it is considered extremely unfair to permit the patentee to claim for damages not exceeding the amount of royalty, even considering the significance of the right to seek damages as a compensation for the public disclosure of an invention, the possibility cannot be precluded that such patentee's claim is restricted as an abuse of right.

c. Summary

Considering the totality of the above circumstances, the following shall be applied to a claim for damages by a party that made a FRAND declaration, including the appellant who made the FRAND Declaration. [i] A claim for damages exceeding the amount of the



FRAND royalty should not be allowed, unless special circumstances as explained in a. above exist. [ii] The claim for damages not exceeding the amount of the FRAND royalty shall not be restricted even in the case of a Standard Essential Patent, unless special circumstances as explained in b. above exist. "

"Even considering the totality of all circumstances of this court case, no circumstances can be found which renders the appellant's claim for damages not exceeding the amount of the FRAND royalty extremely unfair. Moreover, no evidence has been submitted which sufficiently proves the existence of special circumstances as mentioned above. "

"In this court case, the court finds no such special circumstance, such as the lack of the appellee's intention to receive a FRAND license. "

"Therefore, the appellee's allegation that the appellant's claim for damages constitutes an abuse of right is acceptable to the extent that the amount of damages alleged by the appellant exceeds the amount of the FRAND royalty as mentioned in 7. below; however, this allegation is unacceptable in respect of the amount of damages not exceeding the FRAND royalty. "

(6) Amount of damages

In this judgment, the court held as follows, determining that the amount of the FRAND royalty should be calculated in the following way: [i] multiplying the sales turnover of Products 2 and 4 by the contribution ratio of the compliance with the UMTS standard by Products 2 and 4, [ii] multiplying the amount obtained in [i] by the royalty rate cap, which is applied from the standpoint of preventing the aggregate amount of royalty from being unreasonably high; and [iii] dividing the amount obtained in [ii] by the number of essential patents for the UMTS standard.

"The ETSI IPR Policy and the ETSI Guide on IPRs do not provide any guidance on the calculation of the royalty for FRAND license, and such calculation is left to the negotiation of the parties. Considering the totality of various circumstances, including the purpose of adoption of the ETSI IPR Policy and the nature of Products 2 and 4, the court finds it reasonable to calculate the amount of the FRAND royalty in accordance with the following calculation method.

First, among the total sales turnover of Products 2 and 4, the percentage of the contribution of the compliance with the UMTS standard should be calculated. Next, among the contribution ratio of

the compliance with the UMTS standard, the contribution ratio of the Patent should be calculated. For the purpose of the calculation of the contribution of the Patent among the contribution of the compliance with the UMTS standard, in order to prevent an excessively high royalty in aggregate, the calculation method should be such that the amount of royalty for the entire essential patent pool does not exceed a certain ratio . In this court case, as the specific details of other essential patents are unknown, the amount of FRAND royalty should be based on the division by the number of UMTS standard essential patents . "

(7) Conclusion

Based on the aforementioned considerations, the court held that the appellee's claim has a ground, to the extent of confirmation that the appellant is not entitled to seek damages from the appellee on the ground of the infringement of the Patent in relation to the assignment, etc. of Products 1 and 3, and that the appellant's right to seek damages from the appellee on the ground of the infringement of the Patent in relation to the assignment, etc. of Products 2 and 4 may not be exercised exceeding the amount determined in (6) above. The court determined that the appellee's claim should be upheld to such extent, but that the other claims of the appellee should be dismissed due to the lack of grounds. In conclusion, the court held that the judgment in prior instance should be modified since it contradicts with these determinations.

(8) Results of public consultation

In this court case, the court held a public consultation. The court made a brief explanation on the opinions submitted in response to this public consultation and made a remark as follows: "These opinions are valuable and useful references that helped the court make an appropriate judgment from a broad perspective, and we hereby express our profound gratitude to all the parties who kindly made great efforts to submit their opinions."