



IBA; Litigating standard-essential patents in Japan



Ryuichi Shitara Chief Judge

Intellectual Property High Court, Japan

1 Introduction of the Grand Panel judgment and two Decisions of the IP High Court on May 16th, 2014 (Samsung v. Apple Japan)

- (1) IP High Court rendered the Grand Panel Judgment and decisions on 3 cases (Case number 2013(Ne)10043, 2013(Ra)10007 and 2013(Ra)10008) on May 16th, 2014, in which Samsung as a patentee of the standard-essential patent (Patent No. 4642898, hereinafter called “the Patent”) relating to the Universal Mobile Telecommunications System (“UMTS”) alleged that the products of Apple Japan, namely, iPhone4, iPhone4S, iPad WiFi+3G model and iPad2 WiFi+3G model (“Products 1” to “Products 4” respectively, and “the Products” collectively), infringe the Patent.

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- Apple Japan filed a complaint for a declaratory judgment that Samsung does not have the right to claim damages based on the Patent with regard to Apple's Products.
 - Samsung filed two petitions for preliminary injunction to prohibit Apple Japan from importing and selling the Products.

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- In the declaratory judgment, the IP High Court admitted part of the damages liability of Apple Japan, holding that the sale of the Products by Apple Japan constitutes an infringement of the Patent of Samsung.
 - In the preliminary injunction cases, the IP High Court dismissed the two petitions by Samsung.



(2) Are the judgment and decisions final and binding?

- Apple made a statement that Apple supports these judgment and decisions and would not appeal to the Supreme Court.
- Samsung made no statement, but did not appeal against this judgment.
- These judgment and decisions are final and binding.





(3) Attempt for Amicus Curiae Briefs

- ISSUE IN QUESTION: “Whether a commitment to license a standard essential patent on Fair, Reasonable, and Non-Discriminatory terms creates any restrictions on a patentee’s right to seek injunction against infringement of that patent, or the damages that may be recovered for infringement of that patent”
- 58 Amicus Curiae Briefs submitted from around the world.




(4) Background

- The Products of Apple conform to the UMTS standard, the telecommunications standard developed by 3GPP.
- ETSI, one of the standard organization which established 3GPP, provides the “Intellectual Property Rights Policy” (“IPR Policy”).
- Samsung notified ETSI that the patent rights including this Patent were or will be essential for the UMTS standard, with an undertaking to grant an irrevocable license on FRAND terms and conditions .

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- The Patent is titled “method and apparatus for transmitting/receiving packet data using pre-defined length indicator in a mobile communication system”.



(5) Judgment and decisions at the Tokyo District Court

- Held: Samsung's exercise of the Patent right to claim damages based on a standard essential patent subject to a FRAND declaration constitutes an abuse of right.
 - The Tokyo District Court also dismissed petitions for preliminary injunction.
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2 The summary of the Grand Panel judgment

- (1) Products 1 and 3 do not fall within the technical scope of the Patent.
- Products 2 and 4 fall within the said scope.
- The court rejected all five grounds for invalidation of the Patent raised by Apple Japan.



(2) Does the FRAND declaration give rise to a license agreement?

- FRAND declaration could not be considered as an offer for a contract and no license agreement for the Patent was formed.
- (a) Under the laws of France, at least an offer for a license agreement and an acceptance thereof is required to form a license agreement.
- (b) The FRAND declaration does not contain any specific conditions such as royalty rate or geographical scope or period of license.



(3) Does the exercise of the Patent right constitute an abuse of right?

- ➡ (a) Article 1 of the Japanese Civil Code provides as follows;
- ➡ ② The exercise of rights and performance of duties must be done in good faith.
- ➡ ③ Abuse of rights is not permitted.




The summary of the Grand Panel judgment

- ①if a patentee who made a FRAND declaration claims damages in an amount not exceeding the amount of royalties due on the FRAND license, it does not constitute an abuse of right.
- ②if the above patentee claims damages in an amount exceeding the amount of royalties due on the FRAND license, the part of the claim which exceeds such royalties constitutes an abuse of right, provided the counterparty successfully alleges and proves the fact of the FRAND declaration by the patentee.



The summary of the Grand Panel judgment

- ➡ if the above patentee successfully alleges and proves “special circumstances”, such as that a counterparty has no intention to receive a FRAND license, the patentee shall be allowed to claim damages exceeding the amount of royalties due on a FRAND license.
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Reasons why claims for damages in an amount exceeding a FRAND license royalty is deemed as an abuse of right:

- A party intending to manufacture/sell UMTS standard products will rely on the availability of a FRAND term license.
- The patentee, as an SEP holder, can gain large amount of royalty income from businesses using UMTS standard around the world.
- The patentee has declared on a voluntary basis that it is prepared to grant a license under the FRAND terms.



Reasons why claims for damages in an amount not exceeding the FRAND license royalty is not deemed as an abuse of right:

- A party intending to manufacture/sell UMTS standard products would start its business, on the assumption that it would pay the FRAND license royalty.
- The ETSI IPR Policy



The court held Apple is not an unwilling licensee

- ➡ The court held that it found no special circumstances, such as the lack of Apple's intention to receive a FRAND term license, therefore Apple's allegation that the Samsung 's claim for damages constitutes an abuse of right is acceptable with respect to the part of the claimed amount that exceeds the amount of royalty due on a FRAND license.



the second abuse of rights

- If the counterparty successfully alleges and proves special circumstances, such as that it is extremely unfair to permit the patentee to claim damages not exceeding the amount of FRAND license royalty, the patentee shall be restricted from making such claim on the ground of abuse of rights (“the second abuse of rights”).

Amount of damages; royalties due on a FRAND license

- ① Multiply the sales turnover of Product 2 and 4 by the percentage of estimated contribution of the UMTS standard for the sales of Product 2 and 4.
- ② Multiply the amount obtained in ① (= x) by the royalty rate cap, which is 5 %.
- ③ Divide the amount obtained in ② by the number of standard-essential patents for the UMTS standard, which is 529.

$$5 \% / 529 \text{ SEPs} = 0.00945 \%$$

- The total amount of royalties due was calculated as 9,995,854 yen(about 73,000 euro)

$$x \quad \times \quad 0.00945\% = 9,995,854 \text{ yen}$$



3 Summary of the Grand Panel decisions on the preliminary injunction cases

- (1) Background
- Tokyo District Court dismissed Samsung's petition holding that the exercise of the standard essential Patent right subject to FRAND terms by seeking for a preliminary injunction constitutes an abuse of right.





(3) The Grand Panel Decision


- If Apple Japan successfully alleges and proves the fact of Samsung's FRAND declaration and Apple's intention to receive a license under the FRAND terms, the exercise of the Patent right by Samsung seeking for a preliminary injunction would constitute an abuse of right.



The reasons are as follows;

- ▶ A party intending to manufacture/sell UMTS standard products would rely on the availability of a FRAND term license.
- ▶ Due to such reliance, the patent rights can be widely used among a large number of businesses around the world.
- ▶ The patentee has declared on a voluntary basis that it is prepared to grant a license under the FRAND terms.
- ▶ If the patentee is allowed to exercise the patent right unconditionally by seeking for an injunction, the manufactures will be forced to pay excessive royalty or to abandon the business project itself.

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- The UMTS standard contains a large number of patents owned by different patentees. It is considered extremely difficult for a prospective manufacturer to obtain a license for each of these patents in advance.



The court held Apple is a willing licensee.

- The court held that Apple has submitted several proposals on the royalty rate and had meetings with Samsung to negotiate. Based on these facts, Apple can be regarded as a willing party intending to receive a license under the FRAND terms.



4 Supplementary

- Could a counterparty contend the invalidity or technical scope of the Patent?



5 Comparative reflection

- (1) Orange Book Standard (BGH, GRUR 2009, 694; IIC 2010, 369)
- (2) US • Supreme Court (eBay Inc. v. MercExchange, LLC., 557 U.S. 388 (2006))