

JAPAN



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IP High Court rules in Apple v Samsung FRAND case

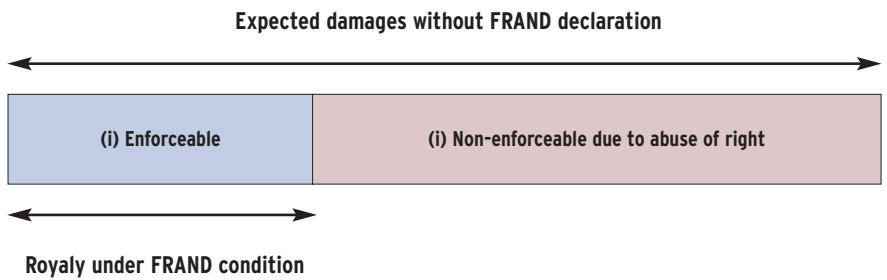
In the *Apple v Samsung* litigation in Japan, on May 16 2014, the Grand Panel of the IP High Court affirmed the Tokyo District Court decision regarding an injunction and held that Samsung did not have a right to seek an injunction against Apple Japan regarding the patent with FRAND declaration.

In contrast, the IP High Court modified the Tokyo District Court decision regarding damages and held that seeking damages exceeding the royalty under FRAND condition was deemed as an abuse of right unless special circumstances exist (see (ii) in the figure) while seeking damages within the royalty under FRAND condition was not deemed as an abuse of right unless special circumstances exist (see (i) in the figure). The IP High Court found that Samsung did not have a right to seek damages beyond approximately ¥9.96 million (\$100,000).

Background

The patent at issue (JP4642898) covers the technical method and apparatus for effectively transmitting and receiving packet data of cellular phones. It is a standard essential patent (SEP), so it is necessary to practise it when manufacturing or selling products complying with UMTS, the 3GPP standard established for promoting the third-generation (3G) mobile communication system and the 3G mobile-phone system.

Samsung communicated to ETSI, one of the standards organisations having established 3GPP, that the '898 patent was essential for the UMTS standard and made a FRAND declaration stating that Samsung is ready to license the '898 patent irrevocably to other parties on "fair, reasonable and non-discriminatory (FRAND) terms and conditions" in accordance with the ETSI IPR policy Clause 6.1. The ETSI guide on IPRs Section 1.4 provides that owners of essential IPRs are requested to undertake to grant licences on FRAND terms and conditions as an obligation of membership, to be granted licences on FRAND terms and con-



ditions in respect of a standard as a right of membership, and to be granted licences on FRAND terms and conditions in respect of a standard at least to manufacture, sell, lease, repair, use and operate, as a right of third parties.

Samsung filed a petition for preliminary injunction against Apple Japan seeking an injunction on Apple Inc's products based on the '898 patent. Apple Japan then filed a declaratory judgment action against Samsung asserting that Samsung does not have a right to seek damages based on the '898 patent. The Tokyo District Court held that Samsung did not have a right to seek injunction and damages because of the abuse of right (Civil Code Article 1 (3)). Samsung appealed to the IP High Court.

Infringement

The Grand Panel of the IP High Court (Presiding Judge Imura, the then chief judge of the IP High Court) held, like the Tokyo District Court, that the iPhone 3GS and the iPad Wi-Fi+3G did not fall under the technical scope of the '898 patent, whereas the iPhone 4, iPhone 4S and iPad 2 Wi-Fi+3G did.

Existence of licence agreement based on FRAND declaration

The IP High Court applied French law as an applicable law and decided a FRAND declaration could not be regarded as an offer of a licence agreement under French law and concluded that the licence agreement was not established by the FRAND declaration. The Court reasoned that the FRAND declaration included only the tentative sentence of "prepared to grant irrevocable licences", not a definite licence, that although the licence fee is not regarded as necessary for the establishment of the licence agreement under French law, the FRAND declaration provided neither the licence fee nor the geographical scope and term and thus the scope of the binding effect of the licence agreement is unknown, and that it contradicts with ETSI policy and its establishment history otherwise.

Injunction

The IP High Court held that enforcing the right to seek an injunction based on the patent with FRAND declaration will be deemed as an abuse of right if a party who intended to make and sell products pursuant to the UMTS standard was successful in proving that the patentee made FRAND declaration and that party intended to obtain a licence under FRAND declaration. The Court concluded that Apple and Apple Japan had an intention to obtain a licence under FRAND declaration as Apple had proposed a concrete licence fee with its calculation basis several times and had concentrated licence negotiations with Samsung several times.

The Court reasoned that allowing the injunction without limitation will hurt the trust of the party who intended to make and sell products pursuant to the UMTS standard expecting to be able to receive a licence under FRAND condition in the future after negotiation with a patentee, that a patentee who made FRAND declaration is not expected to maintain monopoly by enforcing the right to seek injunction as long as he/she can obtain the royalty under FRAND condition and thus the necessity to allow injunction and protect monopoly is not high, and that if the injunction is allowed without limitation a party who intended to make and sell products pursuant to UMTS standard will be forced to pay high royalty or accept extremely disadvantageous licence conditions and possibly give up the business itself, and adoption of UMTS standard will be substantially impossible, diffusion of UMTS standard will be hindered, and the benefit society could have obtained by the unification and diffusion of the telecommunications standard could not be enjoyed. In contrast, an injunction will be allowed if the party who intended to make and sell products pursuant to the UMTS standard does not have an intention to obtain a licence under FRAND declaration. However, as the above harmful effect exists for allowing an injunction, the intention not to obtain a licence

under FRAND condition should be found strictly.

Damage

Damage which exceeds royalty under FRAND condition

The IP High Court held that when the patentee who made FRAND declaration sought damages which exceeds royalty under FRAND condition, the party who intended to make and sell products pursuant to UMTS standard could reject it if he/she proves the fact that the patentee had made FRAND declaration. The Court reasoned that allowing the damage which exceeds royalty under FRAND condition will hurt the trust of the party who intended to make and sell products pursuant to UMTS standard expecting to be able to receive a license under FRAND condition in the future after negotiation with a patentee, and that a patentee who made FRAND declaration had declared that he/she is prepared to grant irrevocable licenses under FRAND condition and thus the necessity to allow damages which exceeds royalty under FRAND condition is not high. In contrast, damages which exceeds royalty under FRAND condition will be allowed if the patentee proves the existence of special circumstances such as the party who intended to make and sell products pursuant to UMTS standard does not have an intention to obtain license under FRAND declaration. However, as above harmful effect exists for allowing damages which exceeds royalty under FRAND condition, special circumstances of the intention not to obtain license under FRAND condition should be found strictly.

Damage within royalty under FRAND condition

The IP High Court held that the damage within royalty under FRAND condition should not be restricted even if it is regarding a SEP. The Court reasoned that considering the patentee who made FRAND declaration cannot assert an injunction, allowing royalty under FRAND condition has an extremely significant meaning as a consideration for the disclosure of the invention and restriction of such requires circumspection. However, seeking damages within royalty under FRAND condition will be deemed as an abuse of right if the party who intended to make and sell products pursuant to UMTS standard proves the existence of special circumstances such that allowing damages within royalty

under FRAND condition is regarded as extremely unfair even after considering an extremely significant meaning of the damage as a consideration for the disclosure of the invention and after reviewing the FRAND declaration process and licence negotiation process.

Conclusion

The IP High Court held that seeking damages that exceed a royalty under FRAND condition was deemed as an abuse of right unless special circumstances exist while seeking damages within a royalty under FRAND condition was not deemed as an abuse of right unless special circumstances exist. The IP High Court found that no special circumstances exist in the current case, and that seeking damages that exceed a royalty under FRAND condition is deemed as an abuse of right and seeking damages within a royalty under FRAND condition is not deemed as an abuse of right.

Royalty under FRAND condition

The IP High Court calculated the royalty under FRAND condition as follows: First calculate the percentage of the contribution of the UMTS standard among the total sales amount of the infringing products, and then calculate the percentage of the contribution of the patents among the contribution of the UMTS standard. When calculating the percentage of the contribution of the patents among the contribution of the UMTS standard, to restrict the cumulative royalty be excessive, a calculation method of not exceeding a certain percentage for all SEPs should be adopted. The Court found a cumulative royalty rate was 5% and the number of SEPs indispensable for UMTS standard was 529, and concluded that the royalty under FRAND condition for iPhone 4 and iPad 2 Wi-Fi+3G is approximately ¥9.96 million (\$100,000).

Public comments

The IP High Court invited public comments like the amicus curiae system in the US. There were 58 comments from eight countries submitted. This approach attracted a lot of attention because this is the first such attempt in the Japanese court. The Court introduced the summary of comments and stated: "These comments were valuable and useful materials for the court to issue a proper judgment based on the broad viewpoint. The Court express deep respect to those who made a great effort on the comments."

Practical tips

Unlike *Microsoft Corp v Motorola, Inc* (WD Wash April 25 2013), the IP High Court concluded that a licence agreement was not established by the FRAND declaration. Professor Tamura points out that according to the IP High Court's view, there is a risk for the party who intends to practise the SEP that he/she cannot assert any rights against the new patent owner if the patent is assigned to trolls because trolls did not grant licence under FRAND declaration and the contractual status was not succeeded.

The Tokyo District Court judgment was criticised on the grounds that abandoning all the damages including the damages within royalty under FRAND condition lacks appropriateness of conclusion. The IP High Court had corrected the appropriateness of conclusion by allowing the damages within royalty under FRAND condition. The reason the IP High Court reached a different conclusion from Tokyo District Court is, according to Hanrei Time and Hanrei Jihou's comments, because of the fundamental view of "allowing royalty under FRAND condition has an extremely significant meaning as a consideration for the disclosure of the invention and restriction of such requires circumspection". Like *Microsoft Corp v Motorola* and *InterDigital v Huawei* (Kangton High People's Court, October 16 2013), the IP High Court made a landmark decision to decide the royalty rate for the royalty under FRAND condition, and tried to avoid royalty stacking. However, as the royalty amount was very small in this case, now it became a risk for the patentee to make a FRAND declaration, and the patentee should decide whether to make FRAND declaration considering this risk. In contrast, the accused infringer will be able to avoid injunction and the damage amount will be low in many cases if he/she can show the intention to obtain a licence under a FRAND declaration. Professor Tamura points out that when the party practising a SEP argues non-infringement and invalidity and did not conduct a licence negotiation, it should not be interpreted that "special circumstances such as the party who intended to make and sell products pursuant to UMTS standard does not have an intention to obtain licence under FRAND declaration" exists and that is why the IP High Court stated "special circumstances of the intention not to obtain licence under FRAND condition should

be found strictly". Thus, the party who practises an SEP can choose a strategy to delay obtaining licence and continue sales of the practised products.

The IP High Court judgments are final.