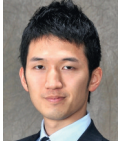


JAPAN

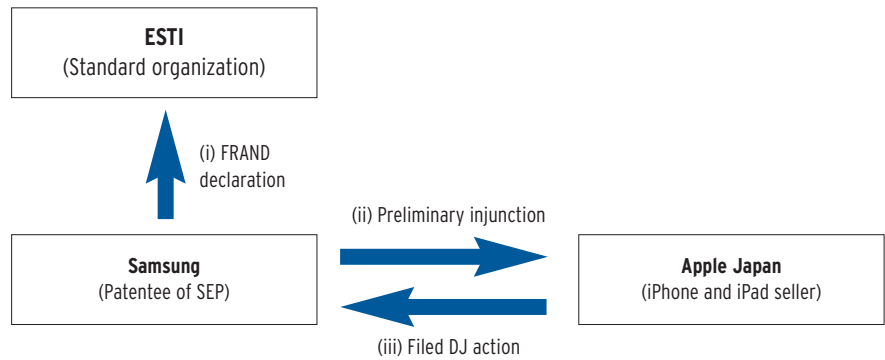


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Apple v Samsung: the first FRAND case

In Europe and the US, numerous decisions regarding FRAND terms and the enforceability of standard essential patent (SEP) have been issued. In Japan, on February 28 2013, the Tokyo District Court made the first decision on whether the enforcement of SEP with the patentee's FRAND declaration would be limited.

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 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 organizations 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 (see (i) in the figure). 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 conditions 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 (see (ii) in the figure). 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 (see (iii) in the figure).

Judgment

The Tokyo District Court held 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 and iPad 2 Wi-Fi+3G did. However, the Court held that Samsung did not have a right to seek damages against Apple Japan because Samsung's claim for damages was deemed as an abuse of right (Civil Code Article 1 (3)). The Court's reasoning is as follows:

While there are no express provision under the Civil Code of Japan regarding the duties of parties at the stage of preparation for contract execution, it is reasonable to understand that, in certain cases, parties that have entered into contract negotiations owe a duty to each other under the principle of good faith to provide the other party with important information and to negotiate in good faith. Due to the ETSI IPR policy Clause 6.1 and the ETSI guide on IPRs Section 1.4, Samsung is obliged to negotiate in good faith with the other party for concluding a contract on FRAND terms if the other party offers to be granted a licence to the '898 patent declared as an essential patent for UMTS in the FRAND declaration. By the time Apple offered Samsung to be granted a licence to the '898 patent, Apple and Samsung entered the preparatory stage and came to have an obligation based on the principle of good faith. However, Samsung did not provide information necessary to decide whether the proposals of Samsung or Apple meet the FRAND terms, such as information on the licence agreements between Samsung and third parties, despite Apple's repeated requests, and did not make a concrete counter-pro-

posal to the licence terms proposed by Apple. Therefore, Samsung breached the obligation. In addition, as Samsung had continued the petition for preliminary injunction against importation and sales of iPhone 4 and iPad 2 Wi-Fi+3G at the date of the conclusion of oral argument, and as Samsung's disclosure of the '898 patent to ETSI was about two years after the '898 patent technology was adopted as standard based on Samsung's request, Samsung's enforcement of the '898 patent seeking damages against Apple Japan should not be allowed as Samsung's conduct constituted an abuse of right.

Uniqueness of Tokyo district court judgment

The Tokyo district court's judgment is unique among foreign FRAND decisions.

First, the Court limited the right to seek damages whereas foreign decisions limited the right to seek an injunction. Anonymous comment in *Hanrei Jihou* magazine explains the reason the Court limited the right to seek damages was that the Court viewed the fact the preliminary injunction was maintained to be critical as the prospective licensees will be forced to have a disadvantageous negotiation if a preliminary injunction is maintained and it will lead to patent hold-up.

Second, the Court adopted the abuse of right concept. Professor Cotter considers that the Japanese approach "seems troubling ...that it appears to deny the SEP owner any remedy in the event of an abuse of right, thus potentially encouraging reverse holdup", where a patentee might be proposed lower royalties than the fair value, "and unduly undermining the patent incentive" (Thomas F Cotter, *The Comparative Law and Economics of Standard-Essential Patents and FRAND Royalties*, Minnesota Legal Studies Research 13-40, 41).

Third, the Court allowed Apple Japan to argue both the FRAND

defence and non-infringement/invalidity simultaneously. This is different from the German Federal Supreme Court's decision "Orange-Book Standard" (GRUR 2009, 694-*Orange-Book-Standard*) which held that the offer of a licence has to be unconditional and the defendant cannot assert a FRAND defence if they argue non-infringement or invalidity.

This judgment was appealed to the IP High Court and the case was designated as a grand panel case. Furthermore, the IP High Court decided to hear public comments on the FRAND issue like the *amicus curiae* system in the US. This approach is attracting a lot of attention because this is the first such attempt in the Japanese court. Since there is no legal ground for this procedure in the Japanese Civil Procedure Code, collection of public comments is formally held by the law firms representing Apple and Samsung. Whether the IP High Court will abandon the Tokyo district court's uniqueness and issue a decision in line with foreign decisions by listening to foreign amici briefs should be watched closely.