

JAPAN

FRAND declared SEPs and a warning letter

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Summary of the case

One-Blue LLC (One-Blue) is a US company managing and operating a patent pool for standard-essential patents (SEPs) related to Blu-ray disc products (BD). Upon commission by 15 patentees such as Dell, HP, Phillips holding BD related SEPs, it licences those SEPs in bulk. The 15 patentees have made fair, reasonable, and non-discriminatory (FRAND) declaration for those SEPs.

Imation Corporation Japan (Imation) is a Japanese corporation that belongs to a corporation group led by US Imation Corporation (US Imation) selling BD.

Upon commission by 11 patentees (the patent-pool patentees) holding 350 BD-product-related SEPs in Japan, One-Blue sent a notification dated June 4 2013 (the notification) to three retailers conducting business with Imation stating that selling BD without licence from the patent pool managed by One-Blue would constitute patent infringement and that the patentees have the right to seek an injunction and damages.

Imation sent a warning letter dated June 21 2013 to One-Blue alleging that (i) the notification constitutes an act of making a false allegation specified in Article 2(1)(xiv) of the Unfair Competition Prevention Act; (ii) the notification constitutes unfair trade practices under the Antimonopoly Act; (iii) Imation requests that One-Blue withdraws the notification and responds in good faith to recover the actual damages caused to Imation; and (iv) Imation is willing to obtain a licence under the fair, reasonable, and non-dis-

crimatory terms; to be more specific, to obtain a licence with a royalty rate of 3.5% of the purchase price of BD and to continue negotiating a licence in good faith.

Imation sought an injunction against the One-Blue's act of making or circulating a false allegation and damages.

Judgment of February 18 2015, Tokyo District Court

The Tokyo District Court (Presiding Judge Shimasue) affirmed an act of unfair competition (an act of making a false allegation) and granted injunction, but dismissed damages by denying negligence, holding as follows.

It is not appropriate to allow a patentee who has made a FRAND declaration to exercise its right to seek an injunction against a person who is willing to obtain a licence under the FRAND condition.

On the other hand, if a person who manufactures and sells a product conforming to a standard is not willing to obtain a licence under the FRAND condition, a claim for an injunction against such a person shall be permissible. However, as there are adverse effects in permitting an injunction, the finding of unwillingness to obtain a licence under FRAND condition shall be made strictly.

The following was found:

- 1) One-Blue notified US Imation Corporation by the letter dated June 25 2012 of the licencing programme on One-Blue's website and offered the royalties One-Blue proposed as a condition of the One-Blue's patent pool;
- 2) US Imation, by the letter dated September 4 2012, made a specific proposal for royalties (3.5% of the sales costs) clearly stating that the royalties One-Blue proposed is not "fair and reasonable" but "Imation expects to pay, and is willing to pay a fair and reason-

able royalty for the technology that is essential to Blu-ray Disc and related devices. US Imation also requested One-Blue to provide (i) the grounds that the royalties One-Blue proposed is non-discriminatory and (ii) the basis for the royalties One-Blue proposed;

- 3) One-Blue responded by the letter dated September 11 2012 that it would not and could not negotiate with licensees individually regarding royalties and that several companies co-signed the brand owner subscription agreement. However, One-Blue did not provide any documentation that the brand owners had actually contracted with One-Blue at royalties One-Blue proposed nor did they provide any basis for royalties One-Blue proposed;
- 4) US Imation requested by the letter dated September 26 2012 to provide the basis for the 'fair' rate;
- 5) One-Blue Japan, by the letter dated April 11 2013, proposed Imation a licence agreement based on the royalties One-Blue proposed;
- 6) Imation responded to One-Blue Japan by the letter dated May 9 2013 stating that it is ready to discuss about 'fair and reasonable' royalty rate; and
- 7) One-Blue did not provide any basis for royalties One-Blue proposed nor negotiate a royalty rate. It filed a patent lawsuit against US Imation jointly with the other patent-pool patentees and sent the notification to retailers conducting business with Imation in Japan.

In light of the above, it is recognised that Imation and US Imation were negotiating for licence showing their willingness to obtain a licence under FRAND condition. It is reasonable to find that Imation is a willing licensee under FRAND condition given that (a) Imation is a Japanese corporation that belongs

to a corporation group led by US Imation and (b) the finding of unwillingness to obtain a licence under FRAND condition shall be made strictly.

Since it is recognised that Imation was willing to obtain a licence under the FRAND condition as of the time of the notification, *regardless of whether or not the royalties One-Blue proposed violated FRAND condition*, it is recognised that seeking an injunction against Imation and the retailers conducting business with Imation by the patent-pool patentees constitutes an abuse of rights and thus impermissible. Further, in case seeking an injunction is impermissible as an abuse of rights, notifying as if it has the right to seek an injunction is deemed as making a false allegation and is considered to be an act of unfair competition.

Correspondence of Japan Fair Trade Commission (JFTC)

On November 18 2016, the JFTC made the following announcement:

“The JFTC has investigated One-Blue in accordance with the provisions of the Antimonopoly Act. The JFTC has found that the relevant conduct committed by One-Blue falls under Paragraph 14 (Interference with a Competitor’s Transactions) of the ‘Designation of Unfair Trade Practices,’ consequently being in violation of Article 19 of the Antimonopoly Act. However, because the relevant violation has already ceased to exist, there being no necessity to issue a cease-and-desist order. Therefore, the JFTC has decided to close the investigation on the case.”

Practical tips

The Notification was issued before the decision of May 16 2014, the Grand Panel of the IP High Court (*Apple v Samsung*) (Grand Panel decision). According to Professor Shiraishi, this judgment granted an injunction and denied damages for the acts committed before the legal criteria had been clearly defined. After the Grand Panel decision, it is

high likely that not only injunctions but also damages are granted against the notification of false allegation in cases where the implementor is deemed as willing licensee.

According to the JFTC’s determination, One-Blue issued the notification to the retailers conducting business with Imation in order to encourage licence negotiations between One-Blue and US Imation. After the Grand Panel decision, SEP holders will be less likely to take measures to issue notifications to the implementers’ clients in order to encourage licence negotiations.

The judgment is a specific judgment on the willingness to license under FRAND condition after the Grand Panel decision, and will be of great reference in future SEP litigations. In accordance with the Grand Panel decision, the judgment held that “unwillingness to license under FRAND condition should be strictly determined” and found that it is reasonable to find that the One-Blue is a willing licensee under FRAND condition.

Professor Karatsu criticised that the determination of a willing licensee under FRAND condition is questionable, as Imation only presented their willingness to receive a licence for a royalty amount of 3.5% of the purchase price of a single BD and that it should have been judged whether the FRAND conditions were satisfied with the 3.5%. However, as far as the framework of the Grand Panel decision is concerned, whether injunction shall be granted is determined by whether the implementor is a ‘willing licensee’ under FRAND condition. The court is not required to find the royalty under FRAND condition nor to judge whether the royalty offered by the patentee/implementor was in conformity with the FRAND condition. SEP holders will therefore have to be aware that, subject to the Grand Panel decision, the implementor is likely to be determined as a ‘willing licensee’.

Professor Kawahama pointed as follows: The JFTC’s correspondence

is regarded as a unique case in that, while determining there had been a breach of the Antimonopoly Act, it concluded there was no particular need for a cease-and-desist order, and thus completed the investigation; it is noted that just because damages under the Unfair Competition Prevention Act are denied, as in the handling of the case, it does not mean the assessment of the Antimonopoly Act has to follow it; there is room for assessing damages under Article 25 of the Antimonopoly Act as reasonable, considering that the notification of seeking injunction to third parties may worsen the hold-up situation. Thus, in the upcoming similar cases, the JFTC may not complete the investigation as it did in this case.