Interplay Between Patents and Regulation – Telecom and ICT Sectors: FRAND -JP Perspective

FICPI 16th Open Forum St. Petersburg

Kay Konishi
KONISHI & NAGAOKA IP Firm
1.1. Good Old Days – Pre Standards
-Patent Law in Japan

- **Patent is “**monopoly**”**

- **Injunction is almost automatic (JP Patent Act Art. 100)**
  - Compulsory license (Patent Act Art. 83) : Never rendered to date

- **Damage compensation under tort**
  - “Patentee’s profit” or “accused infringer’s profit” is presumed as a lost profit (Patent Act Art. 102(1)-(2))
  - Statutory minimum compensation equivalent to a “royalty” (Patent Act Art. 102(3))

- **Freedom to enforce a patent right**
1.1. Good Old Days – Pre Standards
-Patent Law in Japan

◆ Patent is “private property”
◆ Freedom not to license
◆ Freedom to license unreasonably
  ◆ “Reasonable” for patentee may suffice
◆ Freedom to license in a discriminatory manner
  ◆ Depending on, e.g., cross license royalty
1.2. Good Old Days – Pre Standards
-Possible Exceptions in Japan

◆ Doctrine of “abuse of right” (Civil Code Art. 1(3))
  ◆ Last resort
  ◆ Hardly admitted by the court

◆ Once an patent infringement is found, the court has very little discretion to negate an injunction, or not to award a damage

◆ No eBay factors applies

◆ No defense of right to claim a license under the competition law admissible in an infringement court
1.3. Good Old Days – Pre Standards - Antitrust Law in Japan

- Anti-Monopoly Act may prohibit a lawful enforcement of a patent (AMA Art. 21)
  - Private monopolization (when a substantial restraint of competition is found) (AMA Art. 3)
  - Unfair trade practices (price differentiation, refusal to trade, discriminatory treatment of trade terms...) (AMA Art. 19)

- JFTC’s AMA Guidelines for the Use of IP (2007)
  - Refusal to license may constitute private monopolization or unfair trade practices
  - “Gray” provisions include refusal to license and unjustifiable royalty

  - Patent pool shall include SEPs only (incl. commercially essential ones)
  - Hold-up may constitute private monopolization or unfair trade practices
  - Discriminatory license through patent pool may be prohibited

- To date, no case where refusal to license by single entity is found illegal
2.1. Technical Standards
-In General

◆ Technical standards significantly enhance dissemination of technology and expand markets
◆ It’s time to disarm each other
◆ No one can make a product without relying on others’ SEPs
◆ SSO’s IPR Policy mandates FRAND (RAND) declaration for SEPs and being involved in the standardization
◆ **93%** of all SEPs registered in ITU, IEC and ISO are in the Telecom and ICT field
2.2. Technical Standards
- Example of LTE

◆ Long Term Evolution (LTE): Technical Standard on mobile communication at 3GPP
2.2. Technical Standards
- Example of LTE

◆ “SEP Thickets” in technical standards

◆ One smartphone is covered by several technical standards
2.2. Technical Standards
-Example of LTE
◆ No one can be a giant in the technical standards

![Pie chart showing number of SEPs for different companies]

- Qualcomm
- Nokia Corp
- NTT DOCOMO
- CATT
- NEC
- ETRI
- Huawei
- LG
- InterDigital
- TI
- Nokia Siemens
- InnovativeSonic
- ZTE
- Samsung
- Ericsson
- Sharp
- Sharp
- Panasonic
- Apple
3. Issues
-In General
◆ FRAND Royalty
  ◆ What is “fair”?
  ◆ What is “reasonable”?
  ◆ What is “non-discriminatory”? 
◆ Injunction?
◆ Who is “unwilling licensee”?
◆ Who to determine?
  ◆ SSOs?: SSO’s IPR policy has in general no definition of “FRAND”
  ◆ Parties?: SEP holders and implementers share less common interest
  ◆ Court?: ex-post facto evaluation
4.1. Apple v. Samsung Case
-Background


◆ 7.8.2007: Samsung submitted FRAND declaration to ETSI

◆ Apple, Inc.: Manufacturer and seller of accused products (iPhone 4 and iPad 2 Wi-Fi + 3G model)

◆ 21.4.2011: Samsung filed petition for preliminary injunction against Apple Japan based on 898 Patent (Case 1)

◆ 16.9.2011: Apple Japan sued against Samsung, seeking for a declaratory judgement to confirm Samsung does not have a right to claim damages (Case 2)
4.1. Apple v. Samsung Case  
-Tokyo Dist. Ct. decisions on Feb. 28, 2013

◆ Tokyo Dist. Ct. found an infringement

◆ Tokyo Dist. Ct. dismissed Samsung’s petitions for preliminary injunctions (Case 1: 2011(yo)22027, 22028)

◆ Tokyo Dist. Ct. issued a declaratory judgment denying Samsung’s right to claim (any) damages (Case 2: 2012(wa)28969): No damages awarded!

◆ Court ruled that Samsung is barred from seeking injunctions and claiming any damages against Apple under the “doctrine of abuse of rights”

◆ Court ruled that FRAND declaration establishes the “duty for good faith negotiation” under the fair and equitable principle, while denying a formation of the contract between parties
4.1. Apple v. Samsung Case
-Tokyo Dist. Ct. decisions on Feb. 28, 2013

◆ Reasoning for finding the “abuse of rights” is Samsung’s breach of duty for good faith negotiation under the fair and equitable principle during a preparation phase of the contract between parties, because:
  ◆ Samsung failed to provide material information (incl. terms and conditions of the contract with other companies) to Apple
  ◆ In addition, Samsung’s ongoing preliminary injunctions
  ◆ Samsung’s too late disclosure of 898 Patent to ETSI (Aug. 2007) after the “Alternative E Bit Interpretation” technology is proposed for an adaptation to 3GPP WG of ESTI (May 2005)
  ◆ All other circumstances during license negotiation between parties
  ◆ Duty for good faith negotiation started when Apple made a concrete offer for the license under the FRAND terms and conditions

◆ However, Tokyo Dist. Ct. avoided to clarify FRAND royalty
4.2. Apple v. Samsung Case
-IP High Ct. Grand Panel decisions on 16 May, 2014

◆ On appeal, IP High Court took the cases as the Grand Panel cases (2013(ne)10043, 2013(ra)10007,10008)

◆ “Amicus Curiae” briefs were solicited
  ◆ About 60 briefs submitted
  ◆ Whether to limit an injunction based on a SEP with FRAND declaration?
  ◆ Legal theory to justify the limitation on an injunction?
    ◆ Contract between parties?
    ◆ Abuse of right? Fair and equitable principle?
    ◆ Antitrust?
  ◆ Criteria for limiting the injunction?
    ◆ Willing licensee v. unwilling licensee
  ◆ Whether to limit claiming damages based on a SEP with FRAND declaration?
    ◆ No damages?
    ◆ FRAND basis? Or more?
    ◆ Calculation method for FRAND royalty
4.2. Apple v. Samsung Case
-IP High Ct. Grand Panel decisions on 16 May, 2014

◆ IP High Ct. also denied to grant preliminary injunctions under the doctrine of abuse of rights

◆ As for the damage compensation, IP High Ct. admitted the right of Samsung to claim damages not exceeding the amount equivalent to the FRAND royalty

◆ Now IP High Ct. must show how to calculate FRAND royalty...

◆ And JPY 9,955,854 awarded (USD 97,120, EUR 86,377) against 12 Million units of iPhone/iPad
4.2. Apple v. Samsung Case
-IP High Ct.: Rulings

◆ Seeking an injunction and/or damage compensation exceeding the FRAND royalty based on a SEP with FRAND declaration in principle constitute the abuse of right.

◆ Negotiation process and other circumstances are not necessarily considered.

◆ Two pronged exceptions:

   ◆ Injunction and/or damage compensation exceeding the FRAND royalty is admissible under the special circumstances, e.g., an accused infringer is an **unwilling licensee**.

   ◆ Even damage compensation not exceeding the FRAND royalty is not admissible under the special circumstances in which the SEP holder’s claim for damage is **extremely unfair**.
4.2. Apple v. Samsung Case
-IP High Ct.: Injunctions

◆ Considering the hold-up problem by the court, SEP holder is barred from seeking an injunction against a **willing licensee**, because allowing an unlimited injunction may harm a reasonable credibility from implementers, who have already made considerable investments, and also excessively protect the patented invention.

◆ Meanwhile, the injunction should be allowed against an unwilling licensee.

◆ But, unwillingness should be strictly determined.

◆ Burden of proof of the “willing licensee” is on the **accused infringer** (implementer of the standard).
4.2. Apple v. Samsung Case
- IP High Ct.: Willing licensee

◆ Applying the strict criteria, IP High Ct. found Apple as “willing licensee”, because:
  ◆ Apple offered its payable upper limit of a royalty to Samsung in writing in Aug. 2011
  ◆ Apple’s several counter proposals of royalty to Samsung with the calculation basis
  ◆ Several face-to-face meetings
  ◆ Intensive license negotiation

◆ Far gap in the royalty between Samsung and Apple for a long time does not necessarily negate the willingness
4.2. Apple v. Samsung Case
-IP High Ct.: Damages

Claiming damages exceeding the FRAND royalty is barred under the doctrine of abuse of rights, if an accused infringer successfully proves the patentee’s FRAND declaration.

Damage compensation exceeding the FRAND royalty is admissible under the special circumstances, e.g., an accused infringer is an unwilling licensee.

- Burden of proof of the “unwilling licensee” is on the patentee (SEPs holder).

Damage compensation not exceeding the FRAND royalty is barred, if the SEP holder’s claim is extremely unfair.

- Burden of proof of the “extreme unfairness” is on the accused infringer.

IP High Ct. found Apple as willing licensee, and no “extreme unfairness” was found.
4.2. Apple v. Samsung Case
-IP High Ct.: FRAND Royalty

\[(A \times B) \times 5\% / 529 = \text{JPY 9,955,854}\]

◆ A: Sales turnover of the infringing products (end products)
   (12 Million * unit price)

◆ B: Contribution ratio of the UMTS standard to the infringing products (20-25%?)

◆ 5%: Cap for cumulative royalties to prevent royalty stacking problem

◆ 529: Number of SEPs for the UMTS standard
4.2. Apple v. Samsung Case
-IP High Ct.: FRAND Royalty

\[(A \times B) \times 5\% / 529 = \text{JPY } 9,955,854\]

◆ A: Sales turnover of the infringing products (end products) (12 Million * unit price)
  ◆ “Smallest salable unit” may substitute B

◆ B: Contribution ratio of the UMTS standard to the infringing products (20-25%?)
  ◆ Other contributory factors considered:
    ◆ Other functions such as GSM and Wi-Fi
    ◆ Apple’s brand strength and marketing efforts
    ◆ Accused product’s designs, GUI, available software, CPU, camera, audio function, display, GPS function, and various sensors

◆ 5%: Cap for cumulative royalties to prevent royalty stacking problem

◆ 529: Number of SEPs for the UMTS standard
4.2. Apple v. Samsung Case -IP High Ct.: FRAND Royalty

\[(A \times B) \times 5\% \times \frac{1}{529} = \text{JPY 9,955,854}\]

- **A**: Sales turnover of the infringing products (end products) (12 Million * unit price)
- **B**: Contribution ratio of the UMTS standard to the infringing products (20-25%?)
- **5%**: Cap for cumulative royalties to prevent royalty stacking problem
  - Standard license agreement of W-CDMA patent platform (the UMTS patent pool) sets a maximum aggregate royalty rate of 5% for the SEPs
  - Samsung’s counsel stated at the US ITC that the UMTS standard agreed that the aggregate royalty rate should be around 5%
  - 2002 agreement among NTT Docomo, Ericsson, Nokia and Siemens to limit the aggregate royalty of the UMTS standard to be no more than 5%
  - Not a cap for the end product?

- **529**: Number of SEPs for the UMTS standard
  - 529 patents are found as SEPs based on the Fairtrade report out of 1889 declared SEPs
  - Pro-rata Basis (simply dividing by the number of SEPs) applied, as the evidence failed to show the other SEPs’ concrete content or contribution
  - Court left a possibility to calculate FRAND royalty of each SEP differently based on the significance of each SEP
4.3. Apple v. Samsung Case

- Analysis

◆ Injunction is no more available, unless an accused infringer (implementer) fails to prove the “willingness”

◆ “Unwillingness” to allow a complete enforcement (i.e., normal enforcement) requires strict threshold

◆ No particular safe harbor to admit “willingness”

◆ FRAND royalty: <JPY 1/product

◆ 1/100 - 1/1000 of non-SEPs

◆ The same royalty as a non-SEP is obtainable, only standard can bring a larger market size of x100 – x1,000

◆ What if a SEP holder is an assignee or an outsider who has not made FRAND declaration?
5. Antitrust
-Revision to AMA Guidelines

◆ Following Apple v. Samsung IP High Ct. Grand Panel decision which denied a breach of the Anti-Monopoly Act

◆ Draft revision to JFTC’s “AMA Guidelines for the Use of IP” made public on 8 July, 2015 for the public comments

◆ 54 public comments submitted, some of them criticized that the draft was overly limited a patentee’s enforcement and deviated towards an implementer side


http://www.jftc.go.jp/dk/guideline/unyoukijun/chitekizaisan.html
5. Antitrust
- Revision to AMA Guidelines

◆ Refusal to license or an injunction against a willing licensee by a SEP holder with FRAND declaration may constitute the private monopolization (AMA Art. 3) and/or the unfair trace practices (AMA Art. 19)

◆ Same applies to a SEP holder who has retracted his FRAND declaration and also an assignee of the SEP

◆ Factors to determine “(un)willing licensee”
  ◆ Parties’ circumstances during negotiation, such as presence/absence of a concrete showing of SEP’s infringement, a showing of licensing terms and reasonable basis thereof, prompt responding with reasonable counter proposal, good faith under business practice

◆ To Challenge a validity, essentiality or non-infringement by a potential licensee does not constitute the “unwillingness”
6.1. Wrap-Up

- On-going discussion on legislative change for limiting an enforcement by SEPs
  - Patent Law?
  - Antitrust?
  - Contract?
  - Should not be comprehensive beyond SEPs
- Incentive for obtaining SEPs is no more money-making
- Obtaining a lot of SEPs in an open innovation area is still of great importance for taking the initiative during the standardization
- SEPs and Non-SEPs are inseparable each other, “the two wheel of a cart”
- Reasonable and sustainable evaluation scheme for an essentiality in the SEP Thicket to differentiate would-be essential patents from truly essential patents
Thank you for your kind attention!!

Kay KONISHI
KONISHI & NAGAOKA
2-21-8, Akasaka, Tokyo
tel +81 3 5544 8091
fax +81 3 5544 8098
kkonishi@konishinagaoka.com