

Enforcement of SEP: Japanese Situation from a Comparative Perspective

Masabumi Suzuki

Professor of Law, Nagoya University

Outline

- Question: To what extent should the patentee be able to enforce its FRAND-encumbered SEPs?
- Relevant legal issues:
 - 1) FRAND and licensing contracts
 - 2) Injunctions
 - 3) Damages
 - 4) FRAND royalties
 - 5) Competition law
- Analyze the Japanese situation from a comparative perspective

I. THE JAPANESE SITUATION (COURT DECISIONS)

Apple v. Samsung in Japan

- Disputes concerning the enforcement of Samsung's SEPs related to the UMTS standard.
 - 1) Samsung filed petitions for **preliminary injunctions** against Apple alleging Apple's products infringed the SEPs.
 - 2) Apple sued against Samsung, asking for a declaratory judgment to confirm Samsung was not entitled to seek **damages**.

Apple v. Samsung in Japan

- Tokyo District Court, in February 2013,
 - 1) dismissed Samsung's petitions for preliminary injunctions, and
 - 2) issued a declaratory judgment denying Samsung's right to seek (any) damages.
- Such a denial of remedies was based on the doctrine of abuse of right.

Apple v. Samsung in Japan

- The Grand Bench (Special Division) of the IP High Court, on May 16, 2014,
 - 1) also refused to grant preliminary injunctions, and
 - 2) denied the right of Samsung to seek damages exceeding the amount equivalent to the royalty under FRAND conditions.

IP High Ct on FRAND and licensing contracts

- French law is applied in the interpretation with respect to the formation of contracts through the FRAND declaration by Samsung.
- The FRAND declaration could not be considered as an offer for a contract, and no license agreement was formed as a result of the declaration.

IP High Ct on injunctions

- Considering the hold-up problem, holders of FRAND-encumbered SEPs should not be allowed to seek an injunction against **a party willing to obtain a license under the FRAND terms** as such an exercise of the patent right would constitute **an abuse of right**.
- Meanwhile, the injunction should be allowed against a party working the invention if it has no intention for such a license.
- The burden of proof of the willing licensee requirement is on the alleged-infringer (implementer of the standard). But strict scrutiny shall be made before determining the lack of the willingness on the side of the infringer.

IP High Ct on damages

- Claiming for **damages exceeding the FRAND royalty should be denied** as an abuse of right, as long as the alleged-infringer successfully proves the fact of the patentee's FRAND declaration.
- Meanwhile, if the patentee successfully proves that the infringer has **no intention of obtaining a FRAND license**, the patentee **should be allowed** to claim damages exceeding the FRAND royalty.
- On the other hand, if the alleged-infringer successfully proves special circumstances such as the **extreme unfairness** about the patentee's claim for damages not exceeding the FRAND royalty, such patentee's claim is restricted as an abuse of right.

IP High Ct on the FRAND royalty

- $(A \times B) \times 5\% \div 529$

A: the sales turnover of the infringing products

B: the contribution ratio of the compliance with the UMTS standard by the infringing products

5%: the royalty rate cap which is applied to prevent the aggregate amount of royalties too high (= to avoid royalty stacking)

529: the number of the essential patents for the UMTS standard

Why “ × B”?

- The infringing products have **other functions** besides the one related to the UMTS standard (W-CDMA), such as GSM and Wi-Fi.
- Many **other features and functions**, such as designs, user interfaces, available software, CPU, camera, audio function, display, GPS function, and various sensors also contribute to the total sales turnover of the products.
- Further, the **brand** strength as well as their marketing efforts to maintain and enhance such brand strength also make a significant contribution to the sales turnover.
- In addition, the **size of memory** is presumed to have significantly contributed to the sales turnover.
- Thus, although the compliance with the UMTS standard contributes to the sales turnover, **such contribution is limited**, and other portions of the sales turnover were achieved without regard to the compliance with the UMTS standard.
- Accordingly, for determining the amount of FRAND royalty for the Patent, only the portion which the compliance with the UMTS standard may have contributed to the sales turnover of the products should be taken into account as the basis of calculation.

Why “ × 5% ”?

- In May 2002, Nokia, the owner of a large number of the UMTS standard essential patents, advocated that the industry-wide aggregate royalty rates for the IPRs for the WCDMA should not exceed 5%.
- Samsung's counsel made a remark in the hearing of the U.S. International Trade Commission that all the participant companies of the UMTS standard agreed that the aggregate royalty rates for the patent licenses should be around 5%.
- In 2002, NTT Docomo, Ericsson, Nokia and Siemens reached an agreement that the royalty for the respective UMTS standard patent owners should be determined according to the percentage of essential patents owned. Other essential patent owners in Japan manifested their intention to cooperate with this agreement. This agreement was expected to assist the dissemination of the UMTS standard by limiting the aggregate royalty to not more than 5%.
- The W-CDMA patent platform, which is a patent pool created by the UMTS standard essential patent owners, stipulates the standard license agreement. This standard agreement sets a standard royalty rate of 0.1% of the ex-factory price for each of the essential patents, and a maximum aggregate royalty rate of 5% for the essential patents. If this aggregate royalty rate exceeds 5%, the standard royalty rate is recalculated so that the aggregate royalty does not exceed 5%.

IP High Ct on anti-competitiveness of the enforcement of SEPs

- Apple alleged, in the context of asserting and proving the abuse of rights, that the series of Samsung's acts (including claims for injunctions and high royalties) constituted a violation of the Antimonopoly Act.
- The IP High Court said “in light of the fact that the amount of the damages claimed by Samsung does not exceed the FRAND royalty as alleged by itself, and that the claim for damages exceeding the FRAND royalty is generally prohibited as an abuse of right, the entire evidence submitted before the court is not sufficient to prove that the claim for damages not exceeding the FRAND royalty constitutes a breach of the Antimonopoly Act.”

II. ANALYSIS

FRAND and licensing contracts

- The denial of the formation of a licensing contract by the Japanese courts is reasonable from the viewpoint of Japanese (and French?) law.
- Such an interpretation seems to be shared by the courts in other countries except for the US.
- In the US, a contractual obligation of the patentee toward standard implementers is recognized from the FRAND declaration, but at least according to courts, it is an obligation to negotiate on FRAND terms in good faith, rather than to let automatically the other parties work the patented invention.

Restriction on enforcement of SEPs

- Legal basis for the restriction -

Country/Area	Legal basis	Examples
Japan	doctrine of abuse of right	Apple v. Samsung
the US	contract theory of remedies	Microsoft v. Motorola Apple v. Motorola
Germany (EU)	defense of anticompetitive practice	Orange-Book-Standard EC Case-Samsung EC Case-Motorola Huawei v. ZTE
the Netherlands	doctrine of abuse of right	Samsung v. Apple

Restriction on enforcement of SEPs

- the “abuse of right” approach -

- Advantage

- In Japan, this is almost the only practically possible way to restrict patent enforcement against infringements.

- Disadvantage

- Ambiguous standard, unpredictability.

→ The IP High Court tried to mitigate this problem by presenting a general and clear standard.

Standards by the IP High Ct

- Baseline: no injunction + FRAND royalty
 - the burden of proof of (a lack of) the willing licensee requirement
 - on the implementer as to injunctions
 - on the patentee as to damages exceeding the FRAND royalty
- meaningful distinction?

Calculation of the FRAND royalty

- the IP High Ct
 - calculation of damages after determining the validity and infringement
 - multiplying by the contribution ratio and 5%
 - dividing by the number of SEPs without taking their different value into account
 - the actual amount is too low?

Competition law

- the IP High Ct
 - just a perfunctory reference to an assertion about the anticompetitive effects of Samsung's conducts
 - Its statement "the entire evidence ... is not sufficient to prove that the **claim for damages not exceeding the FRAND royalty** constitutes a breach of the Antimonopoly Act" is off the point, as it ignores Samsung's conduct of seeking injunctions.

Competition law

- Possible claims under the Japanese Anti-Monopoly Act (AMA)
 - Unfair trade practices (price differentiation, refusal to trade, discriminatory treatment of trade terms, interference with a competitor's transactions, etc.)
 - Private monopolization (when a substantial restraint of competition is found)
- JFTC's Guidelines for the Use of IP under the ACA (2007)
 - "When the right-holder to a technology refuses to grant a license to stop other entrepreneurs from using its technology after urging them to use its technology ... through unjustifiable means, such as falsification of licensing conditions, and making it difficult for them to shift to other technology, the conduct unjustifiably creates the status of an infringement on rights and is found to deviate from or run counter to the intents and objectives of the intellectual property systems[,] [s]uch conduct constitutes an unfair trade practice ..." (Pat 4 (2)(ii))

Competition law

- JFTC's Guidelines on Standardization and Patent Pool Arrangements (2005)
 - “However, if a patent holder has taken part in the activities and is endeavoring to have its patented technologies adopted by the specifications, refusing to grant a license will pose a legal problem with the AMA .
 - When specifications are standardized, and if it becomes difficult for companies to develop and produce the products with the specifications, then the activities of patents holders do constitute private monopolization when they substantially restrict competition in related markets. Alternatively, they can constitute unfair trade practices when they threaten to impede fair competition.

Competition law

- Given the decision by the IP High Ct., it would not be so much needed to allow a defense of anticompetitive conducts in civil litigation on infringements of SEP.
- However, as a matter of competition policy, clarification of the treatment of enforcement of SEP under the AMA is warranted, because the possibility of the imposition of severe sanctions (surcharges and even criminal sanctions) might affect the patentee's behavior.

Reference

- Thomas Cotter, *The Comparative Law and Economics of Standard-Essential Patents and FRAND Royalties*, 22 Tex. Intell. Prop. L.J. 311 (2014)
- 鈴木將文「判例研究」Law & Technology65号55頁(2014)
- 鈴木將文「FRAND宣言を伴う標準必須特許の権利行使について—国際比較から見た知財高裁大合議判決の意義—」判例タイムズ1413号掲載予定