

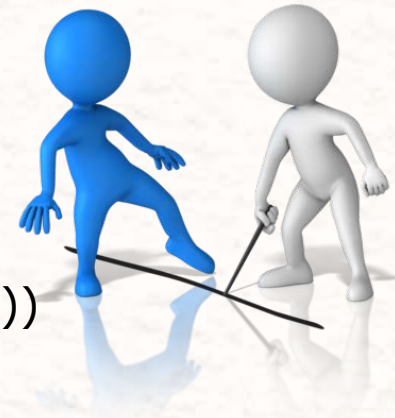
Interplay Between Patents and Regulation –Telecom and ICT Sectors: FRAND -JP Perspective

6 Oct. 2016
FICPI 16th Open Forum St. Petersburg

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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 case



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
- ◆ JFTC’s Guidelines on Standardization and Patent Pool (2005)
 - ◆ 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



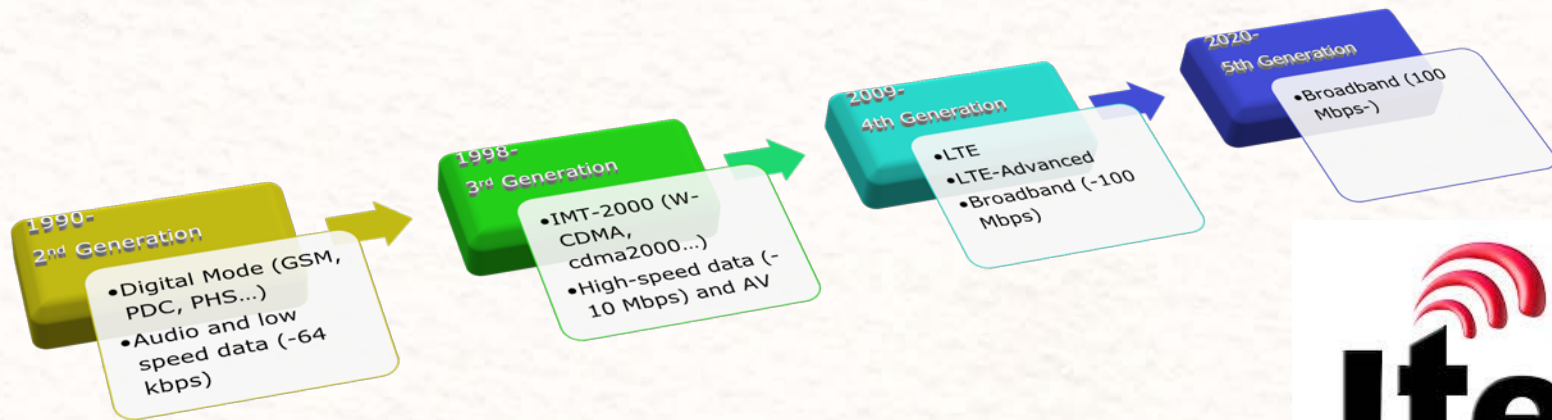
2.1. Technical Standards -In General

- ◆ 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



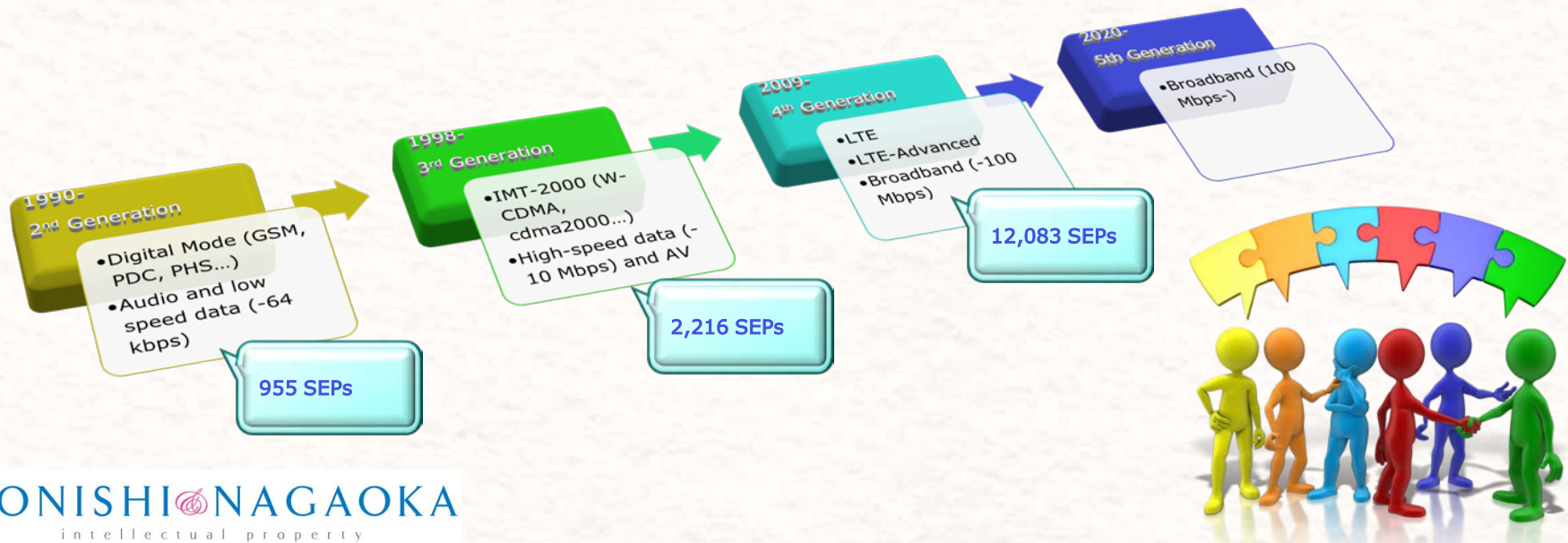
2.2. Technical Standards -Example of LTE

- ◆ Long Term Evolution (LTE): Technical Standard on mobile communication at 3GPP



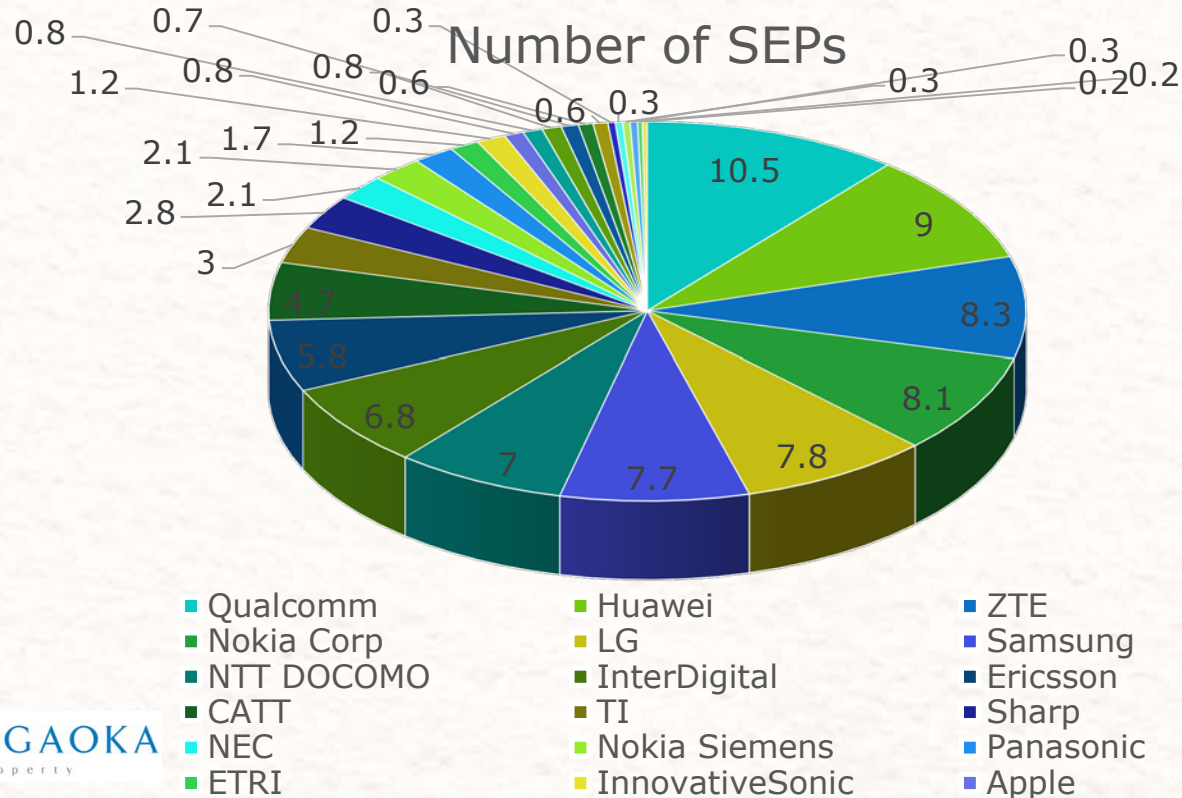
2.2. Technical Standards -Example of LTE

- ◆ “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



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

- ◆ Samsung Electronics Co., Ltd.: Patentee of JP Patent No. 4,642,898 ("898 Patent"), which is reported as a SEP for UMTS (W-CDMA) Standards under 3GPP (PCT Appl. Filed on May 2006)
- ◆ 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 adaption 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

$$(A * B) * 5\% / 529 = \text{JPY } 9,955,854$$

- ◆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

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- ◆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
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4.2. Apple v. Samsung Case -IP High Ct.: FRAND Royalty

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- ◆ 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
- ◆ Revised on 21 Jan. 2016

<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 trade 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, promptly 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!!

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