

Japan

Apple v Samsung: enforcing a standards-essential patent after a FRAND declaration

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Apple and Samsung, the two leading global manufacturers of smartphones, have been at war worldwide regarding the patents in their smartphone and tablet devices. In Japan, the two companies have taken various types of legal action against each other: according to media reports, as of June 2013 six suits and 17 provisional disposition cases were outstanding between them, and three cases had been adjudicated (of these, Apple won two and lost one). This chapter looks at one such case, adjudicated by the Tokyo District Court on February 28 2013 (Case 38969 (wa), 2011), which is significant for IP practice in Japan.

In the case at hand Apple Japan claimed that the production, import and assignment of certain of its products (the iPhone 3GS, iPhone 4, iPad and iPad 2) did not infringe Samsung's patent rights regarding the equipment for or method of sending and receiving digital data, and sought a declaratory judgment that Samsung had no right to claim damages against Apple. However, before Apple filed the case, Samsung had petitioned for a provisional injunctive order against Apple to prohibit the production, import and assignment of its products.

The products covered by the case conformed to the Universal Mobile Telecommunications System (UMTS) standard, the international technical standard of the third-generation (3G) mobile telecommunications system provided by the 3G Partnership Project, the private organisation that promotes the dissemination and worldwide standardisation of the 3G system. The patents which Samsung claimed

that Apple infringed were the standards-essential patents of the UMTS standard – in other words, if Apple manufactured products complying with the UMTS standard, Apple could not avoid infringing Samsung's patents in the process.

Background: standards-essential patents and FRAND

To provide information and communication technology (ICT) services efficiently, interconnection and interoperability between various devices and networks must be assured. In order to do this, there is a need to standardise the specifications of both hardware and software. Generally, this process is called 'technical standardisation', and it is an important strategy today, especially in the ICT field. Through technical standardisation, ICT businesses can produce devices or systems on a large scale at a cheaper price and can provide their services efficiently. Moreover, technical standardisation can promote competition among ICT businesses, which is of benefit to consumers. In the ICT field, both public organisations (eg, the International Telecommunication Union) and private entities (eg, the Institute of Electrical and Electronics Engineers, Inc) have established international technical standards, and some ICT businesses have joined these organisations.

Almost all technical standards involve patents owned by a third party (in some cases, a technical standard can include several thousand patents), and it is not possible to avoid infringing some patents when providing services or manufacturing products conforming to all or a part of a technical standard. Generally, such patents are called standards-essential patents. If

the patentee of a standards-essential patent exercises its rights without any restriction (eg, to claim unreasonably expensive licence fees), a business entity will hesitate to use the technical standard and thus diffusion of the technical standard will be obstructed. Moreover, such enforcement may result in serious loss not only for businesses that make capital investments according to such technical standard, but also for consumers who use the device or service conforming to the technical standard. According to a 2011 survey conducted by the Institute of Intellectual Property in Japan, approximately 77% of respondents, including standardisation organisations, universities and research institutions, answered yes to the question: “Do you think it is necessary to restrict the right to demand an injunction to enforce rights based on standards-essential patents in some cases?”

To address this issue, some standardisation organisations request members which are the patentees of standards-essential patents to ensure that any entity using the technical standard can license the standards-essential patents on fair, reasonable and non-discriminatory (FRAND) terms. A FRAND declaration is one of the ways in which the interests are balanced between the patentees of a standards-essential patent and users of technical standards. However, the following legal issues should be noted.

What is the legal nature of a FRAND declaration?

Depending on the viewpoint, a FRAND declaration is merely a one-sided manifestation of intent with the standardisation organisation; thus, there is debate over the legal relationship between the standards-essential patentee and users of the patent (ie, how to restrict the enforcement of standards-essential patent rights). One school of thought is that a FRAND declaration constitutes acceptance of a third-party beneficiary contract between the standards-essential patentee and the standardisation organisation, so that when a user of a technical standard indicates its intention to request the right to use the standards-essential patent under FRAND terms, a licence agreement is

automatically concluded between the user and the patentee. In the United States, a 2012 judgment held that a FRAND declaration constituted a third-party beneficiary contract (*Microsoft Corp v Motorola Inc*, 864 F Supp 2d 1023 (WD Washington 2012)). Another opinion is that a FRAND declaration is only a manifestation of the intention of the standards-essential patentee, and no contract between the user and the patentee is concluded unless some other form of agreement is executed between them. Under this opinion, a restriction on the enforcement of the standards-essential patent would be based on the general principles of the Civil Code of Japan, such as the prohibition of the abuse of rights.

What are the FRAND terms in specific cases?

In some specific cases, details of FRAND terms are indefinite. Generally, standardisation organisations are not involved in the concrete terms and conditions (including licence fees), and some patentees do not disclose the licence terms and conditions agreed with other licensees because of confidentiality or trade secret issues, so users cannot determine the FRAND terms that apply to them in specific cases.

In order to prevent the irregular enforcement of standards-essential patent, new legislation or amendment of the existing laws has been advocated in Japan. The Vision of IP Policy issued by the government’s IP Strategy Headquarters in 2013 stated that appropriate means to enforce standards-essential patents should be considered, and that the government should take the necessary measures.

Tokyo District Court decision

In the case at hand, Samsung made a FRAND declaration regarding its standards-essential patent for the UMTS standard with the European Telecommunications Standards Institute (ETSI), one of the standardisation organisations that formed the 3G Partnership Project. Specifically, according to the ETSI IP rights policy, Samsung declared that it held patents that were or would be standards-essential patents for the UMTS standard, and that it was ready to license irrevocably such standards-essential patent to other parties

under FRAND terms. Therefore, in this case it was disputed whether Samsung's enforcement of standards-essential patent rights should be restricted.

The Tokyo District Court stated that part of the products fell under the scope of Samsung's patent and adjudicated the disputed point as follows:

- In this case, according to the Act on General Rules for the Application of Laws in Japan, the court had to determine whether Samsung had the right to claim damages against Apple under Japanese law, including the Civil Code.
- According to the FRAND declaration, Samsung owed an obligation to negotiate in good faith with each entity (whether or not the entity was an ETSI member) that requested a licence for Samsung's standards-essential patent under FRAND terms. Thus, when Apple sent the letter to Samsung requesting a licence agreement for the three patents on March 4 2012, Samsung and Apple were at the preliminary stage of concluding a licence agreement and were obliged to negotiate in good faith.
- In the process of negotiating the licence agreement for Samsung's standards-essential patents, on July 25 2011 Samsung proposed a global non-exclusive licence of its standards-essential patents in accordance with FRAND terms. However, Samsung did not inform Apple of the basis for calculating the licence terms in the proposal. Despite Apple's repeated requests, Samsung did not provide the necessary information, including the licensing terms that it had agreed with other companies that held licences for the standards-essential patents in question, by which Apple could assess whether the offered terms conformed to FRAND terms. Furthermore, Samsung did not suggest alternative terms and conditions to Apple's proposal, in which Apple's basic position and calculation standard for the licence fee were set forth. These facts constituted Samsung's violation of its obligation to negotiate in good faith with Apple.
- Moreover, Samsung maintained its petition for a provisional injunctive order against

Apple in order to prohibit the production, import and assignment of the products, and Samsung's disclosure of its standards-essential patent was taken two years after ETSI had adopted Samsung's patent for the UMTS standard.

Considering the facts mentioned above and the other circumstances of the negotiations between Samsung and Apple, the enforcement of rights to claim for damages by Samsung constituted an abuse of rights, which is prohibited under the Civil Code.

In conclusion, the Tokyo District Court upheld Apple's claim and rejected Samsung's right to claim damages from Apple for infringement of Samsung's standards-essential patents. Samsung's petition for a provisional injunctive order was dismissed for the same reason on the same day as this judgment was issued.

Comment

Technical standardisation is an important IP strategy. A company that develops new technologies should consider carefully whether to pursue standardisation. In this regard, there are always questions to be answered, such as "What are FRAND terms?" and "What if the owner of a standards-essential patent cannot reach agreement with companies that ask to be granted a licence to the patent?"

This judgment is the first in Japan regarding the enforcement of a standards-essential patent by a patentee that has made a FRAND declaration; thus, it is particularly significant for Japanese IP practice.

As mentioned above, the Tokyo District Court restricted the enforcement of a standards-essential patent with a FRAND declaration by applying the doctrine of abuse of rights. This could be a persuasive decision concerning the legal nature of a FRAND declaration. However, the court did not determine which terms should be deemed to be FRAND terms in this case. Moreover, the court's decision was based on an impractical idea: that a standards-essential patentee can disclose the licence terms of other licensees. Accordingly, there is a possibility that disputes regarding the interpretation of FRAND terms will arise between a standards-essential

patentee and users of the technical standard.

In addition, the judgment, which does not permit a standards-essential patentee to enforce a right to claim damages, is unique in comparison to other similar cases decided around the world. Generally, a restriction on standards-essential patent enforcement has been argued from the angle of a restriction on the right to demand an injunction because, even if a standards-essential patentee makes a FRAND declaration, it has the right to receive a licence fee under certain conditions. Thus, some commentators believe that a patentee need not be limited to claiming a licence fee conforming to FRAND terms as damages against standards-essential patent users that do not have a licence agreement. The Tokyo District Court appeared to place great importance on Samsung's lack of good faith in the negotiation process and even rejected its right to claim damages.

The decision has been appealed to the IP High Court of Japan, which at the time of writing has not yet ruled. The case should be closely monitored, as should other cases involving FRAND declarations. *iam*

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