



Patent Case Review

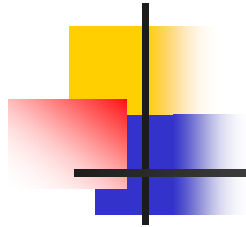
- Apple v. Samsung in Japan -

JAUIP Summer Seminar 2015 Practitioners' Course

Day 1: August 31, 2015

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Part 1

Background

- Apple and Samsung have sued each other in 10 countries all over the world. They are two giants of the smart phone business.
- Samsung used to be a business partner of Apple. It supplied key components for Apple's *iPhones*.
- Apple alleges its **software-related patents** while Samsung defends with its **standard-essential patents**.
- There is a behind-scene battle between the open-source software (**OSS**) wing and the **proprietary software** wing.
- Samsung stands for the OSS while Apple stands for the proprietary software.



Part 1

Facts (1)

- In 2006, Samsung filed a patent application in Japan for a packet data transmission process to which a patent was granted in 2010.
- In 2007, Samsung **declared an irrevocable license under FRAND conditions** to ETSI, a European standard-setting organization for telecommunications. FRAND stands for “fair, reasonable & non-discriminatory.” Apple’s products relied on the UMTS standard which is inevitable for the manufacture of smartphones.
- In March 2011, Samsung brought a suit against Apple for infringement of the packet data patent before the Tokyo District Court. Apple counter-sued Samsung for a DJ action to confirm **no right of Samsung to claim damages.**



Part 1

Facts (2)

- In July 2011, Samsung, under the confidentiality agreement, informed Apple of its willingness to license its SEP at the rate of X% (figure undisclosed).
- Asserting that the proposed rate was too high to accept, Apple argued that, among 1889 patents essential for the UMTS, only 103 are to Samsung, which account for 5.5%. Apple argued 0.275% would be appropriate ($5\% \times 5.5\%$).
- In Jan. 2012, Samsung requested Apple for its own proposals and Apple made another proposal with Y% (figure undisclosed).
- In April 2012, Samsung wrote to Apple that Y% was too low to be “FRAND”. Apple then proposed a cross license scheme at Z% for each smart phone.

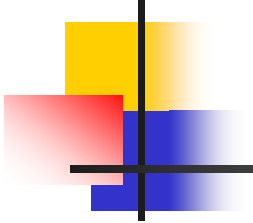


Part 1

Issues

- 1) Whether Samsung's SEP is infringed.
- 2) Whether indirect infringement is found.
- 3) Whether the SEP can be invalidated under Section 104, Para.3(1) of the Japanese Patent Law.
- 4) Whether the SEP has been exhausted.
- 5) Whether a license agreement has been constituted.
- 6) Whether damages claim is abusive. And,
- 7) Amount of damages, if not.

This presentation will focus on, among others, the issues 5), 6) and 7).



Part 1

Arguments

- Apple:

“Samsung has **offered** a license by way of FRAND declaration and Apple has **accepted** the offer by way of implementing the UMTS standard. Since **a contract** on patent license has been **constituted** between Apple and Samsung, Samsung has no reason to enforce its patents. ”

- Samsung:

“An **offer** for a contract has to be specific enough to cause contractual obligations. But the FRAND declaration does **not include important terms with details**. Thus, there was no offer for a license agreement between the parties. Without an offer from Samsung, there should be no acceptance by Apple.”



Part 1

Decision

- The Court found that the SEP is **valid** and that it was **infringed** by two models of the Apple products.
- **Injunction claim** by Samsung against Apple amounts to an “**abusive use of rights**” under the *Civil Code*, Section 1, Para. 3.
- **Damages claim** by Samsung against Apple amounts to an “**abusive use of rights**” under the *Civil Code*, Section 1, Para.2.



Part 1

Reasons

- Samsung bears an obligation to engage in good faith negotiations for a FRAND license, when and if there is a request for a license under the SEP from a potential licensee. → **Good Faith Negotiation**
- Apple asked Samsung for a FRAND license, which had actually constituted an offer for a contract under the Civil Law. → **Contract Law**
- Apple and Samsung have entered into a “stage for preparing a contract”. → **Good Faith Negotiation**



Part 1

Good Faith

- Under the *ETSI's IPR policy and Guideline*, Samsung is **obliged to sit** for good faith negotiations so far as a FRAND license concerned under the SEP.
- Upon request from Apple for information on existing licensees, Samsung is **obliged to provide** requested information to Apple so as to continue good faith negotiation.
- If a potential licensee clearly intends to obtain a license, **the parties involved are obliged to sit for good faith negotiations.**



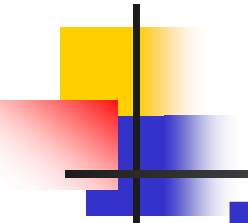
Part 1

Abusive Use

- Samsung maintains its pending claim for preliminary injunction under the SEP in question.
- Two (2) years have passed since its patent was declared as a SEP to the ETSI.
- The Court reviewed the history of license negotiations between the parties in detail.
- As results, the Court found that there was an **abusive use of rights** by Samsung, because Samsung failed to perform a good faith obligation with the potential licensee.

Part 1

Contract Theory

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- Apple proposed royalty rates and a basis for calculation. The Court found that such proposal constituted **an offer of license terms** by Apple.
 - Samsung **committed** a FRAND license **in general terms**, but not in specific terms.
 - Apple requested Samsung for **specific** information repeatedly, but Samsung did not answer.
 - **Failure** in providing the requested information has **constituted a breach of law** since Apple's request was raised during the stage for preparing a license agreement.



Part 2

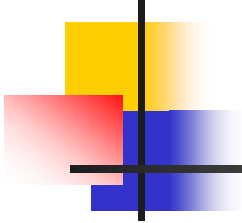
IP High Court

- The case was appealed to the IP High Court.
- The Court decided that the **grand panel** hears the case. The grand panel is formed when the Court considers that the case is important legally and socially. The grand panel comprises 5 presiding judges of each department.
- The Court solicited **public comments** on the case in Feb. 2014. (Unlike USA, Japan has no *amicus brief* system so comments were submitted to either of the representing firms.)
- Fifty eight (58) comments were submitted. Submissions were made not only by Japanese entities but also foreign entities.

Part 2

High Court Decision

- **Injunction claim** by a SEP holder who declared a FRAND license would constitute an **abusive** use of rights **under the *Civil Code*** when he/she attempts to enforce his/her SEP.
- **Damages claim** would also constitute an **abusive** use of rights when a royalty demanded by the SEP holder is beyond the scope of the FRAND framework.
- But it would **not be abusive** when a demanded royalty remains **within the scope of the FRAND framework**.



Part 2

Technology Standard

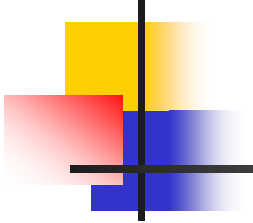
- Technology standard, the IP High Court found, contributes to public interest and social benefits.
- If **injunction** under SEPs is freely permitted, it would prevent the use of the UMTS standard because of concerns for patent infringement.
- Such prevention would eventually **disturb the proliferation of the UMTS standard**.
- Such result would be against the purpose of the ETSI IP policy.



Part 2

Royalty

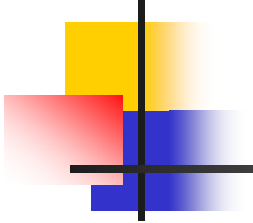
- A SEP holder may gain excessive royalties which were unlikely under normal license agreements.
- **Declaration** of a FRAND license would **NOT justify** the patent holder to claim:
 - Damages in the amount higher than that for the FRAND license; and
 - Injunction of any kind. Within the FRAND framework, a reasonable royalty is assured. To seek injunction is to seek additional monopoly which is not permissible.



Part 2

Exceptions

- Limitation of damages claims by the SEP holder should not be applicable to a case where a negotiating party is not serious about taking a FRAND license from the SEP holder.
- When such unwilling licensee refuses to take a FRAND license, the SEP holder may claim damages in the amount beyond the scope of the FRAND framework.
- In such case, however, there shall be an **additional burden of proof** on the part of the SEP holder.



Part 2

Calculation

- The IP High Court calculated the amount of damages in the following formula:

The sales amount of infringing products (figures undisclosed)

X

Contribution of the UMTS standard to the sales amount (figures undisclosed)

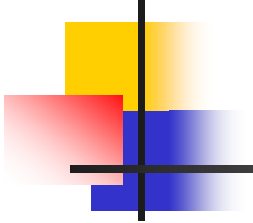
X

Royalty cap to limit the sum of accumulated royalties (=5%)

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Cumulative number of SEPs involved (= 529)

Total: 9,955,854 (JPY)



Part 2

Conclusion

- Samsung has no right to claim damages so far as Apple's products 1 and 3 are concerned. There is no infringement of the patent by them.
- Samsung has a right to claim damages so far as Apple's products 2 and 4 are concerned. There is patent infringement by them. However,
 - damages claim is permissible so far as it is limited to the amount which will not exceed the scope of the FRAND framework.
 - The other claims by Samsung are dismissed as they have no ground. And,
 - The lower court decision is dismissed.



Appendix <Case Citation>

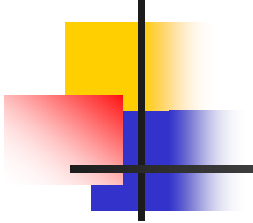
- Tokyo District Court
 - “Hei 23 (2011)(wa) No. 38969” (decided on February 28, 2013)

- Intellectual Property High Court
 - “Hei 25 (2013)(ne) No. 10043 (decided on May 16, 2014)

Appendix

<iPhone Sales>

(source: wikipedia)



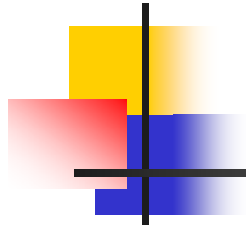
Year	Quarter	Shipment to World	To Japan	
2011	2Q (Apr-Jun)	2,034 mil. Units	0.99 mil. units	
2011	3Q (Jul-Sep)	1,707	N.A.	
2011	4Q (Oct-Dec)	3,704	2.83	
2012	1Q (Jan-Mar)	3,510	2.26	
2012	2Q (Apr-Jun)	2,603	1.48	
2012	3Q (Jul-Sep)	2,691	1.99	
2012	4Q (Oct-Dec)	4,780	3.72	
2013	1Q (Jan-Mar)	3,743	2.70	
2013	2Q (Apr-Jun)	3,124	2.30	
2013	3Q (Jul-Sep)	3,380	2.72	
2013	4Q (Oct-Dec)	5,108	N.A.	



<Hypothetical Calculation>

- Shipments in Japan: 25,300,000 units
 - Source: See Appendix
- Shipping price per unit: 40,000 yen (hypo)
- Contribution ratio: 10% (hypo)
- Cap: 5%
- SEP Ratio: 1/529 (Patent on Type B Product is negligible.)

$$(25,300,000 \times 40,000) \times 0.1 \times 0.05 \times 1/529 \\ = 96,140,000 \text{ (yen)}$$



Thank you

If you have questions, feel free to contact:

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