

# **Relationship between Patent and Competition Law**

- Emerging issues arising out of  
standard-essential patents (SEPs)-

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# Part 1

## Case Development (1)

### *Huawei v. ZTE* (EU)

On July 14, 2015, the Court of Justice in EU decided in the case of *Huawei Technologies v. ZTE Corp.* that SEP owner who has declared a FRAND license shall not be abusive by bringing a court action for injunction as long as:

- 1 The SEP owner has alerted the alleged infringer specifying what patent was infringed in what way.;
- 2 After the alleged infringer has expressed its willingness to conclude a license agreement on FRAND terms, the SEP owner has offered in writing for a FRAND license with the amount of royalty and the method of royalty calculation.;
- 3 If the alleged infringer continues to use the patent in question. And,
- 4 If the alleged infringer has not diligently responded to that offer. Judgment in this case should be in accordance with common commercial practices in the field and in good faith. No delaying tactics be allowed.

# Recent Development (2)

## Amendment of the IP Guideline (Japan)

On July 8, 2015, the Japan Fair Trade Commission (JFTC) announced a draft of the partial amendment of the IP Guideline. The draft regards the act of a “willing licensor” as a violation of the anti-monopoly law so far as the willing licensor:

- 1 Refuses the FRAND license to a willing licensee; or
- 2 Claims injunction against a willing licensee for infringement of a standard-essential patent.

A willing licensee may be regarded continuingly as a willing licensee if it seeks the award for the FRAND license from the courts or arbitration tribunals.

# Recent Development (3)

## Business Review Letter (US)

On January 8, 2015, the Department of Justice (DOJ) issued a business review letter to answer the question raised by the American standard-setting organization, IEEE. DOJ answered that the proposed new patent policy would not violate anti-trust law even if it contains provisions to limit its members to:

1. Claim injunction of infringement,
2. Separate a value of a SEP caused by standardization,
3. Admit a “Grant-Back” provision, and
4. Expand the FRAND license to cover all levels of production.

# Competition Law

## <A Case in EU>

The case between Apple v. Samsung illustrates features of issues to be caused by the intersection of patent, standard and competition law.

- In 1998, Samsung declared that its patents are essential to a mobile standard (SEP) of an European standard-setting organization (ETSI), and that they are licensable under the Fair, Reasonable and Non-Discriminatory terms (**FRAND**).

- Samsung sued Apple for **infringement** of its SEPs **by iPhones**. In return, Apple requested the Commission to make an investigation for a violation of the Competition Law in EU by Samsung's demand of a high license fee.

- In February 2012, the Commission announced that the authority would start the requested investigation.

- In December 2013, Samsung withdrew its claims for injunction of *iPhones* in the EU nations.

# <Cases in US>

## <Other cases heard in US>

- Microsoft v. Motorola (W.D. Wash., US)
- Apple v. Motorola (N.D. Illinois/W.D. Wis., US)
- Apple v. Motorola (S.D. Cal., US)
- Apple v. Samsung (N.D. Cal., US)
- Huawei v. InterDigital (Del. Chancery Ct., US)



## <A Case in Japan>

In 2014, the IP High Court of Japan heard the arguments on the following issues in the case of *Apple v. Samsung*.

- 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 Patent Law.
- 4) Whether the SEP has been exhausted.
- 5) Whether a license agreement has been constituted.
- 6) Whether damages claim is abusive. And, if not,
- 7) Amount of damages.

This case shall be reviewed later in Part 2.

## <New Issue>

- The term “FRAND” stands for “**F**air, **R**easonable **A**nd **N**on-**D**iscriminatory.”
  - The SEP owner is required to be subject to the commitment of its own FRAND declaration and to license its SEP on the FRAND terms.
  - Each company has a right to conclude a contract independently and voluntarily.
  - A question arises when the SEP owner demands a higher patent royalty than the norms of industrial society.

# Guidelines

## <Japan>

- Partial Amendment of “Guidelines for the Use of Intellectual Property under the Antimonopoly Act” (Japan Fair Trade Commission, January 21, 2016)

## <USA>

“Policy Statement on Remedies for Standards-Essential Patents subject to voluntary F/RAND Commitments” (U.S. Department of Justice and U.S. Patent & Trademark Office, 1.8.2013)

“Federal Trade Commission Report” (US Federal Trade Commission, 2007)

## <EU>

“Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements” (2014/C 89/03)

# Smart phone Disputes

- In April 2011, Apple sued Samsung in charge of infringement of its utility patents, design patents and trademarks in US. Samsung counter-sued Apple in charge of patent infringement.
- Two companies sued to each other in 10 countries (USA, Germany, France, UK, Netherland, Italy, Spain, Australia, Korea and Japan).
  - In 2012
    - Apple lost a patent case in Japan.
    - Samsung lost a jury trial in California, USA.
    - Each party won and lost in Korea.
    - Apple lost a design patent case in UK.
  - In 2013
    - Samsung lost a patent case in Japan.
    - Samsung withdrew injunction claims in EU nations.
    - Apple lost a Section 337 case (but the ITC decision was nullified by the presidential veto right).
  - In 2014
    - Each party withdrew an appeal to another ITC decision in US.
    - Apple lost an appeal case in Japan.

# <Galaxy and iPhone at issue>

(source: google\_image)



# <iPad and Samsung Tab at issue>

(Source: <http://www.reuters.com/article/2011/12/02/us-apple-samsung-secrecy-idUSTRE7B030420111202>)



# <Market Shares in 2011/2012>

(Source: IDC)

Top Five Smartphone Vendors, Shipments, and Market Share, Q2 2012 (Units in Millions)

Vendor	2Q12 Unit Shipments	2Q12 Market Share	2Q11 Unit Shipments	2Q11 Market Share	Year-over-year Change
Samsung	50.2	32.6%	18.4	17.0%	172.8%
Apple	26.0	16.9%	20.4	18.8%	27.5%
Nokia	10.2	6.6%	16.7	15.4%	-38.9%
HTC	8.8	5.7%	11.6	10.7%	-24.1%
ZTE	8.0	5.2%	2.0	1.8%	300.0%
Others	50.7	32.9%	39.2	36.2%	29.3%
<b>Total</b>	<b>153.9</b>	<b>100.0%</b>	<b>108.3</b>	<b>100.0%</b>	<b>42.1%</b>

# <Market Shares in 2013/2014>

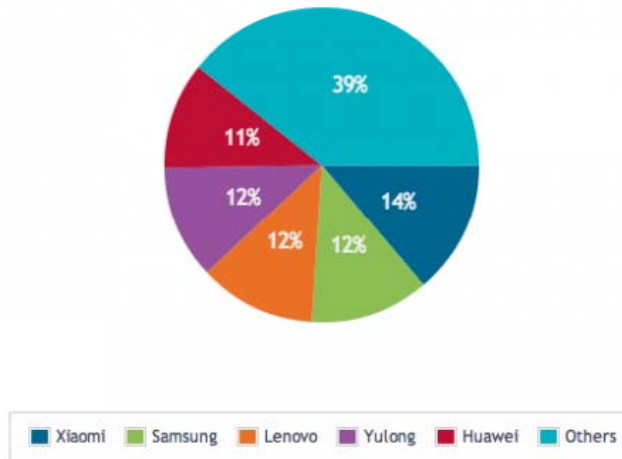
(Source : [IDC](#))

Top Five Smartphone Vendors, Worldwide Shipments, and Market Share, Q1 2014 (Preliminary)

Vendor	1Q14 Shipment Volumes	1Q14 Market Share	1Q13 Shipment Volumes	1Q13 Market Share	Year-Over- Year Change
Samsung	85.0	30.2%	69.7	31.9%	22.0%
Apple	43.7	15.5%	37.4	17.1%	16.8%
Huawei	13.7	4.9%	9.3	4.3%	47.3%
Lenovo	12.9	4.6%	7.9	3.6%	63.3%
LG	12.3	4.4%	10.3	4.7%	19.4%
Others	113.9	40.5%	84.2	38.5%	35.2%
<b>Total</b>	<b>281.5</b>	<b>100.0%</b>	<b>218.8</b>	<b>100.0%</b>	<b>28.6%</b>



# <Players in China>



@Canalys: Chinese s/p vendors make up 4 of the top 5 in China Q2. Xiaomi rose to No.1 aided by Samsung & Apple shrinking.

© Canalys 2014

Vendor	Units
Xiaomi	14,991,570
Samsung	13,228,430
Lenovo	13,025,780
Yulong	12,720,120
Huawei	11,860,210
Others	42,664,530

# Aspects of IPRs

- Key Intellectual Property Rights for Apple

- Utility Patents

- US Patent 7,469,381 covers **scrolling behaviors** that align text and graphics to the top of the display automatically and bounces or "rubber-bands" the page when a user scrolls to the end of a document or list.
    - US Patent 7,479,949 covers **touch-screen heuristics** which can be viewed as one of the most important properties leveraged in *iOS*.
    - Patent portfolio: approximately 8,000 patents and patent applications. Among them, software-related patents are enormous.

- Trademarks

- Icon designs & Trade dress

- Design Patents

- Menu layout (e.g., D504, 889 & D593,087)

# <Samsung>

- Standard Essential Patents (SEP)
  - US Patents 7,447,516 and 7,675,941 relating to a telecommunications standard (WCDMA).
- Non-standard Essential
  - US Patents 7,456,893; 7,577,460; and 7,698,711 relate to portable wireless terminals for telecommunications with the function of transmission and reception. But they are not SEPs.
- Patent Portfolio
  - Approx. 80,000 patents and patent applications

# <Arguments>

## <Apple>

- Based on design patents for the design of mobile terminals and graphic user interfaces (**GUIs**), Apple also asserts trademarks for **trade dress** and **icon layouts**.
- Based on utility patents on scrolling/unlocking mechanisms on the touch panel screen, Apple asserts **high-tech patents**. For its defense, Apple has purchased telecommunications patents from Nortel Network in Canada at US\$2.6 bill.

## <Samsung>

- Based on patents relating to 3<sup>rd</sup> generation telecommunications format or WCDMA, Samsung asserts **infringement of SEPs** to telecommunications standards.
- Samsung asserts that marketing of standard-complied smartphones would unavoidably cause infringement of telecommunication standards.

# <Strategies>

## <Apple>

- Enforcement of IPRs with a combination of **utility patents, design patents and trademarks** relating to touch panels and GUI.
- IPR portfolio is not large, but they focus on **software-related** patents.
- They are **proprietary software**. No open license.

## <Samsung>

- To defend with **a wide variety of relevant patents** covering radio communications and image processing
- Patent portfolio is large.
- To seek **open license** policy to get a cross-licensing among alliance companies.
- Traditional defense of its own products under its own patents

# <Operating System>

## <Google v. Apple>

- Google is a leader of companies who have jointly developed an open source software “*Android*” for the 3<sup>rd</sup> generation mobile. Samsung adapts the Android for its *Galaxy*-series products.
- Apple has developed its own operating software called “*iOS*.” Such a self-made software is called the proprietary software.
- Open source software (OSS) and a proprietary software are competitive in the telecommunications technology.
- The IPR battle between Apple and Samsung is often described as a war between Apple and Google. Samsung is a player on behalf of Google.
- A party who has controlled the sovereignty of the operating system will be the real winner.

## <Other Actions>

- Motorola v. Microsoft
  - Motorola sued Microsoft in US and Germany in charge of 3G patents.
  - Microsoft claimed a violation of competition law in EU by Motorola.
- Motorola v. Apple
  - Motorola sued Apple in US and Germany in charge of 3G patents.
  - Apple sued Motorola in charge of European competition law.
- Google purchased Motorola
  - In 2012, Google purchased business and patent portfolio from Motorola at the price of US\$12.5 billion. In 2014, Google agreed to sell Motorola's business to Lenovo, China at US\$1.41 billion. Patents left in the hand of Google.

## Part 2: A Japanese Case

- 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.



# Background & 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.**

# Background & 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.

# 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 other things, the issues 5), 6) and 7).

# 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.”

# 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.

# 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**

# 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.**

# 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.



# Contract Theory

- 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.

# 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.

# 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**.

# Industry Standard

- Industry 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.

# 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.

# 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.

# 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%)

÷

Cumulative number of SEPs involved (= 529)

Total: 9,955,854 (JPY)

# 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.



# <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.	

## <Example of Calculation>

- Shipments in Japan: 25,300,000 units  
(source: wikipedia, see the previous slide)
- 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.)

$$(25,300,000 \times 40,000) \times 0.1 \times 0.05 \times 1/529 \\ = 9,614,000 \text{ (yen)}$$

# Thank you

If you have questions, feel free to contact:

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