

A New Trend Toward Restriction of Patent Right — Technical Standards, FRAND, and Criticism on Abuse of Right — *

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1 Introduction

Mobile phones pervasively used are based on the third generation of mobile telecommunications technology standard. There are 500 to 1000 essential patents, which cannot be avoided in producing a product with regard to this standard. In order to set a technical standard, a technical standard setting forum is formed and companies belonging to the forum are requested to report if they have an essential patent as to the standard, and are requested to declare their intention to grant a license to other companies. The following reports a case regarding a dispute in connection with such a declaration and an actual agreement negotiation. This is a landmark case defining a new trend toward restriction of a patent right due to an abuse of right.

2 Royalty Stacking and Holdup

Technologies for electronic communications or technologies for precision instruments and vehicles are being improved cumulatively, which leads to a massive number of patented inventions. Such technologies are referred to as "Cumulative Technologies". In the case of laser printers, one company has more than 10,000 patent rights. On the other hand, in the case of communications and digital devices, devices are usually connected to each other, and a technical standard is generally set to secure the connection and mutual technical

association among them. Some patents are essential to, and are closely related to, this technical standard.

When a massive number of inventions are patented and there are essential patent rights as to the technical standard, problems specific to such patents arise. If a license agreement is made for each one of the large number of patent rights, the total royalty fee will be prohibitive. This is called a "royalty stacking problem". Meanwhile, if a holder of an essential patent right as to the technical standard rejects granting of a license to a party having requested it, it becomes a hold-up party.

In order to solve such problems, various measures have been employed. A package license or patent pool is an example thereof. It is widely known that RCA of the United States employed the package license with regard to the patent rights of radio and television. RCA licensed all of its patent rights of radio or television in a package with a royalty of about 5%. RCA also made a package license agreement in relation to monochrome televisions and color televisions. It can be said that almost all the electromechanical companies in Japan had a package license agreement with RCA in connection with radio and television.

When many companies have patent rights regarding a specific technology, the patent rights can be pooled for a package license agreement. This is a patent pool, and is a particularly effective system for pooling essential patents relating to a technical standard. As with many cases such as DVD and JPEG standards, regarding the third generation of mobile telecommunications technology standard, companies having essential patents gather to form a patent pool for the purpose of licensing thereof.

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However, this does not mean that all the companies having patent rights regarding the technical standard participate in the patent pool. For wide utilization of a technical standard, the relevant patent rights need to be licensed under fair and reasonable conditions. Companies participating in setting a technical standard are requested to declare to grant licenses of their patents in advance.

3 Third Generation of Mobile Telecommunications Technology Standard

In 1998, standard organizations in the world such as the European Telecommunications Standards Institute (ETSI) gathered to form 3GPP, a standard organization for the third generation of mobile telecommunications, which provides not only voice services but also data and multimedia services, in order to spread the third generation of mobile telecommunications and discuss the technical standard thereof.

ETSI set an intellectual property rights policy, which it requested its members to follow, such that when a patent right regarding mobile telecommunications is in relation to the technical standard, the patent right holder should not prevent the spread of the standard by claiming an exclusive right and demanding an unreasonable royalty or license condition against a company intending to use the patent right of the standard.

In the policy, the members are required to always provide ETSI with reports about essential patents in connection with the standard during the development of the technical specification, and when ETSI is informed of such a report, the Director General requests the holder of the patent right to declare to grant an irrevocable license of the patent under fair, reasonable and non-discriminatory conditions (FRAND conditions).

4 Apple v. Samsung

In the case reported herein (Heisei 23 (wa) 38969; a confirmation case for absence of a debt; Tokyo District Court), the plaintiff, Apple, claimed

that the production, importation, etc., of Apple's products do not infringe upon the patent of the defendant, Samsung, "Method and apparatus for transmitting/receiving packet data using pre-defined length indicator in a mobile communication system", and requested the Court to confirm that the defendant does not have a right to claim compensation for damage against the plaintiff. It can be said that this is a part of a series of intellectual property lawsuits between Apple and Samsung, which started in April, 2011.

The point in dispute includes a wide range of matters, such as whether certain inventions fall within the technical scope of the patented invention, contributory infringement, patent right invalidity, exhaustion of right, consistency between the FRAND declaration and the agreement, and an abuse of right. Since the consistency between the FRAND declaration and the agreement, and abuse of right in relation to them, are most noteworthy among these matters and are related to the court decision for the present case, the following mainly discusses these matters.

The court decision was made in favor of Apple, the plaintiff, ruling that in view of various facts in the process of the license negotiation for the patent right of the present case, it was an abuse of right and is not acceptable that Samsung, the defendant, should be able to exercise the right to claim compensation for damage against Apple based on the patent right of the present case without fulfilling the duty of offering a license under fair and equitable principles.

5 Process of the Case

In December, 1998, Samsung declared to ETSI its intention to license its essential patents regarding the UMTS standard for the third generation of mobile telecommunications under FRAND conditions in accordance with the intellectual property rights policy of ETSI. Samsung filed a patent application in connection with the present case in May, 2005, and was granted a patent right in 2010. In August, 2007, Samsung reported to ETSI that the patent of the present case is a patent essential to the UMTS standard for the third generation of mobile

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telecommunications, and declared to grant an irrevocable license thereof in accordance with the intellectual property rights policy. After this process, in April, 2011, Samsung claimed that Apple infringed upon the patent of the present case and requested a temporary injunction against Apple with regard to the production, assignment, importation, etc., of the infringing products.

In the same month, Apple requested Samsung to grant a license for the patent of the present case and to disclose the conditions for the license. Samsung requested a nondisclosure agreement and replied, after the nondisclosure agreement was made, that Samsung would grant the license at a considerably high royalty fee rate. In September, 2011, Apple filed the present lawsuit against Samsung, as the conditions offered by Samsung were significantly different from the FRAND conditions under which Samsung had declared to ETSI to license a patent essential to the UMTS standard.

In the lawsuit, there was no argument between both the parties as to the following facts: Apple worked the patent of Samsung; and the patent right is a patent essential to the UMTS standard for the third generation of mobile telecommunications, and Samsung had declared to license its patents essential to the UMTS standard under fair, reasonable and non-discriminatory conditions (FRAND) as declared to ETSI.

The issues were: whether or not Samsung was eligible to request a temporary injunction against Apple regarding the patent right for which Samsung had declared to grant a license under FRAND conditions; whether or not the royalty fee rate presented to Apple was excessively high or satisfied FRAND conditions; and under what legal provisions can the actions of Samsung can be regulated if the royalty fee rate does not satisfy FRAND conditions. Samsung allegedly demanded a royalty of several % for the present patent right. Apple asserted that because there are 1,889 essential patents as to the UMTS standard and Samsung holds 5.5% of them, i.e., 103 patents - it is therefore reasonable that the royalty fee rate demanded by Samsung should be at most 5.5% of 5%, i.e., 0.275%.

6 Decision by the Tokyo District Court

The court decision (February 28, 2013) was made with regard to the abuse of right at the time of agreement. It was ruled that *the defendant in the present case, Samsung, has a duty to negotiate sincerely with the plaintiff to reach a license agreement under FRAND conditions in connection with the utilization of the UMTS standard.*

Moreover, the following decision was made with regard to the breach of the duty to reach an agreement under fair and equitable principles:

It is acknowledged that despite repeated requests from Apple, the defendant did not provide any information necessary for Apple to determine whether or not the license fee rate presented by the defendant or proposed by Apple in the present case satisfies FRAND conditions (such as information about a license agreement of an essential patent between the defendant and other companies) and did not provide any specific counterproposal for the license conditions presented by Apple, so that it is reasonable to rule that the defendant failed to fulfill the duty of sincere negotiation under fair and equitable principles by providing Apple with the information important to reach a license agreement for the patent, which had been declared as being essential to the UMTS standard, in the present case under FRAND conditions.

In the end, the court decision was made against the defendant because, *in view of various facts in the process of the license negotiation for the patent right of the present case between Apple and the defendant, it is an abuse of right and is therefore not acceptable that the defendant exercises the right to claim compensation for damage against the plaintiff based on the patent right of the present case in connection with products 2 and 4 without fulfilling the duty to negotiate under fair and equitable principles.*

7 Decision by the Intellectual Property High Court

The present case was appealed and was examined by the Grand Panel in the Intellectual Property High Court, which unprecedentedly solicited opinions from interested parties as to "whether or

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not there is some restriction on exercising a right to demand injunction and a right to claim compensation for damage based on a patent, which is essential to a standard set by a standard organization and for which the "FRAND declaration" has been made". As a result of the examination by the Grand Panel in consideration of the solicited opinions, the court decision was made on May 16, 2014. The Intellectual Property High Court ruled as follows:

If a holder of a patent declared to be essential is permitted to claim compensation for damage exceeding an appropriate license fee under FRAND conditions, excessive protection is given to the holder of the patent declared to be essential, thereby suppressing broad use of the technology according to the patented invention and accordingly impeding the object of the Patent Law, "development of industry" (Article 1). On the other hand, when compensation for damage within the range of an appropriate license fee under FRAND conditions is claimed based on the patent declared to be essential, it is unreasonable to restrict the compensation because such a restriction discourages parties from making inventions and impedes facilitation of standardization of technologies, thereby impeding the object of the Patent Law, "development of industry" (Article 1) as well.

Regarding the appropriate license fee under FRAND conditions, the contributions to the UMTS standard were considered with respect to the sales of the products of the present case, the upper limit of the whole of the cumulated royalties was assumed to be 5%, 529 patent rights were determined to be essential to the UMTS standard, and the license fee rate for the patent of the present case was determined by multiplying the cumulated royalty rate, 5%, by 1/529. The fee rate thus determined was multiplied by the sales of the products of the plaintiff, Apple, thereby ruling that the fee was 9,955,854 yen.

The court decision confirmed that Samsung does not have a right to claim compensation for damage against Apple in connection with production, assignment, etc., of the products of Apple on the ground of infringement of the patent right of Patent No. 4642898, and confirmed that Samsung has a right to claim compensation for damage against Apple on the ground of patent infringement so as not to exceed the sum of 9,955,854 yen and the fee found by calculating an annual rate of 5% from September 28, 2013 to the completion of payment.

8 Review

In setting a technical standard, holders of patent rights usually make a FRAND declaration. However, it is unknown to what extent the FRAND declaration can substantially restrict the contents of agreements to be made. Regarding a reasonable condition for licensing, it is unknown what royalty fee rate is reasonable.

In the court decision by the Tokyo District Court, while no decision was made with regard to the reasonableness and validity of the royalty fee rate itself, it was ruled that the defendant, Samsung, had abused its right by failing to fulfill the duty to negotiate an agreement under fair and equitable principles. In the FRAND declaration, the content of a license should be not only reasonable but also non-discriminatory. Samsung cannot prove that the conditions are non-discriminatory without disclosing, to the plaintiff, the license conditions for other companies. Indeed, since the conditions should be fair, Samsung has to present the grounds, inclusive of the conditions for other companies, for such a high fee rate of several % for one patent right. Based on these points, the court ruled that it was an abuse of right and it can be said that the court decision itself is reasonable. However, what is important in actual business is how high a fee rate can be claimed when a FRAND declaration is made, and therefore it can be said that only making the court decision based on the reasonableness in the manner of the negotiation for the license agreement was not satisfactory for the interested parties.

On the other hand, in the court decision by the Intellectual Property High Court, the license fee rate under FRAND conditions was clarified, and it was ruled that the holder of the patent right has a right to claim a compensation for damage as long as it is within a range of the appropriate fee rate, and the holder of the patent right does not have a right to claim compensation for damage when exceeding the appropriate fee rate. This will be a large index for, and will have an influence over, the utilization of patent rights in connection with technical standards in the field of communications and digital devices.