

SAMSUNG versus APPLE Case
(Demand for declaratory judgment to confirm non-existence of damages
based on Standard Essential Patent)

IP High Court, en banc

Case H25 (Ne) 10043, Judgment on May 16, 2014 (H26)

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FACTS

Apple filed a suit to clarify that its products do not infringe Samsung's patent No. 4642898, and that Samsung does not have any right to claim compensation for damage.

The original judgment ruled that some Apple products are infringing the patent, but the claiming of compensation for damage by Samsung is an abuse of right.

The products are based on UMTS, the communication standard of 3GPP.

Samsung filed a FRAND declaration regarding this patent according to the IPR policy of ETSI which is one of the standard groups consisting 3GPP.

ISSUE

Excluding infringement issues, there are several issues as follows.

- I. Is there a license agreement between SAMSUNG and APPLE based on the FRAND declaration?
- II. Is claiming compensation for damage by SAMSUNG an abuse of right?
- III. What is the amount of damage?

HOLDING

I. FRAND declaration is not a proposal of a license agreement.

II. It is an abuse of right to claim compensation for damage that is more than the equivalent of the royalty under the FRAND terms, but it is not an abuse of right to claim compensation for damage that is less than equivalent of the royalty under the FRAND terms.

a. Claim for damages exceeding the royalty under the FRAND terms

A party intending to engage in the manufacturing, sale, etc. of a UMTS standard-compliant product would recognize that, among the patent rights essential for

the manufacturing, sale, etc. of such product, at least those owned by ETSI members require the timely disclosure in accordance with ETSI IPR Policy Clause 4.1 and the FRAND licensing declaration under ETSI IPR Policy Clause 6.1. Such party would rely on the availability of a FRAND license through an appropriate negotiation with the patentee. Such reliance is worth protecting. Accordingly, in connection with the Patent subject to the FRAND declaration, allowing the exercise of the right to seek damages exceeding the amount of the FRAND royalty would be detrimental to the reliance of parties who manufacture or sell the UMTS standard-compliant product on the availability of such license.

Owing to such reliance of the UMTS standard users, the patent rights (including the Patent Right) incorporated into the UMTS standard can be widely disseminated among a large number of business enterprises in all parts of the world. As a result, an owner of a Standard Essential Patent can benefit from royalty income, which would be unavailable if the patent was not adopted as part of the UMTS standard. In addition, a party which makes a FRAND declaration as required by the ETSI IPR Policy, including the FRAND declaration, declares on a voluntary basis that it is prepared to grant an irrevocable license under the FRAND terms. Considering these circumstances, it is not so necessary to allow such owner the right to seek damages exceeding the FRAND royalty.

Hence, if a patentee who made a FRAND declaration claims damages exceeding the FRAND royalty based on such patent right, the counterparty to such claim should be entitled to refuse the payment to the extent exceeding the amount of royalty, as long as such counterparty successfully alleges and proves the fact of the patentee's FRAND declaration.

Meanwhile, if a patentee successfully alleges and proves the fact of the existence of special circumstances, such as that the prospective licensee has no intention of receiving a FRAND license, the patentee should be allowed to claim damages exceeding the amount of the FRAND royalty. As such prospective licensee has no intention of benefiting from the FRAND declaration from the outset, no reason can be found to restrict the patentee's right to seek damages up to the amount of the FRAND royalty. Nevertheless, considering the potential detrimental consequences as mentioned above, before allowing the patentee to claim damages exceeding the amount of the FRAND royalty, scrutiny shall be made to determine the existence of special circumstances in which the prospective licensee has no intention of receiving a FRAND license.

b. Claim for damages not exceeding the amount of the royalty under the FRAND terms

As for the claim for damages not exceeding the amount of royalty under the FRAND

terms, the patentee should not be restricted from exercising such claim even where the patent is a Standard Essential Patent.

A party intending to engage in the manufacturing, sale, etc. of a UMTS standard-compliant product is presumed to have started its business understanding the necessity of paying the amount of the FRAND royalty in the future. In addition, as one of the purposes of the ETSI IPR Policy, Clause 3.2 thereof provides "IPR holders ... should be adequately and fairly rewarded for the use of their IPRs." So, in this context as well, it is necessary to ensure that the patentee is adequately rewarded.

However, if the prospective licensee successfully alleges and proves the existence of special circumstances, such as that, after discussing various circumstances in the process of the FRAND declaration and licensing negotiation, it is considered extremely unfair to permit the patentee to claim for damages not exceeding the amount of royalty, even considering the significance of the right to seek damages as a compensation for the public disclosure of an invention, the possibility cannot be precluded that such patentee's claim is restricted as an abuse of right.

III. The amount of the royalty under the FRAND terms should be determined by calculating the product of sales of the products, (i) contribution ratio to the sales, and (ii) the royalty rate cap in condition that the accumulated royalty should not be excessive, and then dividing by (iii) numbers of essential patent of UMTS standards.

"The ETSI IPR Policy and the ETSI Guide on IPRs do not provide any guidance on the calculation of the royalty for FRAND license, and such calculation is left to the negotiation of the parties. Considering the totality of various circumstances, including the purpose of adoption of the ETSI IPR Policy and the nature of Products 2 and 4, the court finds it reasonable to calculate the amount of the FRAND royalty in accordance with the following calculation method.

First, among the total sales turnover of Products 2 and 4, the percentage of the contribution of the compliance with the UMTS standard should be calculated. Next, among the contribution ratio of the compliance with the UMTS standard, the contribution ratio of the Patent should be calculated. For the purpose of the calculation regarding the contribution of the Patent among the contribution of the compliance with the UMTS standard, in order to prevent an excessively high royalty in aggregate, the calculation method should be such that the amount of royalty for the entire essential patent pool does not exceed a certain ratio. In this court case, as the specific details of other essential patents are unknown, the amount of FRAND royalty should be based on the division by the number of UMTS standard essential patents."

In the above judgment, the court held as follows, determining that the amount of the royalty under the FRAND terms should be calculated in the following way: [i] multiplying the sales turnover of Products 2 and 4 by the contribution ratio of the compliance with the UMTS standard by Products 2 and 4, [ii] multiplying the amount obtained in [i] by the royalty rate cap, which is applied from the standpoint of preventing the aggregate amount of royalty from being unreasonably high; and [iii] dividing the amount obtained in [ii] by the number of essential patents for the UMTS standard.

NOTICE: Preliminary injunction cases (Intellectual Property High Court (en banc)/ Case H25 (Ra) 10007 regarding iPhone 4 and iPad 2 Wi-Fi+3G model, and Case H25 (Ra) 10008 regarding iPhone 4S)

On the same day, decisions were made refusing preliminary injunction of Apple products including iPhone 4 and the like. The court decided that a party which makes a FRAND declaration originally does not expect its monopolism attained by injunction right as long as it receives compensation under the FRAND terms, hence necessity is hardly found for securing its monopolism by approval of injunction.

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Original document (Japanese):

http://www.ip.courts.go.jp/app/files/hanrei_jp/209/084209_hanrei.pdf

English Translation:

http://www.ip.courts.go.jp/eng/vcms_lf/25ne10043full.pdf