

FRAND-Encumbered Standard Essential Patents

I. Apple Japan v. Samsung¹

Article 21 of the Japanese Anti-Monopoly Act (AMA)² states “The provisions of this Act shall not apply to such conducts recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act or the Trademark Act”. Conduct which is deemed to be the proper exercise of one’s IP rights shall not fall under the AMA. If it is determined that the act satisfies the purpose and objective of the Copyright Act, the Patent Act, the Utility Model Act, the Design Act or the Trademark Act, the AMA shall not be imposed. The question in the Apple v. Samsung case was to delineate what constitutes an act which may be deemed to be the exercise of an IP right and what constitutes unfair conduct.

As an example of the above, Apple Japan had sought a license from Samsung, but the two companies were unable to reach an agreement on the licensing terms. Despite not having a license from Samsung, Apple Japan began to manufacture smart phones following the UMTS standard. The patent in question was a Standard Essential Patent (SEP)³, and was considered necessary in order to manufacture or market products containing the current technology in the field (in this case, UMTS and 3G mobile communication systems).

On May 16, 2014, the Tokyo High Court deemed (Appeal Cases 2013 (Ne)10043, 2013 (Ra)10007, and 2013 (Ra)10008) that Samsung had refused to grant Apple Japan a license and, thus, Samsung could not seek an injunction against Apple Japan for a patent (JP4642898) having a FRAND declaration. Samsung was prevented from seeking damages which exceed the royalty under the FRAND

¹ Appeal Cases 2013 (Ne)10043, 2013 (Ra)10007, and 2013 (Ra)10008.

² An English version of the Japanese Antimonopoly Act prepared by the Japan Fair Trade Commission can be retrieved at http://www.jftc.go.jp/en/legislation_gls/amended_ama09/index.html

³ Under FRAND, a patent rights holder of a patent(s) deemed to be an SEP(s) is required to offer licensing to a third party (parties) even if the third party is a direct competitor.

declaration. Thus, the SEP rights holder may not seek injunctive relief from an entity which is considered a "willing licensee", namely, an entity who obtained or intends to obtain the necessary license under FRAND. One of the main problems recognized by the Tokyo High Court was that it would be difficult for courts to easily determine whether an infringer did not actually intend to obtain a license or whether the licensing terms offered by, in this case, the patent rights holder of the SEP were unfair.

This decision would cause the Japan Fair Trade Commission (JFTC) to amend their IP Guidelines⁴ to prevent a company from seeking an injunction against a willing licensee. A company which actively refused to license a FRAND-encumbered SEP, or offered to license the FRAND-encumbered SEP (an SEP with an agreement to license in accordance under FRAND terms and conditions) at an unreasonably high royalty rate, or offered to license the FRAND-encumbered SEP to different third parties at remarkably different rates and under remarkably different conditions would not be viewed as operating their invention under the confines of the purpose and objective of the Patent Act. Such a company might be subject to accusations of private monopolization if it was deemed that their actions were having a deleterious effect on competition, or such a company's actions could be construed as unfair trade if such actions were shown to interfere with fair competition.

According to the updated JFTC IP Guidelines, it shall be determined whether both entities have acted in good faith in attempting to willingly establish a license. The Guidelines stipulate that it is the responsibility of the SEP holder to notify the infringing party and provide both details in regards to the alleged infringement and the conditions for obtaining a license. Additionally, the SEP holder must provide specific information describing the royalty rate(s) to the infringing party.

American courts have deemed that a FRAND declaration is an obligation that companies will negotiate on FRAND terms in good faith, and it is not considered a means by which the potential-licensee is allowed to freely exercise the patented invention.

The JFTC deemed that any financial compensation resulting from damages "that exceed a reasonable royalty rate" would constitute an abuse of the IP right, and that the financial compensation should be in a range equivalent to the reasonable royalty. Should be it deemed that the infringing party did not actually intend to procure a licensing agreement from the IP rights holder, the damages payable to the IP rights holder may exceed the reasonable royalty rate.

II. Apple v. Qualcomm

In January 2017, following a Federal Trade Commission (Case 5:17-cv-00220. Federal Trade Commission v. Qualcomm Incorporated) lawsuit against Qualcomm for monopolistic business practices, Apple filed suit seeking \$1 billion in damages from Qualcomm who according to the lawsuit allegedly breached contracts with Apple and engaged in anti-trust activities regarding Qualcomm's 3G-CDMA technology which are FRAND-encumbered SEPs. According to the lawsuit, Qualcomm is accused of employing a "no license, no chips policy"⁵ to force original equipment manufacturers (Apple appears to have been specifically targeted) to pay higher royalties.

This is the latest in a series of licensing lawsuits against Qualcomm. In 2015, Qualcomm paid a large fine in response to anti-trust charges in China and agreed to lower their licensing rates and cease the unjustified bundling of SEPs and non-SEPs in patent licensing⁶. In late 2016, Qualcomm was found guilty of improprieties during the negotiation of licenses in South Korea⁷.

In late November 2017, the JPO held meetings with government officials and members of key industries with regards to implementing an Alternative Dispute Resolution (ADR) system. Patent owners (particularly those with numerous SEPs) feel that if the JPO were to become involved in the determination of FRAND royalty rates for SEPs, it might ultimately be taken to infer that the JPO was implementing a compulsory licensing system in which a "one size fits all" mandatory approach was being adopted.

This ADR strategy would have only applied to Japanese patents and would have done little in terms of the licensing of and disputes arising from SEPs which are adopted globally.

⁴ Guidelines for the Use of Intellectual Property under the Antimonopoly Act (2007, revised 2016)
(http://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.html)

⁵ "FTC Charges Qualcomm With Monopolizing Key Semiconductor Device Used in Cell Phones", Federal Trade Commission webpage, January 17, 2017.
(www.ftc.gov/news-events/press-releases/2017/01/ftc-charges-qualcomm-monopolizing-key-semiconductor-device-used)

⁶ "Qualcomm to Pay \$975 Million Antitrust Fine to China", The Wall Street Journal, February 10, 2015.

⁷ "Qualcomm Fined \$853 Million by South Korean Antitrust Agency", Bloomberg Technology, December 28, 2016.