

Tokyo District Court Declared That Samsung May Not Claim Damages against Apple for Infringement of Its UTMS Essential Patent under the Theory of Abuse of Rights – FRAND Declaration Establishes the Duty for Sincere Negotiation.

On February 28, 2012, Tokyo District Court issued a judgement declaring that Samsung Electronics Co., Ltd. does not have a right to claim damages against Apple, Inc. based on certain patent infringement by Apple's sales of its popular products, iPhone 4 and iPad 2 (the "Products"). The patent at issue, Japanese patent no. 4,642,898 ("898 Patent"), is one of the patents which Samsung reported to European Telecommunications Standards Institute (ETSI) as being an essential patent for UTMS Standard. Under the policy of ETSI, Samsung declared its willingness to grant licenses on fair reasonable terms and conditions and on a non discriminatory basis ("FRAND Declaration").

The court found that the Products are within the scope of 898 Patent, and therefore, pending the issues of invalidity and other defences, may infringe 898 Patent. The court declared, however, that Samsung is barred from claiming damages against Apple under the theory of abuse of rights. The court stated that, as Samsung made the FRAND Declaration, it is under the duty of sincere negotiation and it breached this duty in the course of negotiations for the license of the 898 Patent with Apple.

This litigation is one of the worldwide patent disputes between two telecommunications companies. On April 21, 2011, Samsung filed an action for preliminary injunction based on 898 Patent against Apple's Japanese subsidiary (Apple Japan) to stop the sale of the Products. As a counter action, Apple Japan, the plaintiff, filed this suit on merit seeking a declaratory judgement that Samsung, the defendant, does not have a right to claim damages.

Case Background

ETSI is one of the founders of 3GPP, the organization which established a globally available third-generation (3G) mobile phone system specification. The objectives of ETSI's IPR Policy is to reduce the risk to its members and others applying ETSI Standards and Technical Specifications, as investment in the preparation, adoption and application of Standards could be wasted as a result of an Essential IPR for a Standard or Technical Specification being

unavailable. In achieving this objective, the ETSI IPR Policy seeks a balance between the need of standardization for public use in the field of telecommunications and the rights of the owners of IPRs (§3.1). To achieve this objective, §6.1 of the Policy provides as follows:

When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions under such IPR...

In furtherance of this Policy, ETSI Guide on IPRs at § 1.4 states that third parties, as users of ETSI standards or documentation, have a right to be granted licenses on fair, reasonable and non-discriminatory terms and conditions in respect of a standard at least to manufacture, sell, lease, repair, use and operate.

Samsung, the defendant, is a member of ETSI. In May 2005, the defendant made a proposal to 3GPP Working Group of ETSI to request an adaptation of Alternative E Bit Interpretation technology. Upon this request, the Working Group, in the UTMS Specification V6.4.0, adopted Alternative E Bit Interpretation. In August 2007, Samsung submit a declaration paper stating that the original Korean patent application of 898 Patent, which embodies Alternative E Bit Interpretation, is an essential patent for UTMS and that it is prepared to grant irrevocable licences on FRAND terms and conditions under such patent application.

Duty for Sincere Negotiation

Upon finding these facts, Tokyo District Court established a duty for sincere negotiation to the defendant stating as follows:

Pursuant to § 6.1 of ETSI's IPR Policy and § 1.4 of ETSI Guide on IPRs, when the defendant receives an offer for license on FRAND terms and conditions of 898 Patent, which the defendant declared is essential for UMTS Standard in the FRAND Declaration, the defendant assumes duty to undertake sincere negotiations with the offerer, regardless whether the offerer is a member or a third party, toward entering into license agreement on FRAND terms and conditions regarding the use of the UMTS Standard.

Consequently, because, when the defendant receives a concrete offer for license on FRAND terms and conditions of 898 Patent, the defendant and the offerer are judged as entering into a preparatory stage toward a license agreement on FRAND terms and conditions, they both assume duty under the principle of good faith to undertake sincere negotiations, presenting important information to the other party, toward entering into such license agreement.

This court finds that, at latest, at the time when Apple made an offer to the defendant for a license agreement on FRAND terms and conditions of three Japanese patents including 898 Patent, which the defendant declared are essential for UMTS Standard, by the letter on March 4, 2012, Apple made to the defendant an concrete offer for license on FRAND terms and conditions, and therefore Apple and the defendant entered into a preparatory stage toward an agreement and assumed duty under the principle of good faith explained above.

The court stated that the duty for sincere negotiation arises even if the concrete offer for license on FRAND terms and conditions reserves the possibility of invalidation of the patent at issue.

Breach of Duty Leads to Abuse of Rights

The court stated that the defendant breached its duty of sincere negotiation. In deciding so, the court emphasized the defendant's failure to give important information as follows:

The defendant, though Apple repeatedly requested, failed to provide information regarding license agreements for essential patents between the defendant and other parties and other information necessary for Apple to evaluate whether the defendant's offer for license or Apple's proposal for license conforms to FRAND terms and conditions, and also failed to make meaningful counteroffer in response to the license terms and conditions proposed by Apple. Therefore, it is appropriate to hold that the defendant breached the duty under the principle of good faith to undertake sincere negotiations, providing, important information to Apple, toward entering into a license agreement on FRAND terms and conditions with respect to 898 Patent, which the defendant declared is essential for UMTS Standard.

In conclusion, the court held that the defendant is barred from claiming for damages under the theory of abuse of rights, stating as follows:

The defendant breaches the duty owing to Apple, the plaintiff's parent, to undertake sincere negotiations under the principle of good faith, providing important information to the other party at the preparatory stage toward license agreement on FRAND terms and conditions regarding 898 Patent, which the defendant declared is essential for the Standard based on FRAND declaration; under such circumstances, the defendant maintains to the date the action seeking preliminary injunctions to stop importation and sales of the Products based on 898 Patent; and about two years had passed until the defendant disclosed 898 Patent (international application number of 898 Patent) since the technology covered by 898 Patent (Alternative E Bit Interpretation) was adopted to 3GPP Standard based on the defendant's request for change the Standard. Taking

these and other facts appearing in the course of negotiations toward license of 898 patent between Apple and the defendant into account, this court holds that, under the theory of abuse of rights, the defendant is not allowed to exercise the right to claim damages based on 898 Patent regarding the Product without abiding by the duty under the principle of good faith as explained above.

Implications

This is the first decision in which a Japanese court has held that a FRAND declaration shall lead to establish a duty to undertake sincere negotiation, and breach of such duty may estop the patent holder from exercising its patent rights under the theory of abuse of rights. According to the reasoning of the court, under the duty of sincere negotiation, a patent owner of an essential patent will be forced to disclose information regarding licensing terms and conditions with a third party. If the reasoning of the court is broadly accepted, it has a substantial impact on the practice of essential patent and FRAND declarations.

The Tokyo District Court has very broad jurisdiction in Japan for patent infringement suits, but only as a first instance court. It is worth following closely as to whether the appellate court, the IP High Court, will affirm this decision or not.

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