

## FRAND Commitment and Competition Law Limitations for the Enforcement of Patent Rights in Japan

*Shuya Hayashi\**

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In recent years, as symbolized by the spread of the Internet, the information and communications technology sector (hereinafter referred to as “the ICT sector”) has become an increasingly important part of the economy. In this sector, intellectual property lawsuits between multinational enterprises are increasing worldwide and capture public attention. One important case in Japan is the *Samsung vs. Apple* case.<sup>1</sup> The outcome and discussion of this case has had an impact both domestically and internationally. The purpose of this paper is to analyse the *Samsung vs. Apple* case based on the law and an economic theory and on the various opinions expressed in legal literature.

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\* Professor of Law, Nagoya University, Graduate School of Law.

<sup>1</sup> IP High Court (Grand Panel), Case No. 2013 ne 10043 (Appeal Case Seeking a Declaratory Judgment regarding the Absence of an Obligation), appeal against the judgment of the Tōkyō District Court, Case No. 2011 wa 38969.

## I. THE NATURE OF THE ICT SECTOR AND THE ROLE OF STANDARD-SETTING ORGANIZATIONS

First, this paper will describe some distinctive features of products in the ICT sector, in which the litigants of the case operate. Second, this paper will identify the role of standard-setting organizations (hereinafter referred to as “SSO(s)”), which play an essential role in this case.

In recent years, as symbolized by smartphones, it has come to be that products in the ICT sector are composed of various technical components that are related to numerous intellectual property rights. In practice, the status quo in the ICT sector shows that hundreds or even thousands of intellectual property rights are involved in one product, and are often owned by many patent holders.

Moreover, technical standards play a key role in the technical foundation of the products in the ICT sector so as to ensure interchangeability and interoperability among devices. For this reason, products in this sector are based on technical standards which are related to many complementary, standard-essential patents (hereinafter referred to as “SEP(s)”) held by different patent holders. Under such circumstances, Heller & Eisenberg and Shapiro indicate in their respective papers that these technologies are over-compensated socially as a result of the behavior of patent holders who endeavor to maximize the profits derived from their own technologies without taking into account the adverse effects on other companies.<sup>2</sup> These adverse effects, known as “the tragedy of the anticommons” or “the problem of royalty stacking”, are serious problems posed by the lack of coordination among patent holders concerning their essential complementary technologies.

SSOs are private organizations that develop and set technical standards which apply to products in the ICT sector. These organizations aim at solving the aforementioned problems, which arise from the existence of a large number of complementary essential patents, by facilitating coordination among the parties concerned in the standard-setting process.<sup>3</sup> SSOs often design their own “patent policy” and require their members to comply with it for the purpose of improving effectiveness in coordination among the parties as well as spurring development of appropriate technical standards. Such a policy often includes the following components: (1) a policy on disclosure of intellectual property rights, (2) a policy requiring its members to license under FRAND terms, and (3) a policy on dispute settlement. Nevertheless, as presented in Lemley’s and in Chiao, Ler-

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2 See M. A. HELLER/R. EISENBERG, Can Patent Deter Innovation? The Anticommons in Biomedical Research, in: *Science* 280 (1998) 698; C. SHAPIRO, Navigating the Patent Thicket: Cross Licenses, Patent Pool and Standard Setting, in: Jaffe/Lerner/Stern (eds.), *Innovation Policy and the Economy*, Vol. 1 (MIT Press 2001) 119–150.

3 See SHAPIRO, *supra* note 2, at 120, n. 1.

ner & Tirole's research papers, it is known that SSO patent policies contain diverse contents in practice, due to their different purposes and reasons for establishment.<sup>4</sup>

In order to carry out an analysis of this case, it is important to focus on the following two features of the standard-setting process. The first feature is that licensing negotiations between parties are conducted not before an SSO's standard-setting process but afterwards. Nonetheless, users (manufacturers) who want to implement technical standards usually have to make various investments before standards are established and have to prepare for the implementation of the standards. This kind of investment often cannot be redeployed for other alternative standard technologies. Given the nature of this investment, it is to be categorized as an investment in relation-specific assets which can only be used for a specific standard.

The second feature is that licensing negotiations occurring after the standard-setting process are conducted by parties that are trying to preempt the possibility of intellectual property lawsuits in the event negotiations collapse. Obviously, negotiating parties have to speculate on the possible results of such lawsuits during the negotiations — especially as to whether courts may hold that patents are infringed and that injunctive relief and damages should be granted. This is due to the fact that the results of lawsuits have not yet been determined when licensing negotiations are conducted. Particularly, if an injunction is granted by a court, users of standards have to bear extra costs in order to modify a product's development and its design so as to avoid patent infringement. In some extreme cases, they have no choice but to pay the cost to exit from the market. In the economic context, it is known that the outcome of negotiations may result in inefficiency owing to the effect of *ex ante* relation-specific investment and the anticipation of *ex post* costs following the failure of negotiations.<sup>5</sup> Given the critical importance of this viewpoint, a detailed analysis will be carried out in the next section.

## II. THE HOLD-UP PROBLEM

When an investment in relation-specific assets is made in advance and *ex post* costs are expected to occur if negotiations break down, the so-called "hold-up problem" may emerge during the negotiation process between parties. On the condition of the above-mentioned situation and based on the discussion in Farrell et.al., in this section this pa-

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4 With respect to the summarized details of major SSO patent policies, see M. A. LEMLEY, Intellectual Property Rights and Standard-Setting Organization, in: *California Law Review* 90 (2002) 1889; B. CHIAO/J. LERNER/J. TIROLE, The Rules of Standard-Setting Organizations, in: *Rand Journal of Economics* 38 (2007) 905.

5 See O. WILLIAMSON, *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting* (Free Press 1985).

per will use a simple bargaining model (the Nash bargaining model) concerning the standard-setting process to indicate the cause of this problem and its consequences.<sup>6</sup>

Consider licensing negotiations between a SEP holder and a user who wants to implement the standard and go into production. To simplify the model, the author assumes that the negotiations are conducted efficiently and, furthermore, considers the most simplified negotiating situation where both negotiating parties agree to conclude the negotiations with a license agreement based on the assumption that realized benefits derived from successful negotiations outweigh the disadvantages that will result if the negotiation process is unsuccessful (hereinafter a “threatening point.”). In this case negotiations would be successful if the total benefits for both parties (collective profits) outweigh the total sum of the “threatening point” benefits for the respective parties (if the negotiations fail). The negotiations will thus result in the distribution of the benefits between the negotiating parties through the negotiations.

Suppose that licensing negotiations regarding a technical standard are conducted *before* a SSO develops its standard (*ex ante*). Generally, given that technology which will be standardized later and its alternative technologies coexist before the standard-setting process, the threatening point of a standard’s user is the benefits to that user arising from the next-best alternative technology. Where  $V_1$  denotes the benefits which the potential standardized technology provides to the user, and  $V_2$  denotes those which the next best alternative technology provides to the user, and  $R_A$  denotes the payment for the technology if the negotiations are successful prior to the standard-setting process, the distribution of the benefits could be described as follows:

the patent holder’s benefits if the negotiations are successful =  $R_A$ ;

the patent holder’s benefits if the negotiations fail = 0;

the user’s benefits if the negotiations are successful =  $V_1 - R_A$ ;

the user’s benefits if the negotiations fail =  $V_2$ .

Accordingly, the negotiations would be successfully concluded if the collective benefits conferred by the successful negotiations ( $V_1$ ) exceed those resulting from a breakdown in the negotiations ( $V_2$ ). In such case, the value of  $R_A$  could be described as follows:

$$V_1 - V_2 (=V_A) > R_A > 0$$

Where the fraction of the total negotiating benefits  $V_A$ , which the patent holder captures in the negotiations is defined as the patent holder’s bargaining skill  $\beta$  (the negotiated rate),  $R_A$  could be represented as  $R_A = \beta V_A$ . It could be illustrated that the payment for the patent holder’s technology is directly proportional to the incremental value, which is equal to the difference between the potential standardized technology and the next-best alternative, on the condition that the negotiation is conducted in advance.

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6 For details, see J. FARRELL/J. HAYES/C. SHAPIRO/T. SULLIVAN, Standard Setting, Patents, and Hold-Up, in: *Antitrust Law Journal* 74 (2007) 603. I adopt the same bargaining model shown in the appendix (pp. 662–670) of the above paper.

Nevertheless, as mentioned above, licensing negotiations are in practice conducted after the standard is set (*ex post*). Then, further considerations should be determined by the possible result of *ex post* licensing negotiations. During the standard-setting process, users of the potentially standardized technology make an investment in relation-specific assets with respect to the standard before the *ex post* negotiation. To illustrate this,  $K$  denotes the value of the investment in relation-specific assets concerning the standard and  $R_P$  denotes the patent holder's benefits arising from the *ex post* negotiations. The distribution of the benefits could be described as follows:

- the patent holder's benefits if the negotiations are successful =  $R_P$ ;
- the patent holder's benefits if the negotiations fail = 0;
- the user's benefits if the negotiations are successful =  $V_1 - R_A$ ;
- the user's benefits if the negotiations fail =  $V_2 - K$ .

In addition, if the negotiations fail, the user could not use the standard. It thus leads to the situation that the value of the investment in relation-specific assets invested for the purpose of implementing the standard reduces the user's threatening point. Accordingly, the payment for the technology if the *ex post* negotiations are successful, denoted by  $R_P$ , could be described as follows:

$$R_P = \beta(V_1 - (V_2 - K)) = \beta V_A + \beta K$$

It should be noted that  $\beta K$ , shown on the right side of the equation, is the payment which would not occur if the licensing negotiations were concluded prior to the standard-setting process. This is the "hold-up" problem the user of the standard is confronted with. The user's negotiating position becomes weak owing to the user's investment in relation-specific assets before the standard is established. It thus can be illustrated through the economic mechanism of the so-called "hold-up" problem that the payment to the patent holder would be excessive, as is shown as  $\beta K$  in the preceding equation, if *ex post* licensing negotiations were concluded.

Furthermore, it should also be noted that excessive payments to patent holders with respect to licensing negotiations are mainly caused by the investment in relation-specific assets concerning the standard. However, the problem arises also in other situations. Other *ex post* costs (such as design-around costs and market exit costs) are expected to occur and have the same effects as  $K$  in the preceding equation if licensing negotiations break down.<sup>7</sup> Accordingly, provided that licensing negotiations on standardized technol-

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7 With regard to this point, if licensing negotiations collapse and an intellectual property lawsuit is filed and the court finds an infringement and grants injunctive relief, the user of the standardized technology has to bear design-around costs and even market exit costs. By contrast, these costs would not occur if limitations are imposed on injunctive relief and a court refuses to grant an injunction. As a result, the user's threatening point, in the event an injunction is granted, is lower than that if not granted. Through this mechanism, the same hold-up problem emerges. For a detailed economic analysis of this point, see M. LEMLEY/C. SHAPIRO, Patent Holdup and Royalty Stacking, in: *Texas Law Review* 85 (2007) 1990,

ogy break down and intellectual property lawsuits are filed, the same “hold-up” problem also emerges if injunctive relief is granted in such intellectual property lawsuits.

### III. INTELLECTUAL PROPERTY RIGHTS AND THE AMA

In the ICT sector, many products are affected by significant network effects, which means the more users there are that use the products complying with the same standard, the more benefits they can enjoy from those products. Standardized product specifications thus have great social benefits in terms of increasing interchangeability and interoperability among devices. On the other hand, there is a potential risk that patent holders who hold patents essential for implementing standards may strategically exercise their strong bargaining power to “hold-up” their rivals and seek to form, maintain, or strengthen their monopolistic position in an unreasonable way. For example, as discussed in the previous section, enterprises engaged in developing the standard may create a “hold-up” situation and attempt to strengthen their monopolistic position by not disclosing the existence of their patents and by enforcing the patents after the standard is established. As most of the enterprises aim at adopting the standardized technology in their products, it is difficult to adopt other alternatives because of their investment in relation-specific assets. For this reason, enterprises may possibly be charged with a prohibitive royalty fee by a SEP holder; otherwise, if they do not pay this fee, they may end up being confronted with an injunction claim based on the SEP. The enterprises in question would inevitably be defeated by their competitors.

In Japan, with respect to the relationship between the Japanese Antimonopoly Act (hereinafter referred to as “the AMA”)<sup>8</sup> and intellectual property rights, Article 21 AMA stipulates that “the provisions of this Act do not apply to acts found to constitute an exercise of rights under the Copyright Act,<sup>9</sup> Patent Act,<sup>10</sup> Utility Model Act,<sup>11</sup> Design Act<sup>12</sup> or Trademark Act.<sup>13</sup>” The AMA aims at preventing or eliminating the negative effect of monopolies and fostering a competitive economic environment. On the other hand, the objective of the intellectual property law system is to protect information creators’ benefits by providing them with a monopoly regarding the information in order to increase

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C. SHAPIRO, Injunction, Hold-up, and Patent Royalties, *American Law and Economic Review* 12 (2012) 280; V. DENICOLO/D. GERADIN/A. LAYNE-FARRAR/A. J. PADILLA, Revisiting Injunctive Relief: Interpreting E-Bay in High-Tech Industries with Non-Practicing Patent Holders, in: *Journal of Competition Law and Economics* 4 (2008) 571.

8 *Shiteki dokusen no kinshi oyobi kōsei torihiki no kakuho ni kansuru hōritsu* [Act on the Prohibition of Private Monopolisation and the Maintenance of Fair Trade] Law No. 54/1947.

9 *Chosakuken-hō*, Law No. 48/1970.

10 *Tokkyo-hō*, Law No. 121/1959.

11 *Jitsuyō shinan-hō*. Law No. 123/1959.

12 *Ishō-hō*, Law No. 125/1959.

13 *Shōhyō-hō*, Law No. 127/1959.

incentives to invent and create that will eventually stimulate industrial development. Fostering a competitive environment and protecting intellectual creation (e.g. inventions) are efforts having basically the same common purpose, i.e. the development of the national economy. However, in reality, in many cases the two underlying legal systems work in opposite directions and lead to contradictions or conflicts. Therefore, many questions arise on how to coordinate their roles.

As regards this point, pursuant to Article 21 AMA, the Antimonopoly Act basically does not apply to conduct recognized as a fair exercise of intellectual property rights. A similar position is principally adopted by Japanese case law. However, as an exception, courts hold that if the conduct deviates from the aim of the intellectual property law system and thus contravenes the purpose of the whole system, such conduct should not fall under Article 21 AMA, and the Antimonopoly Act may thus apply to this conduct (this being a general view in Japanese case law<sup>14</sup>). Concerning the circumstances that

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14 Among the recent civil cases in which the interpretation of Article 21 AMA became a key issue, we find the Hinode case and the Converse case. In these cases the courts adopted the “deviation from the purpose” doctrine: A summary of the Hinode case is as follows: Local governments designated a specification for manhole covers and issued an order. The plaintiff holding a related patent right on the designated specification licensed the defendant to make and sell manhole covers with an upper limit on the product quantity. If the defendant wanted to sell manhole covers in an amount that exceeded the upper limit, the defendant was obliged under the contract to buy the excess amount from the plaintiff or to subcontract the production of the excess amount back to the plaintiff. The legal issue was whether such a contractual obligation is in violation of the AMA. The plaintiff claimed that such an obligation is a legitimate exercise of its patent right. In response to the plaintiff’s claim, the Tōkyō District Court (Case No. 2004 wa 13972, Case No. 2004 wa 13975, Case No. 2005 wa 6785, and Case No. 2005 wa 6788), hearing the matter each time at first instance, pointed out that in general legal issues with respect to the AMA may arise when the conduct constitutes an unfair exercise of patent rights under certain specific circumstances. Nevertheless, it also held in all cases that the evidence was insufficient to establish that the plaintiff’s conduct had satisfied the requirements for “unfair trade practices.” Therefore, no specific opinions concerning this key issue were expressed in the decisions. The defendant appealed the decision, but the Intellectual Property High Court (Case No. 2006 ne 6785) upheld the district court’s decisions. In the end, no concrete analysis was conducted.

On the other hand, in the Converse case (heard at first and second instance), the plaintiff was an exclusive licensee of a trademark in Japan, and when the defendant imported and sold the trademarked products as a business, the plaintiff sued the defendant, seeking damages and an injunction on the import and sale of the products. The defendant asserted in its defence that its conduct constituted a legitimate parallel import, which provides a justification for its conduct, and that the plaintiff’s claim for an injunction in order to prohibit parallel imports was in violation of the AMA. On the issue concerning whether legitimate parallel imports under the Trademark Act provide a justification, the Tōkyō District Court (Case No. 2006 wa 26725) examined at first instance the defendant’s conduct on the basis of the judicial precedents regarding the legality of parallel imports and granted plaintiff’s request. In the decision, the court held that the plaintiff’s was legitimately exercising its trademark right, and thus the AMA did not apply to the case pursuant to Article 21 of the AMA. The

would satisfy the conditions for the application of the Antimonopoly Act, some scholars point out that the conditions were directly included in the exception and thus an enforcement of intellectual property could be affirmed whenever the ordinary provisions of the AMA have been violated. However, the courts tend to interpret Article 21 AMA in a way that the exception expressed therein is applied only when “the conduct departs from the aim of the intellectual property law system and thus violates the purpose of the whole system.” It would be difficult to consider the value of the AMA when judging what constitutes an exception in individual cases.

Another point to be considered is whether it is possible to construe intellectual property laws in individual cases in consideration of competition law policy or the AMA in addition to traditional interpretation schemes within the boundaries of the intellectual property laws. With regard to this point, there is discussion whether to generally limit the right to file for an injunction. In particular from the perspective of competition policy or other issues, some argue that courts should not issue an injunction in some cases related to the exercise of intellectual property rights, even though an intellectual property infringement is found by courts.<sup>15</sup> This argument is derived from the U.S. decision in the *eBay v. MercExchange* case.<sup>16</sup> However, an injunction in the U.S. system is an equitable remedy, which means whether to grant an injunction depends on the court’s discretion. In Japan, by contrast, Article 100 of the Japanese Patent Act provides that if there is an infringement, a patentee may seek injunctive relief, including: (1) demanding a person to stop or prevent such infringement, and (2) demanding the disposal of infringing

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defendant appealed the decision, but the Intellectual Property High Court (Case No. 2009 ne 10058, and Case No. 2009 ne) 10072) upheld the district court’s decision.

15 In the *National Highway Route No.43* case, residents living near the highway suffered physical damages as a result of noises and automobile emissions generated from the highway. In the Supreme Court decision (*Saikō Saibansho* of 7 July 1995, Minshū 49 No. 7, 2599), the court held that with respect to damages based on the infringement of personal rights, the following factors should be taken into account. “Besides comparing and analyzing the manner and extent of infringement, the nature and content of the infringed interest, and the content and degree of the public nature and the public necessity to grant an infringement, the court should take into account the commencement, further progress and condition of infringement, whether preventive measures are taken in the meantime and the content and effect of the preventive measures taken, and finally make a decision after considering all the factors above comprehensively.”

16 *eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). Even prior to eBay, courts could take into account the effect on public interest that arises from an injunction. Under exceptional circumstances, courts had declined permanent injunctions that threatened serious harm to public interest, but only rarely. After the eBay decision, a patent holder now must demonstrate that the traditional equitable principles (a four-factor test) are satisfied. In other words, a patent holder must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

products and the removal of facilities used for the infringement.<sup>17</sup> Unlike the U.S. courts, the Japanese courts thus have no discretion whether to grant an injunction or not.<sup>18</sup> It is possible, though extremely limited,<sup>19</sup> that courts can refuse to grant an injunction when a party's claim for injunctive relief is found to constitute an abuse of rights. Consequently, the question whether to give the Japanese courts discretion to grant an injunction as under the U.S. system is basically a legislative issue.<sup>20</sup>

On the other hand, the Patent System Subcommittee of the Intellectual Property Policy Committee of the Industrial Structure Council published a report entitled "Legal Regime Issues Concerning the Japanese Patent System" in February 2011. In this report,<sup>21</sup>

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17 A patentee may seek injunctive relief irrespective of whether it is an operating company or a non-practicing entity.

18 The Patent Act provides patentees with a right to seek injunctive relief. This is because information, titled "intellectual property", is construed as intangible assets similar to "things" in the Civil Code, and is granted certain concrete rights by law. As a result, intellectual property rights have been given an exclusive effect, similar to the effect of ownership. When intellectual property right holders intend to protect their information, they may enforce their rights in rem to exclude others. Given that intellectual property rights are right in rem, injunctive relief should be granted to intellectual property right holders irrespective of whether or not any damage occurs (or is likely to occur).

19 There is some case law in which patent misuse was raised as a defence but rejected, and injunctive relief was granted (See Intellectual Property High, 31 January 2006, Minshū 61 No. 8, 3103). Also in a case where the defendant claimed that the plaintiff's claim for an injunction constituted an abuse of rights based on the situation of negotiations between both parties for settlement and the fact that the patent at issue was of little technical significance, the Tōkyō District Court (Case No. 2006 wa 474) held that, "the Patent Act allows all remedies provided in the Patent Act so long as the requirements of patent infringement are satisfied, regardless of whether such invention has a high technical value," and dismissed the defendant's claim. (See Patent System Subcommittee of the Intellectual Property Policy Committee of the Industrial Structure Council, Legal Regime Issues Concerning the Japanese Patent System, at 55–56, no. 4, 2011.) By contrast, it should be noted that, in the "Take a look at Shuri Castle through photos" case, after considering that the damage was slight and that the publisher would be unable to continue selling the published photobook in which the publisher had invested considerably (i.e. an investment in relation-specific assets), the Naha District Court (Case No. 2007 wa 347) awarded only damages to the plaintiff, refusing to issue an injunction against the defendant (as a result of an abuse of rights).

20 One possibility is to provide a general exemption clause with respect to the exercise of intellectual property rights, like the doctrine of patent misuse as provided in the U.S. patent law system. After all, if courts construe intellectual property rights only from the viewpoint of the purpose of the AMA in individual cases, they would be limited to considering specific factors and conditions concerning each case. Decisions would be made on a case-by-case basis without comprehensive considerations. By providing a general exemption clause, courts might consider each case from a broader perspective and therefore could strike a balance between two laws. It might be unrealistic, but still worth considering.

21 In the report, opinions vary as to whether one should impose a limitation on the enforcement. Some opinions suggest that it is necessary to limit the enforcement of patent rights. Some state that "it might constitute an impediment to the establishment and adoption of technical standards, and further might harm not only standard-setting participants but also

it was noted that “we should embark on wide-ranging discussions about the best practice of injunctions in Japan, while taking the following matters into account: the current state of international enforcement of intellectual property rights with respect to the so-called “patent trolls” and domestic and international technical standards, views and discussions held in other countries, international negotiations, and the case law in Japan”.

As one aspect of wide-ranging discussions, there is the issue whether, from the perspective of competition law, it is possible under existing laws that a violation of the AMA could be claimed as a defence against the exercise of intellectual property rights and whether courts could limit such exercise of intellectual property rights. Since it is impossible to adequately reflect the significance of the AMA as well as competition policy when construing intellectual property laws, it is necessary to apply the AMA in the event that an inconsistency arises between the AMA and the exercise of intellectual property rights. As regards the validity of the private conduct violating the AMA, some judicial precedents state that such conduct should not be automatically declared invalid by reason of a violation of public policy. Nevertheless, in numerous cases, courts held that such conduct is invalid.<sup>22</sup>

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the public interest. Hence, the enforcement shall not be permitted.” Others claim that “the hold-up problem would be serious under the circumstances that a patent is being enforced by a patentee not participating in the standard-setting process (outsiders). Therefore, some corresponding measures should be taken in advance.”

On the other hand, there are also opposite opinions that have held that the issue of a limitation of the possibility to enforce a patent right would need a careful and thoughtful consideration. “Even if a claim for an injunction was to be limited in Japan, it would be still possible to seek an injunction in other countries” and “efforts being made by Japan alone might not function so well, so that the issue should be better addressed on an international level”, “as some technical standards are international standards. If Japan was the only country which decided to take measure to limit an injunction claim, it might be inconsistent with the global trend and could draw criticism from all over the world.” In addition, some state that “because of the limitation of an injunction claim, the users of patent inventions (standard users) would not face the threat of an injunction anymore. As a result, the users might not sit down at the table to initiate license negotiations, or the negotiations might be prolonged, likely to cause harm to patent holders.”

- 22 In the manhole cover case (Hairei Jihō 1947, 108), the plaintiff held a patent right on manhole covers, and a local government decided to use these patented manhole covers. The defendant was assigned by the local government to manufacture manhole covers. The plaintiff licensed the defendant with a maximum quantity limit, but the defendant exceeded the limit. The plaintiff claimed that such over-production constituted a patent infringement. With respect to the defendant’s defence pursuant to Article 21 AMA, the court held as follows. “When a patentee grants a license to others on a non-exclusive basis, he may give a partial permission for licensees by means of placing an upper limit on the amount that can be made and sold by licensees. In view of the patentee’s right (Article 68 of the Patent Act), the utility model right holder’s right (Article 16 of the Utility Model Act), and the design right holder’s right (Article 23 of the Design Act) which allow right holders to have the exclusive right to implement the patented invention as a business, such a partial permission should be in principle recognized as an exercise of intellectual property rights, and thus Article 21 AMA should be applied. Nevertheless, it should be understood as well that Article 21 AMA

However, in such a case,<sup>23</sup> the courts always take into account the specific facts in order to decide whether the conduct violates the AMA. Additionally, the issue of how to interpret the FRAND terms is basically a problem of contract interpretation. In the subsequent section, this paper will adopt a comprehensive approach for interpreting intellectual property laws in individual cases and – after comprehensively taking into account various factors – for deciding whether the patent enforcement is illegal. Finally, the author will conduct a provisional analysis from the perspective of the aforementioned approach.

#### IV. *SAMSUNG V. APPLE* IN JAPAN

##### 1. *Background of the case*<sup>24</sup>

In this case, the appellee (the plaintiff at first instance) alleges that its production, assignment, import or other acts in relation to the products do not constitute an act of infringement of the patent right of the appellant (the defendant at first instance) under Patent No. JP 4642898 for the invention titled “method and apparatus for transmitting/receiving packet data using a pre-defined length indicator in a mobile communication system” (hereinafter referred to as “the Patent”). The appellee seeks a declaratory judgment confirming that the appellant is not entitled to seek damages based on tort, i.e. based on the allegation of the appellant that appellee was infringing the Patent.

In the decision, the court at first instance upheld all of the appellee’s claims, holding that Products 1 and 3 did not fall within the technical scope of the patented invention and that appellant’s exercise of the right to seek damages based on the Patent for Products 2 and 4 constituted an abuse of rights in spite of the fact that these products fell within the technical scope of the Patent. The appellant appealed the decision.

##### 2. *Outline of the facts on which the Intellectual Property High Court decision is based*

1. The Products conform to the UMTS (Universal Mobile Telecommunications System) standard, the telecommunications standard developed by 3GPP (Third Generation Partnership Project). 3GPP is a private organization established for the purposes of the dissemination of the third-generation mobile telecommunication system or mobile

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is not aiming to exempt abusive conduct which restricts competition in the name of an exercise of patent rights from the application of the AMA. In such circumstances, a clause imposing a limit on the quantity in a non-exclusive IP licensing agreement should be found in violation of the AMA. What is more, provided that such a clause is found to violate public policy, it should be declared invalid.”

23 Tōkyō District Court (Case Number 2011 wa 38969) in a case seeking a declaratory judgment regarding the absence of an obligation.

24 The following passages nos. (1) to (3) are excerpts from the summary of the judgment of the Intellectual Property High Court. [http://www.ip.courts.go.jp/eng/vcms\\_if/25ne10043yosi.pdf](http://www.ip.courts.go.jp/eng/vcms_if/25ne10043yosi.pdf) (January, 2016).

telephone system (3G), as well as the international standardization of the related specifications.

2. ETSI (European Telecommunications Standards Institute), one of the standard organizations which established 3GPP, provides the “Intellectual Property Rights Policy” as the guidelines for the treatment of intellectual property rights (IPRs).
3. On 7 August 2007, the appellant, in accordance with the ETSI IPR Policy, notified ETSI that the IPRs included in the Patent were or were highly likely to be essential IPRs for the UMTS standard, with an undertaking that it was prepared to grant an irrevocable license on fair, reasonable and non-discriminatory terms and conditions (such terms shall be hereinafter referred to as the “FRAND Terms,” and this declaration as the “FRAND Declaration”).

### 3. *Issues under dispute*

The issues in dispute at the Intellectual Property High Court were as follows.

1. Whether the Products fall within the technical scope of Invention 1 (Issue 1).
2. Whether the Patent Right for Invention 2 has been indirectly infringed under Article 101, items (iv) and (v) of the Patent Act (Issue 2).
3. Whether restrictions pursuant to Article 104-3, paragraph (1) of the Patent Act may be imposed on the exercise of the Patent Right for the Inventions (Issue 3).
4. Whether the Patent Right for the Products has been exhausted (Issue 4).
5. Whether a license agreement in relation to the Patent Right has been formed between Apple and the appellant based on the appellant’s FRAND Declaration (Issue 5).
6. Whether the appellant’s exercise of the right to seek damages based on the Patent Right constitutes an abuse of right (Issue 6).
7. The amount of damages (Issue 7).

This article focuses on Issues 5, 6 and 7.

## V. OPINION AT FIRST INSTANCE

On 28 February 2013, after concluding that Samsung had committed multiple acts constituting an abuse of rights and rendering the Patent unenforceable, the Tōkyō District Court issued a decision dismissing Samsung’s complaint against Apple for alleged infringement of the Patent. The reasoning in the Decision includes the following three aspects. First, on application of the IPR Policy of the ETSI, the Court found that Samsung failed to disclose its relevant patent application to ETSI until “approximately two years after the technology of the Patent (alternative E-bit interpretation) was adopted as a part of the standard at Samsung’s request to amend the 3GPP standards.” The Court concluded that Samsung’s violation of ETSI IPR Policy constituted one of three factors

that contribute to the finding of an abuse of rights.<sup>25</sup> Samsung's untimely disclosure to ETSI of its asserted '644 and '348 patents was equally egregious as that found by the Court. Samsung did not disclose its IPR related to the '348 patent to ETSI until four years after adoption of the standard. Samsung also did not disclose its IPR related to the '644 patent to ETSI until almost a year after adoption of the standard.

Second, the Court found another factor that also contributes to an abuse of rights: Samsung sought a preliminary injunction based on a patent that it had promised to license on FRAND Terms. Samsung's FRAND Declaration to ETSI carries the same consequence. By pledging to license on FRAND Terms, Samsung disclaimed any right it might have had to obtain an exclusionary remedy.

Third, the Court decided that another factor contributed to a finding of an abuse of rights, that is Samsung's failure to negotiate a FRAND license in good faith with Apple. Similarly, Samsung filed its complaint before making a FRAND licensing offer to Apple, made no attempt to show that its subsequent offer was FRAND, and put forward no evidence that it had engaged in any bona fide negotiation with Apple. In the Court's findings, Samsung's failure to fulfill the duty to negotiate in good faith includes the following:

- It did not explain its calculation basis for the licensing offer.
- It refused to disclose licensing terms offered to other licensees.
- It did not bring forward concrete proposals in return for Apple's request for a license.

The preceding discussion suggests in general the following four conclusions.

*1. In principle, an injunction based on a SEP should not be granted*

According to the detailed explanation in Section 2, the patent hold-up problem arises with a high likelihood in those sectors where technical standards for products play a significant role. Accordingly, it is probably inappropriate to grant an injunction, which acts as one of the primary causes giving rise to patent hold-up without limitation.

In addition, and in accordance with Lemley and Shapiro's paper,<sup>26</sup> in situations involving a complex product with particularly numerous intellectual property rights related to standardized technologies, there would even be an increase in the patent holder's overcompensation as a result of patent hold-up. It is thus important that the negative effects brought by such overcompensation not be ignored.

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25 In the U.S., there exist several legal precedents concerning the refusal to grant injunctive relief due solely to a violation of the duty of timely disclosure.

26 See LEMLEY/SHAPIRO, *supra* note 7, 1993, n. 6.

2. *Negotiation attitudes of both parties should be taken into consideration when determining whether to grant an injunction*

In general, an injunction based on a SEP, as stated in (1), should not be granted. However, it might be granted in some exceptional cases, depending on the negotiation attitude of the parties. In order to prevent a reverse hold-up, courts should allow a patent holder's claim for an injunction in the exceptional case where an opposite party exhibits a dishonest attitude toward negotiations. Injunctive relief should be granted against those unwilling licensees not intending to enter into negotiations in good faith, notwithstanding a patent holder's intent to negotiate in good faith. Whether the user is an "unwilling licensee" unquestionably depends on the specific facts and circumstances. By taking into account their past negotiation records, courts should therefore investigate whether the alleged infringer is a so-called "unwilling licensee". On the other hand, whether the patent holder takes an attitude of bad faith toward negotiations should be thoroughly investigated as well. These bad faith conditions include:

1. Long-term non-disclosure after the standard setting (a violation of the duty of timely disclosure);
2. A failure to meet the obligation to negotiate in good faith, which includes, for example,
  - (a) a patent holder's failure to explain its calculation basis for the licensing offer;
  - (b) a patent holder's refusal to disclose licensing terms offered to other licensees. In particular, it is unreasonable for a patent holder not to bring forward concrete proposals in response to a potential licensee's request for concluding a license agreement, and to continue seeking an injunction against those licensees willing to negotiate a license agreement.

Moreover, it is not necessary for a patent holder to insist on injunctive relief when negotiations for a FRAND license agreement concerning its SEP is requested by a potential licensee who is willing and financially able to pay FRAND royalties, pursuant to a final and binding decision.<sup>27</sup> Additionally, when ongoing infringement is established, courts should deliberate on damages for not only past losses but also future royalties as fair compensation.

Various legal issues arise from these preceding conditions, which shall be summarized below.<sup>28</sup>

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27 In the U.S. decision *Realtek Semiconductor Corp. v. LSI Corp* (Case No. C-12-03451-RMW order granting plaintiff Realtek Semiconductor Corporation's motion for partial summary judgment and denying defendants LSI Corporation and Agere Systems LLC's motion to stay), the court held that the legal effect of the FRAND commitment is to impose an obligation to license (the *Microsoft v. Motorola* decision stated the same opinion on this point), and that the SEP holder LSI had breached the obligation to license by filing a claim for injunction at ITC without first providing a license offer.

3. *A patent holder should be awarded damages when its patent is found to be infringed*

As discussed in Section 2, provided that a SEP is valid and adds more value to the society than alternative technologies, its holder should receive compensation in proportion to the incremental value, equal to the difference between the SEP holder's technology and the next-best alternative (even if ex ante licensing negotiations were conducted). As Swanson and Baumol clarify in their paper,<sup>29</sup> in the economic context, a FRAND royalty rate should be determined based on the incremental value concerning the standardized technology.

Furthermore, damages complying with FRAND royalty rates should be awarded irrespective of their negotiation attitudes since a FRAND license fee should be paid in any case. A license fee at FRAND royalty rate needs to be paid even when the patent is a SEP and damages (no matter what attitude the party adopts) of the same amount should consequently be awarded. In such cases it is inappropriate to deny the claim for damages. However, a claim for prohibitive (non-FRAND) damages under the threat of a claim for injunctive relief should not be allowed because it may constitute an abuse of rights. On the contrary, if the amount of claimed damages adheres to FRAND terms, it should be paid. At any rate, as far as patent infringement is established, the infringer should be obliged to pay at least an amount equivalent to a FRAND royalty with respect to the past infringement.

4. *The amount of damages awarded to a patent holder should be calculated based on ex ante negotiations prior to standard setting*

By considering that actual licensing negotiations take place after standard setting, hold-up issues arise as a consequence of the timing of ex post negotiations, eventually leading to a supra-FRAND rate. Accordingly, it is preferable that courts calculate and determine the amount of damages for an SEP infringement based on the hypothetical ex ante licensing negotiations before the standard was set.<sup>30</sup>

As regards this point, a U.S. district court decision in the case *Microsoft v. Motorola* is worth noting.<sup>31</sup> In this case, the court held that the well-established Georgia-Pacific factors,<sup>32</sup> which constitute a binding precedent for IPR infringement cases, should be modified in the FRAND licensing context. The court then has to take into account the

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28 In the event of ongoing infringement, it may be adequate to order an infringer to pay monetary compensation to a patent holder for future infringement. Nevertheless, in order to realize such relief, some problems remain to be solved, including: first, do courts have the authority to award such monetary compensation? Second, on what basis and by which method should the royalty be calculated?

29 D.G. SWANSON/W.J. BAUMOL, Reasonable and Non-discriminatory (RAND) Royalties, Standard Selection, and Control of Market Power, in: *Antitrust Law Journal* 73 (2005) 1.

30 For the same opinion, see SWANSON/BAUMOL, *supra* note 29, 8, n. 18.

31 *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 999 (W.D. Wash. 2012).

32 *Georgia-Pacific Co. v. U.S. Plywood Co.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

modified Georgia-Pacific factors as a basis to reason how a FRAND licensing rate should be computed and determined if hypothetical negotiations were carried out between parties at the time before the standard was set. As mentioned in the preceding Section 2, it was noted in the decision that the licensing negotiations would be conducted with respect to the benefits affected by the outcome of negotiations. Thus, courts should calculate a FRAND licensing rate by means of comparing and analyzing the benefit derived from successful negotiations (participation in the patent pool and obtaining a license under FRAND terms) and also the disadvantages resulting from failed negotiations (non-participation in the patent pool). Although courts in practice are expected to face obstacles when attempting to presume the outcome of such hypothetical negotiations and calculate a FRAND rate, this approach should be taken into consideration.<sup>33</sup>

## VI. THE INTELLECTUAL PROPERTY HIGH COURT DECISION

On 16 May 2014, the Intellectual Property High Court issued a decision in this case as follows.<sup>34</sup>

### *1. Issue of whether the exercise of the Patent right constitutes an abuse of rights*

In the judgment, the IP High Court held that the appellant's claim for damages constitutes an abuse of rights for the claim amount exceeding the FRAND royalty but is permissible as regards the amount up to that threshold.

#### *a) Claim for damages exceeding the FRAND royalty*

A party intending to engage in the manufacturing, sale, etc. of a UMTS standard-compliant product would recognize that among the patent rights which are essential for the manufacturing, sale, etc. of such product, at least those owned by ETSI members require (i) a timely disclosure in accordance with ETSI IPR Policy Clause 4.1 and (ii) a FRAND licensing declaration under ETSI IPR Policy Clause 6.1. Furthermore, such party would rely on the availability of a FRAND license through appropriate negotiations with the patentee. Such reliance is worth protecting. Accordingly, as regards the Patent subject to the FRAND declaration, allowing the exercise of a right to seek damages exceeding the amount of the FRAND royalty would be detrimental to reliance by parties who manufacture or sell UMTS standard-compliant products based on the availability of such licenses.

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33 For reviews of this case in the U.S., See T. F. COTTER, *The Comparative Law and Economics of Standard-Essential Patents and FRAND Royalties*, Legal Studies Research Paper (University of Minnesota Law School), No. 13-40, 2013; W. H. PAGE, *Judging Monopolistic Pricing: F/RAND and Antitrust Injury*, 2013, available at SSRN: <http://ssrn.com/abstract=2337691>.

34 See *supra* note 24.

Owing to such reliance of UMTS standard users, patent rights (including the Patent right at issue in this case) included in the UMTS standard are widely disseminated and available to 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 in the present case, declares on a voluntary basis that it is prepared to grant an irrevocable license under the FRAND terms. By considering these circumstances, it is not necessary to allow such owner the right to seek damages beyond 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 of such claim should be entitled to refuse payment for the portion of the claim exceeding the amount of royalty, as long as such counterparty successfully alleges and proves that the patentee has issued such a FRAND declaration.

However, if a patentee successfully alleges and proves the existence of special circumstances (e.g. 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 at the amount of the FRAND royalty. Nevertheless, taking the potential detrimental consequences – as mentioned above – into consideration, before allowing the patentee to claim damages exceeding the amount of the FRAND royalty, scrutiny must 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 FRAND royalty*

The patentee should not be restricted from exercising the claim for damages not exceeding the amount of the FRAND royalty, 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 that “IPR holders [...] should be adequately and fairly rewarded for the use of their IPRs.” So, in this context, 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, after discussing various circumstances in the process of the FRAND declaration and licensing negotiations, and if it even can be considered extremely unfair to permit the patentee to claim for damages at or below the amount of royalty, even considering the significance of the right to seek damages as a compensa-

tion for the public disclosure of an invention, the possibility cannot be precluded that such patentee's claim may be further restricted or excluded due to an abuse of rights.

*c) Summary*

Considering the totality of the above circumstances, the following criteria are to be applied to a claim for damages by a party that has made a FRAND declaration, including the appellant who made the FRAND declaration. [i] A claim for damages exceeding the amount of the FRAND royalty should not be allowed, unless special circumstances as explained in a) above exist. [ii] The claim for damages not exceeding the amount of the FRAND royalty shall not be restricted even in cases of a standard-essential patent, unless special circumstances as explained in b), above, exist.

“Even considering the totality of all circumstances of this court case, no circumstance can be found which renders the appellant's claim for damages not exceeding the amount of the FRAND royalty extremely unfair. Moreover, as mentioned above, no evidence has been submitted to sufficiently prove the existence of special circumstances.”

“In this case, the court could not detect special circumstance, such as a lack of appellee's intention to receive a FRAND license.”

“Therefore, the appellee's allegation that the appellant's claim for damages constitutes an abuse of rights is acceptable to the extent that the amount of damages claimed by the appellant exceeds the amount of the FRAND royalty. On the other hand, this allegation is unacceptable in respect of the amount of damages not exceeding the FRAND royalty.”

*2. Amount of damages*

In this judgment, the court held that the amount of the FRAND royalty 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.

“The ETSI IPR Policy and the ETSI Guide on IPRs do not provide any guidance on the calculation of the royalty for a FRAND license. Such calculation is left to the negotiations of the parties. By taking the purpose of adoption of the ETSI IPR Policy and the nature of Products 2 and 4 into consideration, 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 of 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, this contribution ratio should be calcu-

lated in consideration of the amount of royalty for the entire pool of essential patents and may not exceed a certain ratio. In this 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.”

### 3. *Conclusion*

Based on the aforementioned considerations, the court held that the appellee has a claim to request confirmation that the appellant is not entitled to seek damages from the appellee on the ground of the infringement of the patent with regard to Products 1 and 3 and, furthermore, that the appellant’s right to seek damages from the appellee on the ground of the infringement of the patent with regard to Products 2 and 4 may not be exercised exceeding the amount stipulated above. The court therefore determined that appellee’s claim should be upheld to an according extent while the other claims of the appellee should be dismissed. In conclusion, the court held that the judgment at first instance should be modified since it contradicts these findings.

## VII. REVISION OF THE IP GUIDELINES IN 2015–2016

### 1. *Revision of the Guidelines for the Use of Intellectual Property under the AMA*

In order to announce the principles regarding the use of intellectual property rights such as patent rights under the AMA, on 28 September 2007 the Japan Fair Trade Commission (hereinafter referred to as the “JFTC”) published the “Guidelines for the Use of Intellectual Property under the AMA” (hereinafter referred to as the “IP Guidelines”) and the “Guidelines on Standardization and Patent Pool Arrangements” (29 June 2005). Although issues related to SEPs under the AMA should essentially be judged based on these guidelines, they did not clearly refer to problems arising from the exercise of patent rights by SEP holders; for instance, whether such patentees may pursue an injunction. Therefore, the JFTC decided to partially amend the IP Guidelines and made the reform draft public while at the same time requesting the submission of public comments from interested parties in 2015.

In the draft,<sup>35</sup> “(1) Refusal to license or bringing an action for injunction against a party who is willing to take a license under FRAND terms, or (2) withdrawal of the FRAND declaration after the setting of a standard that includes the technology protected under a specific essential patent by the holder of that specific FRAND-encumbered standard-essential patent, [...]”, and “refusal to license or bringing an action for injunction against a party who is willing to take a license under FRAND terms by a FRAND-encumbered standard-essential patent holder, *may generally fall under [the prohibition*

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35 About the Advice Collection for the Reform Draft of Parts of the Guidelines for the Use of Intellectual Property under the AMA (Japan Fair Trade Commission, 8 July 2015).

*under the AMA] to exclude the business activities of other entrepreneurs by making it difficult to research and develop, produce or sell the products adopting the standards".* In addition, the draft states with regard to a response to the declaration of an intention to take a license that "...in comparison to the exercise of rights from essential patents, which is contrary to the FRAND declaration, and which makes it difficult to research and develop, produce or sell the products adopting the standards, *confirmations denying a willing licensee to take a license under FRAND terms may be restricted in individual cases*". "For instance, in a case where the two parties of license negotiations could not reach an agreement on the terms of the license even after they had negotiated for a while, *if the intention to determine the license terms is indicated in court or arbitration proceedings*, the licensee should be considered as being willing to take a license under FRAND terms". "... [I]n addition, even if the party that intends to take a license challenges the validity, essentiality or possible infringement of the standard-essential patent as part of a dispute, this fact itself should not be considered as a ground to deny the party's willingness as licensee to take the license under FRAND terms". What is more, a refusal to license or the bringing of an action for injunction against a party who is willing to take a license under FRAND terms "generally, may deprive the entrepreneurs who research and develop, produce or sell products adopting a standard of trading opportunities or impede the ability of the entrepreneurs to compete by making it difficult to research and develop, produce or sell the products adopting the standard. *Such acts are considered to be unfair trade practices* if they tend to impede fair competition, even if the acts do not substantially restrict competition in the product market and are not considered to be a private monopolization."

## 2. *Criticism of the draft*

The European and Japanese authorities consider the "willingness of the licensee" as the crucial factor. However, the draft provides that a licensee can be deemed to be a willing one *if the intention to determine the license terms is indicated in court or arbitration proceedings*. Additionally, confirmations not allowing a willing licensee to take a license under FRAND terms should be strictly limited.

Nevertheless, in most cases, if an entrepreneur has implemented the standard and is sued by a patentee and later ordered to do so by a court, the entrepreneur must pay damages equalling the amount of FRAND royalties. It is rare for a party not to pay royalties if they were awarded by a court. However, according to the draft, such cases might be regarded as an indicator for an intent to take license. Under such circumstances, if an action for injunction is brought against the party who is deemed to be willing to take the license, the action would be regarded as exclusionary conduct under the Japanese Antimonopoly Act. In consequence, it might be impossible for patent holders of FRAND-encumbered patents to seek injunctive relief.

Second, the draft states that bringing an action for injunction based on a FRAND-encumbered patent is considered to be an unfair trade practice even if the act does not

substantially restrict competition in the relevant market. It will also not be considered to constitute private monopolization. However, it might be too hasty to draw such a conclusion. Otherwise, SEP holders could not exercise their right to claim an injunction based on FRAND-encumbered patents, even in a case where there is no substantial influence on the competition in the relevant market. Being unable to bring an action for injunction means that some ordinary means of exercising the patent right may inevitably infringe the AMA. For example, sending a warning letter informing an implementer of its potential patent infringement, which usually constitutes a normal way of exercising a patent right in order to stop the infringement, is likely to violate the AMA. Such conclusion may lead to the possibility of a potential reverse-holdup.<sup>36</sup>

Third, the justification of difficulties in R&D, producing or selling the products should also be applied to de facto standards. The fact that filing for an injunction “makes it difficult to research and develop, produce or sell the products adopting the standards” remains true even under the circumstances of a de facto standard. Another question is whether the justification should be applied not only to the patent rights for which a FRAND declaration has been made, but also to all SEPs.

Fourth, though not particularly mentioned in the draft, the draft is considered to be based upon the decision of the described Intellectual Property High Court. Nevertheless, as stated previously, the Intellectual Property High Court hardly touched upon the field of antimonopoly law in its decision. Admittedly, the issue whether competition law can be used as a defense against patent enforcement has long been debated around the world, particularly in Germany and Europe. However, based on the decision, it can be inferred that the Intellectual Property High Court’s attitude tends toward intentionally refraining from judging on matters of antimonopoly law. Thus, explaining the meaning of the AMA on the basis of such a decision may seem contradictory and strange.

\*\* (POSTSCRIPT)

After the JFTC revised 54 public comments submitted in response to an invitation for comments, the commission revised the draft of the IP Guideline and eventually published the final version on 21 January 2016.

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36 Joshua D. Wright and Douglas H. Ginsburg point out that, as the draft lowers the incentive for technological innovation and is very likely to deter participation in the standardization, there is no empirical evidence of common anti-competitive patent holdup. They also point out the possibility of a reverse holdup. See J. D. WRIGHT/D. H. GINSBURG, Comment of United States’ Federal Trade Commissioner Joshua D. Wright and Judge Douglas H. Ginsburg regarding the Japan Fair Trade Commission’s Draft Partial Amendment to the Guidelines for the Use of Intellectual Property under the AMA, <https://www.ftc.gov/public-statements/2015/08/comment-commissioner-joshua-d-wright-judge-douglas-h-ginsburg-japan-fair> (January 2016)

## SUMMARY

*Recently, the information and communications technology sector has become a more and more important part of the economy, and intellectual property lawsuits between multinational enterprises in this sector are increasing worldwide. One important case in Japan has been the Samsung vs. Apple case. The outcome and discussion of this case has had an impact both domestically and internationally. Based upon a comprehensive analysis in accordance with the law and the economic framework and the various opinions expressed in legal literature, this article mainly examines the issue whether a standard-essential patent (SEP) holder who has made a FRAND commitment should be limited to some extent in pursuing an injunction and damages based on the SEP. Additionally, this article analyses the globally known Samsung vs. Apple case in order to provide a deeper understanding of this specific issue.*

*In Section One (I.), this article gives a brief introduction of the nature of the information and communications technology (ICT) sector and the role of standard setting organizations (SSOs). There are innumerable patents in the ICT sector, which are adopted in various technical standards and owned by different patent holders. SSOs are organizations serving the ICT sector as standard developers and policy makers.*

*In Section Two (II.), a bargaining model is used to indicate the cause and consequence of the so-called “hold-up” problem which is a crucial issue in the process of licensing negotiations.*

*In Section Three (III.), this article discusses the relationship between intellectual property rights and the Japanese Antimonopoly Act (the AMA). It explains that, although the provisions of the AMA do not apply to conduct constituting an exercise of rights under intellectual property laws in Japan, there is still discussion about whether the court can refuse to grant an injunction under exceptional circumstances where filing for an injunction may constitute an abuse of rights.*

*Section Four to Six (IV. to VI.) focus on the Samsung vs. Apple case in Japan. In these sections, the present article analyses several aspects of the court decisions rendered by the Tōkyō District Court and the Intellectual Property High Court in detail, including the background, facts, and issues of the case. The analysis of the decisions is mainly centred on the court’s holdings on the issue of whether the appellant’s claim for an injunction and damages constitutes an abuse of rights, and on other issues involved in the claim for damages. In accordance with the Tōkyō District Court’s decision, the author suggests that, first, an injunction based on an SEP should not be granted. Second, the negotiation attitudes of both parties should be taken into consideration when determining whether to grant an injunction. Third, a patent holder should be awarded damages when its patent is found to be infringed. Last, the amount of damages awarded to a patent holder should be calculated based on ex ante negotiations prior to standard setting.*

*From the Intellectual Property High Court’s decision, on the other hand, the following criteria are to be applied to a claim for damages by a party that has made a FRAND declaration, including the appellant who made the FRAND Declaration in the case at issue. [i] A*

*claim for damages exceeding the amount of the FRAND royalty should not be allowed. [ii] The claim for damages not exceeding the amount of the FRAND royalty should not be restricted even in the case of a standard-essential patent. In the Samsung vs. Apple case, no circumstances could be found which renders the appellant's claim for damages up to the amount of the FRAND royalty extremely unfair, and no evidence was submitted to sufficiently prove the existence of such special circumstances. Therefore, the appellee's allegation that the appellant's claim for damages constituted an abuse of rights was acceptable only to the extent that the amount of damages claimed by the appellant exceeded the amount of the FRAND royalty. On the other hand, this allegation was unacceptable in respect of the amount of damages not exceeding the FRAND royalty.*

*The last section, Section Seven (VII.), is associated with the revised Guidelines for the Use of Intellectual Property under the AMA issued by the Japan Fair Trade Commission. In the draft of the revised guidelines, it is stated that a refusal to license under FRAND terms or an action for injunction against a willing licensee by a FRAND-encumbered SEP holder may generally constitute an exclusion of business activities of other entrepreneurs, and not allowing a willing licensee to take a license under FRAND terms should therefore be restricted. Moreover, a licensee can be deemed to be "willing" if the intention to determine license terms is indicated in court or arbitration proceedings. The draft raised significant criticism in regard of the mentioned criterion "willingness of a licensee", as the European and Japanese authorities consider the willingness of the licensee as a crucial factor. However, the draft provides that a licensee can be deemed to be a willing one if the intention to determine the license terms is indicated in court or arbitration proceedings. Additionally, a confirmation not allowing a willing licensee to take a license under FRAND terms should be strictly limited. In addition, the draft states that bringing an action for an injunction based on a FRAND-encumbered patent is considered to be an unfair trade practice even if the act does not substantially restrict competition in the relevant market. The justification of a difficulty in R&D, producing or selling the products should also be applied to de facto standards. The draft is, further, considered to be based upon the decision of the Intellectual Property High Court. According to the decision, however, it can be inferred that it was the intention of the Intellectual Property High Court to refrain from a decision involving antimonopoly law issues. Thus, explaining the meaning of the AMA on the basis of such a decision may seem contradictory and strange.*

#### ZUSAMMENFASSUNG

*Der vorliegende Beitrag beschäftigt sich vor allem mit der Frage, ob der Inhaber eines standardessentiellen Patents, für das dieser eine FRAND-Erklärung abgegeben hat, bei der Geltendmachung der Ansprüche auf Unterlassung und Schadensersatz aufgrund dieses Patents beschränkt ist. Als Grundlage zur Erörterung dieser Frage dient dem Autor der Fall Samsung ./ Apple in Japan.*

*Der erste Abschnitt (I.) des Beitrages gibt einen Überblick über den Wirtschaftssektor der Informations- und Kommunikationstechnologie und die Rolle der Standardisierungsorganisationen. Im Bereich der Informations- und Kommunikationstechnologie existieren unzählige Patente, die Bestandteile eines Standards sind und die einer Vielzahl unterschiedlicher Patentinhaber gehören. Standardisierungsorganisationen dienen im Informations- und Kommunikationstechnologiesektor als Standardentwickler und Entscheidungsträger.*

*Im zweiten Abschnitt (II.) wird ein Verhandlungsmodell verwendet, um die Ursache und die Konsequenzen des sogenannten „hold-up“ Problems zu verdeutlichen, das bei Lizenzverhandlungen im Zusammenhang mit standardessentiellen Patenten eine gewichtige Rolle spielt.*

*Im dritten Abschnitt (III.) wird das Verhältnis von Rechten des geistigen Eigentums zum japanischen Antimonopolgesetz erörtert. Grundsätzlich finden die Bestimmungen des Antimonopolgesetzes zwar auf die Geltendmachung von Rechten des geistigen Eigentums keine Anwendung, allerdings wird diskutiert, ob die Gerichte nicht in besonderen Ausnahmefällen Klagen auf Unterlassung wegen Rechtsmissbrauchs abweisen können.*

*Die Abschnitte vier bis sechs (IV. bis VI.) beschäftigen sich im Detail mit dem Fall Samsung ./ Apple. Hier werden die beiden maßgeblichen Entscheidungen des Distriktsgerichts Tōkyō und des Obergerichts für Geistiges Eigentum unter einer Reihe von Gesichtspunkten analysiert sowie der Hintergrund, die Fakten und die Rechtsfragen erläutert. Im Mittelpunkt steht dabei die Entscheidung der Gerichte über die Frage, ob die Geltendmachung eines Unterlassungsanspruchs oder Schadensersatzanspruchs rechtsmissbräuchlich sein kann, sowie über andere Fragen im Zusammenhang mit dem Schadensersatzanspruch.*

*Der letzte Abschnitt (VII.) behandelt die Reform der Richtlinien der japanischen Wettbewerbsbehörde über den Gebrauch von Rechten des geistigen Eigentums im Rahmen des Antimonopolgesetzes. Im Reformentwurf wird ausgeführt, dass die Ablehnung eines Lizenzangebots durch den Patentinhaber bezüglich eines standardessentiellen Patents für das eine FRAND-Erklärung abgegeben worden ist oder die Erhebung einer Klage zur Durchsetzung eines solchen Patents durch den Patentinhaber als Ausschluss der Geschäftstätigkeit eines anderen Unternehmers anzusehen sei. Daher sollte die Möglichkeit der Ablehnung eines Lizenzangebotes durch den Patentinhaber beschränkt sein. Ferner solle der Wille eines potentiellen Lizenznehmers zum Abschluss eines Lizenzvertrages als vorhanden angesehen werden, wenn der Lizenznehmer im Rahmen eines Gerichts- oder Schiedsverfahrens seine Bereitschaft zur Festlegung von Lizenzbedingungen erklärt habe. Der Beitrag schließt mit einigen Kritikpunkten an diesem Reformentwurf.*

*(Die Redaktion)*