

INTELLECTUAL PROPERTY

This BNA Insights article by Hitomi Iwase, Tony Andriotis & Paul Dimitriadis examines the recent U.S. legal battle following Samsung's decision to file a complaint against Apple with the International Trade Commission in June 2011 alleging that Apple had violated Section 337 of the Tariff Act by its importation of certain smartphones and tablet computers which infringed Samsung's Fair, Reasonable and Non Discriminatory (FRAND)-encumbered Standard Essential Patents (SEPs). The authors note that this legal battle has raised significant legal questions which have, in turn, highlighted the increasingly complex convergence of intellectual property, antitrust and international trade law principles in many jurisdictions. Courts in key intellectual property jurisdictions appear to be narrowing the circumstances in which injunctions are available for SEP infringement.

When You Can't Beat Them, Enjoin Them—Injunctive Relief for SEP Infringement

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When Apple Inc. filed a 38-page complaint against Samsung Electronics Co., Ltd. in the United States District Court for the Northern District of California in April 2011, few predicted the administrative ramifications for courts and other decision-making bodies around the globe.

The worldwide legal battle has, however, done far more than weigh heavily on judicial dockets in the U.S., Europe and Asia. The ongoing litigation also has raised significant legal questions which have, in turn, highlighted the increasingly complex convergence of intellectual property, antitrust and international trade law principles in many jurisdictions.

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The convergence of these legal principles is evident from an analysis of recent global developments relating to the availability of injunctive relief for owners of Standard Essential Patents (SEPs) encumbered by Fair, Reasonable and Non-discriminatory (FRAND) licensing terms. A series of high profile patent cases have required judges and administrative decision-makers in many jurisdictions to employ novel legal arguments in order to address the economic and anticompetitive consequences of awarding injunctions or exclusionary relief for infringement of SEPs. This is particularly so in circumstances in which an award of an injunction or exclusionary relief may conflict with the fundamental tenets of antitrust and international trade law.

In this article we set out some of the most recent developments relating to the availability of injunctive or exclusionary relief for SEP infringement in selected jurisdictions. Although injunctive relief remains an available remedy in those jurisdictions, courts and administrative bodies appear to be narrowing the circumstances in which such remedies will be awarded. Increasingly, courts and administrative bodies are evaluating the conduct of the parties during license negotiations in order to determine whether injunctive or exclusionary relief is appropriate and should be available to the SEP owner seeking it.

The Basics. Products in the information and communication technology industries (such as smartphones, tablets and other wireless devices) are undoubtedly complex. Such products usually require the use of many hundreds of patented technologies in order to be functional and marketable to consumers. In addition, products of different manufacturers are often designed to be interoperable in order to comply with various industry standards.

An industry standard is a technical specification which discloses a common design for a particular product or process. Industry standards are often, but not always, developed by Standard Setting Organizations (SSOs). SSOs usually comprise a number of members that conduct business in a related field to the products to which the industry standard applies and/or have a vested interest in the interoperability of those products. SSOs are often self-regulated and apply and administer their own rules, protocols and policies in order to govern the development of the industry standards.

The members of SSOs are often entities which own inventions which are, or may be, incorporated into a

particular industry standard. If a patented invention owned by one of the SSO members is deemed by the SSO to be essential to an industry standard, that patent may achieve the status of an SEP. Once a patent is deemed to be an SEP, the owner of that SEP is usually obliged to declare their intention to license it to all other members of the SSO on certain terms. Often these terms must be FRAND (also known as Reasonable and Non-discriminatory, or RAND) terms.

The definition of FRAND terms is not often prescribed by the rules and protocols governing the SSO, leaving the SEP holder to negotiate the FRAND terms as it sees fit. Unsurprisingly, disputes can (and often do) arise concerning the extent to which the terms of SEP licenses (including applicable royalty rates) are genuinely FRAND.

The Law. In the U.S., key jurisdictions in the European Union, Japan and Korea injunctions are available as a form of relief for patent infringement. These jurisdictions, however, differ on whether an injunction should be granted automatically as a matter of law or subject to a further determination based on a number of discretionary factors. Similarly, these jurisdictions have proffered differing opinions in respect of the award of injunctions or exclusionary relief for SEPs encumbered by FRAND commitments.

The United States.

Injunctive and Exclusionary Relief.

In the U.S., injunctions for patent infringement are awarded by courts pursuant to the Patent Act, 35 U.S.C. §§ 1 et seq., and on a discretionary basis in accordance with the principles set down by the U.S. Supreme Court in the decision of *eBay Inc. v MercExchange, L.L.C.*, U.S., No. 05-130, 05/15/06 (the “eBay Principles”). The eBay Principles provide that a court may issue an injunction in circumstances where the plaintiff has demonstrated that:

- (a) it has suffered an irreparable injury;
- (b) the remedies available at law (such as monetary damages) are inadequate to compensate for that injury;
- (c) considering the balance of hardships between the parties, a remedy in equity is warranted; and
- (d) the public interest would not be disserved by a permanent injunction.

The International Trade Commission (ITC) provides an additional avenue whereby a patent holder can assert its rights in respect of patent infringement in the U.S. Section 337 of the Tariff Act, 19 U.S.C. § 1337, gives the ITC the authority to issue exclusion orders directing the United States Customs service (now U.S. Customs and Border Protection (CBP)) to prohibit the importation of infringing products. Although the eBay Principles are not binding on the ITC, the Commission can make exclusion orders on specific public interest grounds including the effect upon competitive conditions in the U.S. economy. It should be noted that given the ITC’s status as an administrative decision-making body, such exclusion orders are subject to oversight and veto by the Office of the U.S. Trade Representative (USTR).

Essential Background.

The issues relating to the availability of injunctive relief for SEP holders were highlighted in the U.S. shortly

after Samsung filed a complaint against Apple with the ITC in June 2011. The claim alleged that Apple had violated Section 337 of the Tariff Act by its importation of certain smartphones and tablet computers which infringed Samsung's FRAND-encumbered SEPs. Samsung's request for exclusionary relief as a remedy for Apple's alleged SEP infringement sparked controversy. Faced with the prospect of excluding several of Apple's products from the American market, the ITC called for written submissions on the public interest issues raised by Samsung's claim. In particular, the ITC sought opinions on whether exclusionary relief should generally be available for owners of FRAND-encumbered SEPs.

The potential anticompetitive aspects of the remedy sought by Samsung consequently piqued the interest of the Department of Justice (DOJ). In 2012, the DOJ commenced an investigation into the potential antitrust implications of Samsung's request for exclusionary relief. In January 2013, the DOJ and the U.S. Patent & Trademark Office (USPTO), issued a joint policy statement urging the ITC to refrain from awarding exclusionary relief for FRAND-encumbered SEPs on the basis that exclusionary awards in such circumstances may be, *inter alia*, anticompetitive and against the public interest. Those concerns were also articulated in an unrelated court decision handed down by Judge Richard Posner in *Apple, Inc. v. Motorola, Inc.*, N.D. Ill., No. 1:11-cv-08540, 05/22/12. In that decision, Judge Posner applied the eBay Principles and denied Motorola's claim for an injunction in respect of a FRAND-encumbered SEP on a number of grounds, including the public interest. Judge Posner noted that the logic for denying an injunction and for issuing an exclusion order at the ITC are not dissimilar. Judge Posner's decision was subsequently appealed.

On June 4, 2013, the ITC determined that Apple had infringed Samsung's FRAND-encumbered SEPs and issued an exclusion order against Apple. On Aug. 3, 2013, USTR vetoed the ITC exclusion order on public interest grounds. In its statement of reasons, USTR cautioned the ITC against issuing exclusion orders relating to FRAND-encumbered SEPs given the concerns over the "potential harms" that can result from the assertions of SEPs by patent owners who have made a voluntary commitment to license those SEPs on FRAND terms. Interestingly, this is the first time an ITC-ordered injunction has been vetoed since the Reagan administration overturned an ITC exclusion order against the import of certain Samsung products in 1987.

It should be noted that the veto does not constitute a *per se* prohibition against the grant of exclusionary orders for SEPs by the ITC. Relevantly, USTR indicated that exclusionary relief may be appropriate in certain circumstances, including where putative licensees refuse to license or are outside of the jurisdiction of a court that can award damages.

Recent Developments.

Since the veto by the USTR, the ITC has not had cause to issue an exclusion order relating to an SEP. Citing a decrease in SEP-related filings with the ITC, some commentators argue that the veto has discouraged SEP holders from seeking an exclusionary order given the high bar set by the USTR. Furthermore, partly as a result of the ITC veto, on Feb. 7, 2014, DOJ announced its decision to abandon its two-year investigation into Samsung's SEP practices.

On April 25, 2014, the U.S. Court of Appeals for the Federal Circuit affirmed Judge Posner's decision to dismiss Motorola's claim for an injunction (*Apple Inc. v. Motorola, Inc.*, Fed. Cir., No. 2012-1548, -1549, 04/25/14). The court noted that the mere fact that an SEP is encumbered by FRAND commitments does not preclude an SEP owner from asserting its right to an injunction. The majority rejected the notion that there was a *per se* prohibition against injunctions for FRAND encumbered SEPs and held that the existing eBay Principles provide "ample strength and flexibility for addressing the unique aspects of FRAND committed patents and industry standards in general." Chief Judge Randall Ray Rader and Judge Sharon Prost, in dissent, also agreed that there was no categorical rule against an injunction.

This judgment is significant as it is the first U.S. Federal Circuit Court judgment which deals squarely with the issue of SEPs and injunctive relief. The reasoning of the majority will likely be highly persuasive in SEP injunction cases going forward and may influence future decisions made by the ITC.

The court further noted that license negotiation conduct is relevant as to whether an injunction is granted insofar as "an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect." The court, however, emphasized that it did "not mean that an alleged infringer's refusal to accept any license offer necessarily justifies issuing an injunction." This judgment is significant as it is the first U.S. Federal Circuit Court judgment which deals squarely with the issue of SEPs and injunctive relief. The reasoning of the majority will likely be highly persuasive in SEP injunction cases going forward and may influence future decisions made by the ITC. Although the appeals court remanded outstanding issues to the district court for determination, the parties filed a joint petition to dismiss the litigation without prejudice on May 16, 2014.

It should be noted that the U.S. Congress is currently considering a number of recommendations relating to protecting innovators from frivolous and baseless litigation, including restricting the availability of injunctions for SEP holders and Non-Practicing Entities (so-called patent trolls)

The European Union.

Injunctive Relief.

In Europe, the enforcement of patent law is largely relegated to national governments and courts. Among the 28 member states of the European Union, the availability of injunctive relief for patent infringement varies from country to country. Each of Europe's major patent jurisdictions (the U.K., Germany, France and the Neth-

erlands) do, however, allow for injunctive relief for patent infringement. Of those jurisdictions, the courts of Germany have been most active in determining the availability of injunctive relief for FRAND-encumbered SEPs.

In Germany (the European jurisdiction which hears the highest volume of patent disputes), courts generally do not have discretion as to whether or not to grant an injunction following a determination of patent infringement. It follows that injunctions are prima facie available for infringement of both SEPs and non-SEPs.

In 2009, however, the German Federal Supreme Court held in a case known as the Orange Book Standard (May 6, 2009, doc no. KZR 39/06), that a patent user is able to defend a patent infringement suit by asserting a positive antitrust defense of entitlement to a license on FRAND terms. Lower German Courts have applied this defense in several cases where injunctions have been asserted by SEP rights holders, including a series of high profile cases between Motorola Mobility and Apple. The spate of SEP assertions led to investigations into Motorola and Samsung by Europe's competition regulator, the European Commission (EC).

Recent Developments.

On April 29, 2014, the EC concluded a two-year investigation into Motorola's SEP assertions and held that Motorola had violated European competition law. The EC held that Motorola had breached Article 102 of the Treaty of the Functioning of the EU in seeking the enforcement of an injunction in respect to its SEPs. In so doing, the EC found that Motorola had abused its dominant position in a way that unfairly impacted on European trade.

Under the framework, disputes relating to FRAND terms will be determined by national courts or by an arbitrator, if both parties agree. The agreement was described by the EC as a 'safe harbor' for current and potential licensees of Samsung's SEPs in the European Union.

Specifically, the EC noted that injunctions are generally legitimate remedies for patent infringement in European courts, but that seeking an injunction based on an SEP may constitute an "abuse of dominant position" in circumstances in which that SEP is encumbered by FRAND terms and the party against which the injunction is sought is a "willing licensee[.]" Although the EC did not clarify the factors which should be considered when assessing whether a licensee is "willing," it stated that the fact that a potential licensee challenges the validity of an SEP does not mean a licensee is "unwilling" per se. The EC declined to fine Motorola for its violation given the paucity of judicial precedent and diversity of opinions on this issue amongst EU member states.

The EC also rendered certain commitments from Samsung legally binding. Specifically, in order to avoid a determination on whether it breached EU antitrust

rules, Samsung committed not to seek injunctions in Europe in relation to any of its SEPs for smartphones and tablets against licensees which participate in a specified licensing framework. Under the framework, disputes relating to FRAND terms will be determined by national courts or by an arbitrator, if both parties agree. The agreement was described by the EC as a "safe harbor" for current and potential licensees of Samsung's SEPs in the EU.

Asia.

Japan—Injunctive Relief.

In Japan, injunctions are ordinarily available as a matter of law following findings of patent infringement in circumstances in which patent infringement is either occurring or is likely to occur in the future. As in Germany, there have been developments which suggest that courts may be willing to employ antitrust and other legal principles, such as the doctrines of good faith and abuse of rights, as a positive defense to injunctions asserted by owners of FRAND-encumbered SEPs.

Japan—Recent Developments.

The Tokyo District Court considered these issues in three cases commenced by Samsung and Apple (Case 38969 (wa), 2011; Case 22027 (yo), 2011; and Case 22098 (yo), 2011) concerning one of Samsung's FRAND-encumbered SEPs. In its pleadings, Samsung petitioned the District Court for a preliminary injunctive order against Apple to enjoin the production, importation and assignment of several of Apple's products which Samsung alleged infringed the SEP in question. In response, Apple filed a declaratory judgment action against Samsung seeking a declaration that its products did not infringe the Samsung patent and that Samsung was not otherwise entitled to damages for patent infringement.

On Feb. 28, 2013, the district court held that certain of Apple's products fell within the scope of Samsung's FRAND-encumbered SEP. The court, however, dismissed Samsung's petition for the preliminary injunction and declared that Samsung would not have been entitled to damages even if infringement was proven at trial. The court held that Samsung's conduct during FRAND licensing negotiations with Apple in respect of its FRAND-encumbered SEP constituted an abuse of rights and, therefore, precluded Samsung from an entitlement to an injunction and damages. This was the first time a Japanese court decided that the abuse of rights doctrine could operate to defeat an SEP holder's right to seek remedy for patent infringement.

In rendering its judgment, the Tokyo District Court analyzed the FRAND negotiations between Apple and Samsung, in respect of the relevant SEP, and determined that Samsung had violated its obligation to negotiate in good faith with Apple. The Tokyo District Court cited a number of examples to support this proposition, including instances in which Samsung was proven to have withheld necessary information from Apple which would have enabled it to determine whether it was in fact negotiating FRAND terms in respect of the relevant SEPs. The Tokyo District Court held that in light of the circumstances of the negotiations, Samsung's purported enforcement of its rights constituted an abuse of rights, which is prohibited under the Japanese Civil Code. Samsung appealed the decision.

It is undoubted that the decision rendered by the IP High Court, and its procedural peculiarities, constitutes a significant development in Japanese patent litigation practice.

On May 16, 2014, the Grand Panel of the IP High Court handed down its judgment on the appeal (Case 10043 (ne), 2013; Case 10007 (ra), 2013; and Case 10008 (ra), 2013). Although, the IP High Court upheld the Tokyo District Court's decision dismissing Samsung's petition for a preliminary injunction on the basis of the abuse of rights doctrine, it took a different position from the District Court with respect to damages. The IP High Court held that, provided that Samsung did not seek damages for patent infringement which exceed the likely FRAND license fee for the patent in question, it would prima facie be entitled to damages for patent infringement for any action it commenced in the future. The Court, however, held that should a party seek damages in excess of any FRAND license fee, such an assertion of rights would be prohibited as an abuse of rights.

As was the case in the ITC proceedings, the IP High Court sought comments from the general public as to whether injunctions and damages should be restricted or limited for FRAND-encumbered SEP rights holders. Although 58 comments were received by the court, it is interesting to note that there was no basis in the Japanese Civil Procedure Code for the Court to request and consider public comments in the course of rendering its decision. The case is, therefore, unique in that the procedures applied in this instance had never been applied before in respect of either patent or non-patent cases in Japan. It is undoubted that the decision rendered by the IP High Court, and its procedural peculiarities, constitutes a significant development in Japanese patent litigation practice. In early August 2014, Samsung and Apple agreed to cease all the litigations in Japan (as well as several other jurisdictions) and are instead focusing on their respective claims in the U.S.

Korea—Injunctive Relief.

In Korea, injunctions are ordinarily available for patent infringement actions. In August 2012, the Seoul South Central District Court found that under Korean law, a FRAND declaration made pursuant to a particular SSO framework does not estop an SEP owner from

asserting its right to an injunction against allegedly infringing products. The court further found that Samsung had not abused its rights or exploited its dominant market position in respect of its licensing negotiations with Apple. In the court's opinion, Apple was an unwilling licensee, and partly as a result, Samsung was entitled to an injunction against certain relevant Apple products. Korea is, therefore, the first jurisdiction to definitively uphold an SEP owner's rights to an injunction.

Korea—Recent Developments.

Following a complaint by Apple to the Korean Fair Trade Commission (KFTC), the Korean competition regulator examined Samsung's conduct in respect of its patent assertions. On Feb. 26, 2014, the KFTC concluded its two-year investigation and effectively agreed with the decision of the Seoul South Central District Court. The KFTC held that Samsung's request for an injunction in respect of its FRAND-encumbered SEPs was not a violation of Articles 3 and 23 of the Monopoly Regulation and Fair Trade Act, and did not otherwise breach applicable competition law principles. In reaching its decision, the KFTC considered the conduct of both parties during the FRAND negotiation process.

The Future. It can be seen from the analysis above that courts across the globe are increasingly cognizant of the acute antitrust and international trade law issues which weigh on the award of injunctions and exclusionary relief for FRAND-encumbered SEPs. Courts in key intellectual property jurisdictions appear to be narrowing the circumstances in which injunctions are available for SEP infringement. In reaching their determinations, decision-makers are honing in on evidence of the parties' conduct during license negotiations in order to assess whether a party's negotiating tactics should bear on a determination for an award of injunctive or exclusionary relief.

It follows that holders of SEPs should take note of the global trend against the award of injunctions in favor of FRAND-encumbered SEPs. There is an increasing risk that the assertion of an injunction, though theoretically available, may violate applicable antitrust and trade law principles and spark investigations by regulators. SEP holders who intend to assert injunctions positively would be prudent to carefully document SEP license negotiations, especially those in which a putative licensee might be considered "unwilling." Such evidence may be ultimately determinative of whether injunctive or exclusionary relief is available to SEP holders in many jurisdictions across the world. SEP holders that are seen to act in bad faith or abuse their market positions will not be looked upon favorably. After all, injunctions are historically creatures of equity—and equity must come with clean hands.