

IN THE INTELLECTUAL PROPERTY HIGH COURT OF JAPAN

APPLE JAPAN'S SUCCESSOR OF SUIT,
APPLE JAPAN LLC.

Plaintiff,

v.

SAMSUNG ELECTRONICS CORP.

Defendant.

**SUBMISSION OF PROFESSOR DANIEL F. SPULBER IN RESPONSE
TO THE REQUEST
OF THE INTELLECTUAL PROPERTY HIGH COURT OF JAPAN
FOR PUBLIC COMMENTS**

My name is Daniel F. Spulber. I am the Elinor Hobbs Distinguished Professor of International Business and Professor of Strategy at the Kellogg School of Management, Northwestern University. My Curriculum Vitae and short Biography are attached. I have written extensively on the topic of innovation. I attach two of my recent works that are relevant to the present questions on which the court seeks comments from the public.

I am grateful for the opportunity provided by The Intellectual Property High Court of Japan for public comment. I will address the following question posed by the Court:

“Whether there is any restriction on practice of rights to seek an injunction or damages based on a patent that is essential to the standard set by a standard setting organization when so-called (F)RAND declaration (a declaration that [a patentee] will grant a license on (Fair,) Reasonable and Non-Discriminatory conditions) is made.”

Based on my research and economic analysis of patents and standard setting organizations, I conclude that there should not be any restrictions placed on the practice of rights to seek an injunction or damages for patents that are declared to be essential to a standard. F(RAND) declarations benefit both patent owners and potential technology adopters and should, if anything, strengthen the practice of rights of patent owners to seek an injunction or damages for patent infringement. I hope that my economic analysis will be of some assistance to the Court in its deliberations.

1. Patents Have Important Social and Economic Functions

Patents are valuable institutions that provide a means for inventors to reveal their discoveries and to bring their discoveries to the market place. Societies have an interest in preserving incentives for inventors to invest in the research and development (R&D) that is needed to make commercial, scientific, and technological discoveries. Societies also have an interest in inventors revealing their discoveries to other inventors and to potential users of those inventions, including manufacturing companies. Societies also have an interest in inventors offering those discoveries for licensing or transfer to others in the market for inventions. Finally, societies have an interest in promoting the usage of new inventions in the

process of making economic innovations. Overall, societies benefit from the process of innovation because it provides the economy with new products, new production processes and new transaction methods. Innovation is an important requirement for sustaining employment, economic development, and economic growth. Societies must rely on innovation because they cannot depend exclusively on population growth or capital investment.

2. FRAND Commitments Should Strengthen, not Weaken, the Practice of Rights to Seek an Injunction or Damages for Patents

FRAND declarations by patent owners should not be viewed a surrender of intellectual property (IP) rights to others. Were that to be the case, patent owners would be discouraged from making FRAND declarations, which would cause the loss of benefits that patent owners and potential adopters receive from such declarations.

FRAND declarations are commitments made by patent owners to license their patents to others in a manner that is (fair), reasonable, and non-discriminatory. Patent owners retain their ownership of inventions so that they can enter into mutually beneficial licensing agreements with potential adopters. Such declarations are made voluntarily and benefit both patent owners and potential adopters of inventions. FRAND declarations have the great advantage of facilitating negotiations between patent owners and technology adopters regarding patent licensing. Reducing the transaction costs associated with patent licensing has social value because it helps promotes adoption and application of valuable inventions.

The social and economic benefits of patents depend on their role as property rights. Patents can only serve as property rights if they are backed up by the standard remedies of injunctions and damages. Without such standard remedies, inventors would be discouraged from obtaining patents, which would cause the loss of the many social benefits of patents that I have already described. In addition, without such standard remedies, potential adopters of inventions would be discouraged from obtaining licenses because they could simply infringe

on the technologies of others. Adopters also would be discouraged from their own inventions, because they could readily obtain the technologies of others through infringement.

If anything, FRAND declarations should serve to strengthen the practice of rights to seek an injunction or damages based on a patent that is essential to the standard set by a standard setting organization. Patent owners voluntarily make FRAND offers to license patents to others. This declaration shows that patent owners are offering to license on reasonable terms, so that potential adopters are able to obtain the invention through standard licensing negotiation. The declaration also provides greater ease of negotiation than might be the case in the absence of the declaration, so that potential adopters can obtain the invention with lower transaction costs than would otherwise be the case. Patent infringement cannot be justified when potential adopters can license existing patents under FRAND terms.

Because potential adopters benefit from FRAND declarations of patent owners, the willingness of patent owners to offer FRAND terms should strengthen legal protections of IP. The Court should recognize the benefits to potential adopters that arise from the FRAND declarations. Because such declarations benefit potential adopters and do not represent a surrender of IP rights, the Courts should continue to uphold the standard mechanisms of injunctions and damages that protect IP.

3. Technology Standards and Standard Setting Organizations Provide Social Benefits

Technology standards and standard setting organizations provide social benefits by allowing industry participants to coordinate their efforts to establish product quality standards and to promote interoperability of technologies. Technology standards promote invention and innovation, as I show in my attached research papers. Technology standards have successfully promoted innovation in many industries including mobile telephones as in the present case, and many industries including automobiles, aerospace, information and

communications technology (ICT).

Patent owners and potential adopters of technology derive substantial benefits from their participation in standards organizations. Both patent owners and potential adopters help shape technology standards, share information about new technologies, and help select the most efficient technologies. Patent owners have an incentive to participate in standards organizations and to declare their patents as essential to a standard because doing so enhances their ability to coordinate with potential adopters. Potential adopters also have an incentive to participate in standards organizations because doing so enhances their ability to influence technology standards and to coordinate with inventors and other potential adopters.

Patent owners do not surrender their IP rights by participation in standards organizations. Any surrender of such IP rights would discourage their participation and reduce the benefits that society obtains from technology standards. Declaring patents to be essential to a standard is a way that standards organizations promote coordination between patent owners and potential adopters. This coordination benefits both patent owners and potential adopters.

To preserve the incentives of patent owners to participate in standard setting organizations, the Court should continue to uphold the standard mechanisms of injunctions and damages that protect IP. Protecting patent rights provides benefits to both patent owners and potential technology adopters because of the substantial social and economic benefits of patents. Preserving incentives to participate in standard setting organizations helps to maintain the important social and economic benefits of technology standards.

Daniel F. Spulber

Northwestern University