

IP and Competition Law Developments in Japan

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JFTC's 1968 Guidelines for International Licensing Agreements

- First explanation of JFTC views on application of the AMA to technology licensing

1968 Guidelines

- Notes historical movements by 1968:
 - away from overtly favoring licensees, toward greater neutrality
 - away from favoring Japanese firms
 - away from summary condemnation of licensing restraints and toward case-by-case analysis of competitive effects

1968 Guidelines

- “Black list” of prohibited provisions included
 - territorial restrictions on licensee’s exports
 - restrictions on licensee’s export prices or quantities
 - tying
 - exclusive distribution obligations

1968 Guidelines

- “Black list” of prohibited provisions included
 - resale price maintenance
 - charging royalties on goods not using the licensed technology
 - quality obligations re goods embodying the licensed technology

1968 Guidelines

- “Black list” of prohibited provisions included those
 - prohibiting licensee from manufacturing, using, or selling competing goods
 - prohibiting licensee from using competing technology

1968 Guidelines

- “Black list” of prohibited provisions included
 - grantbacks, i.e. requiring licensee to notify licensor of improvements, or to assign improvements to licensor
 - quality restrictions on inputs, or of goods embodying the licensed technology

1968 Guidelines

- Provisions on the prohibited black list were condemned categorically
- No analysis of case-specific competitive effects (or lack thereof)

1968 Guidelines

- Despite being on the black list, geographic restraints and restraints on export prices, output, etc., were not prohibited if they were “of reasonable scope” and licensor:
 - had registered the patent in the foreign market
 - was selling the patented goods in the foreign market, or
 - had granted an exclusive license to a third party to sell patented goods in that foreign market

1968 Guidelines

- “White list” of exempted provisions included
 - limiting license period
 - limiting scope of license (including field of use restrictions)
 - granting license for less than the full term of the patent
 - restricting output or sales of goods

1968 Guidelines

- “White list” of exempted provisions included
 - limiting frequency with which licensed process may be used
 - granting separate licenses to make, use or sell a patented invention

1968 Guidelines

- Frequent criticisms:
 - guidelines applied only to international licenses
 - disfavored non-Japanese licensors during period (1968 to 1989) of very active “importing” of technology into Japan through licensing from foreign companies

1968 Guidelines

- Frequent criticisms:
 - lack of transparency of analysis
 - lack of predictability
 - apparent favoritism toward licensee

1968 Guidelines

- Still, not so out of step
- Recall they were roughly contemporaneous with the U.S. discussion of the “Nine No-No’s”

1968 Guidelines

- JFTC Enforcement of Guidelines:
 - vigorous in 1970s
 - less so during 1980s
 - grantbacks were the most common type of clause found to violate the AMA

JFTC's 1989 Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-How Licensing

- Replaced 1968 Guidelines
- Reflected important policy shifts, including announced application of same policies to foreign and domestic IP licenses

1989 Guidelines

- Sought to address criticisms re non-transparency and uncertainty through a new optional “clearance” procedure for the submission to the JFTC of proposed international transactions prior to execution

1989 Guidelines

- Kept structure of black list and white list
- Added new rule-of-reason grey list
- Many provisions on 1968 black list moved to grey list, including:
 - exclusive dealing requirements
 - in-term prohibitions against dealing in competitive goods and technologies

1989 Guidelines

- 1989 black list continued to include:
 - resale price maintenance (direct or indirect)
 - post-term prohibition against handling competing goods or technology
 - post-term restraints on use of technology or requirement of royalty after expiration of patent

1989 Guidelines

- 1989 black list continued to include:
 - restraints on R&D by licensee
 - exclusive grantbacks

1989 Guidelines

- The new grey list included many provisions on the old 1968 black list and some not addressed by the 1968 Guidelines, including:
 - exclusive dealing (prohibiting licensee from dealing in competing goods or technology)
 - requiring licensee to distribute through licensor or its designee

1989 Guidelines

- Grey list included:
 - non-exclusive grantbacks
(if “balanced in substance”)
 - requiring licensee to use licensor’s trademark
 - restrictions on quality of inputs or goods embodying the technology
 - input tying

1989 Guidelines

- Grey list included:
 - royalties based on something other than the patented goods
 - package licensing (unless required to ensure patent was effective)
 - unfair termination provisions
 - prohibiting licensee from contesting validity of patent

1989 Guidelines

- Expanded white list included:
 - separate licenses to make, use or sell
 - time limitations on license
 - limitations to part of technology covered by the patent
 - field of use restrictions
 - required minimum production, minimum sales volume or minimum use of patented process

1989 Guidelines

- Expanded white list included:
 - non-exclusive grantback requirements (where obligations are roughly equal
 - quality standards, if defined narrowly
 - input tying, if necessary for effectiveness of patent
 - basing royalties on sales or production
 - requiring payment of royalties post-term

1989 Guidelines

- Expanded white list included:
 - package licensing, if needed to make patent effective
 - right of licensor to terminate license if licensee challenges validity of patent
 - requiring licensee to use best efforts

1989 Guidelines

- JFTC Enforcement of Guidelines:
 - difficult to determine
(use of administrative guidance;
and aggregate format of data in
JFTC Annual Reports

1989 Guidelines

- JFTC Enforcement of Guidelines --
Notable public examples:
 - 1990 cease and desist order for bundling of video game software for sale with other software, as unfair trade practice (AMA § 19)

1989 Guidelines

- JFTC Enforcement of Guidelines --
Notable public examples:
 - 1995 recommended decision against restraint in license that continued post-term, as dealing on restrictive terms, unfair trade practice (AMA § 19)

1989 Guidelines

- JFTC Enforcement of Guidelines --
Notable public examples:
 - 1997 cease and desist order against trade association refusing to license “primary” patents to firms seeking to enter market, as monopolization (AMA § 2)

1989 Guidelines

- JFTC Enforcement of Guidelines --
Notable public examples:
 - 1998 cease and desist order against bundling of two software programs, as unfair trade practice (AMA § 19)

1989 Guidelines

- JFTC Enforcement of Guidelines:
 - appears to have decreased in 1980s
 - in part likely due to rule changes that reduced the number of international agreements required to be filed with JFTC
 - stronger pro-technology policy

JFTC's 1999 Guidelines for Patent and Know-How Licensing Agreements Under the Antimonopoly Act

- Replaced 1989 Guidelines
- Less dramatic changes than the changes in the 1989 Guidelines
- Changes in same direction of liberalization

JFTC's 1999 Guidelines for Patent and Know-How Licensing Agreements Under the Antimonopoly Act

- Mr. Koyanagi will address specific provisions of 1999 Guidelines

1999 Guidelines

- White, grey and black lists, plus what Prof. Newberg aptly named the “dark grey” category (rule of reason, but highly suspect), including:
 - restrictions on licensee R&D
 - post-term royalties
 - completely exclusive grantbacks
 - post-expiration restraints on use of competing or technology

1999 Guidelines

- Very short black list
 - resale price maintenance (direct and indirect)

JFTC's 1999 Guidelines for Patent and Know-How Licensing Agreements Under the Antimonopoly Act

- Mr. Koyanagi will address other specific provisions of the 1999 Guidelines (with the exception of its provisions that bear directly on Section 21)

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- “The provisions of this Act shall not apply to such acts recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act or the Trademark Act.”

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- When is an exercise of an IP right a “legitimate” (exempt) exercise, and when is it an illegitimate (non-exempt) exercise?

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- The “Confirmation Theory”:
 - patent rights are guaranteed rights like all other property rights, but
 - are subject to the AMA

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- Section 100 of the AMA provides that, for certain AMA offenses, a court may:
 - declare that a patent or patent license be revoked,
 - following which the JPO shall revoke the patent or license

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- AMA violations that may be the basis for revocation of a patent or license include violations of AMA § 89:
 - private or unreasonable restraint of trade, or
 - substantial restraint of competition by a trade association

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- AMA violations that may be the basis for revocation of a patent or license include violations of AMA § 90:
 - prohibited international agreements
 - prohibited acts by trade association

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- Conceptually, enforcement of AMA violations against IP rights is consistent with the Patent Act's express grant of authority to the JPO to impose compulsory licenses of patents if required by the public interest (Patent Act § art. 93)

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- The Patent Act grant of authority to impose compulsory licenses appears consistent with the general provisions of TRIPs art. 31, regarding the use of compulsory licenses as a remedy for practices that have been determined to be anticompetitive by legal process

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- 1999 Guidelines recognize liability for monopolization based on the unilateral refusal to license, by a patent owner that is a monopolist in a relevant market

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- Mr. Koyanagi will speak to the specific application of that provision to patent pools, cross-licensing, etc.

The Evolving View of AMA Limited Exemption for Exercise of IP Rights

- It remains unclear how the 1999 Guidelines provisions regarding unilateral refusals to license may affect the JFTC's enforcement actions, but it would appear to define certain exclusionary conduct using IP rights as “illegitimate” exercises under Section 21, and thus not exempt from the AMA.

Thank you.