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Intellectual Property and Antitrust in Japan

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8.1. INTRODUCTION

It has been a long time since Japan was called "the world's factory." Since the 1990s, the notion that Japan cannot maintain its economic strength and has to change to steer its economy to be an innovation-driven one has been widespread. Accordingly, measures to strengthen intellectual property (IP) protection have been introduced.[1] Where a strong IP system exists, there is a potential for encountering serious antitrust issues. The chapter examines how Japan maintains the balance (or does not) between IP and antitrust.

One of the characteristics of IP-related antitrust enforcement in Japan is the lack of legal precedent. As we shall see in detail below, there are only a few formally filed cases both with the Japan Fair Trade Commission (JFTC) and the courts in Japan. As a result, the JFTC's guidelines pertaining to IP and licensing are an essential source of legal rules. The current and most relevant JFTC guidelines are the Guidelines for the Use of Intellectual Property under the Antimonopoly Act (September 28, 2007, as amended on January 1, 2010, hereinafter referred to as IP Guidelines). In the following analysis, too, I often refer to the IP Guidelines.

8.2. RELEVANT PROVISIONS

The most relevant provisions in the Antimonopoly Law (AML) are Articles 3 and 19. While Article 3 prohibits practices that have significant anticompetitive effects in the relevant market either by way of horizontal agreement or exclusion, Article 19 prohibits miscellaneous conducts that tend to inhibit a free and fair competition order, such as tying, exclusive dealing, and resale price maintenance. The basic outlines of these articles are explained below.

[1] Taplin (2009).

8.2.1. *Article 3*

The first part of Article 3 prohibits private monopolization, which is constituted of three elements, namely, (1) anticompetitive exclusion or control of another person's business activities, (2) substantially restricting the competition in a particular field of trade, and (3) acting against the public interest (Article 2(5)). The second part of Article 3 prohibits unreasonable restraint of trade, covering the following elements: (1) agreement or communication of intent between entrepreneurs (or undertakings), (2) imposition of restriction on a member's business activities, (3) substantially restricting competition in a particular field of trade, and (4) acting against the public interest (Article 2(6)). Under this provision, "entrepreneurs" has been interpreted as competitors only, and therefore, the second part of Article 3 is applicable to horizontal agreement.[2] The first part of Article 3, in contrast, can be applied to horizontal and vertical agreement and an individual firm's unilateral conduct.[3] Price fixing and market allocation among competitors, for example, are dealt with in the first part, while refusal to license and tying are tackled in the second part.

Restricting the competition is a common element of both prohibitions. Under case-law, this means "a state in which there actually appears or at least is going to emerge a situation in which a specific entrepreneur or groups of entrepreneurs can control the market by controlling the price, quality, quantity or other conditions freely at its own will to a certain degree as a result of reducing competition in a market,"[4] and a decided Supreme Court case explains that this implies establishment, maintenance, or enhancement of market power.[5]

Another common element is acting against the public interest. Although the Supreme Court once suggested that parties accused of anticompetitive practices may negate the condemnation by demonstrating the existence of overriding public interest,[6] there has been no case in which unlawfulness was denied solely on this ground[7] and thus, the element is not significant in practice.

Competitive effect on the market is assessed on a case-by-case basis by considering the relevant parties' market shares, market concentration, potential for new entrants, and other competitive constraints from neighboring markets and customers, as well as the procompetitive effect. The efficiency achievable through innovation and licensing activities has been regarded as a classic example of potential procompetitive effect.[8]

[2] Takigawa (2013).
[3] Lin and Ohashi (2015).
[4] *Toho/Subaru* Case, Tokyo High Court Judgment of September 19, 1951, Shinketsushu 3:166; *Toho/Shin-Toho* Case, Tokyo High Court Judgment of December 7, 1953, Shinketsushu 5:118.
[5] *NTT-East* Case, Supreme Court Judgment of December 17, 2010, Shinketsushu 57:215.
[6] *Oil Price Fixing (Criminal)* Case, Supreme Court Judgment of February 24, 1984, Keishu 38:4:1287.
[7] Tsuchida (2014).
[8] See, e.g., JFTC, Guidelines Concerning Joint Research and Development under the Antimonopoly Act (1993) (hereinafter referred to as Joint R&D Guidelines); JFTC, Guidelines for Exclusionary Private Monopolization under the Antimonopoly Act (2009).

The relevant market, or "particular field of trade" to use the statutory term, may be a product, service, or technology market. The act of innovation, or the research and development activity, itself is not regarded as a relevant market because it is not tradable.[9] Yet, a strong ability to innovate might be considered when assessing the competitive effect.[10]

The IP Guidelines set the soft safe harbor by stating that generally, the anti-competitive effect is unlikely to occur in cases where the market share of the defendant is lower than 20 percent or in the presence of more than four competitive technologies in the market.[11]

The JFTC would issue a cease and desist order and a surcharge payment order against the infringer (Articles 7 and 7-2). Although the JFTC has wide discretion when crafting cease and desist orders, such an order must be necessary to eliminate unlawful conduct only and not its effects. Consequently, the order to reduce the royalty rate, which has increased because of unlawful conduct, cannot be a part of the cease and desist order.[12]

Although Article 2(6) is applicable to hard-core cartels and cases of collaboration among competitors, no formal case has been filed in relation to the latter.[13] As for violation of Article 2(5), no surcharge order existed until the 2005 AML amendments came into force, and since the amendment, Article 2(5) violation has been found in only one case.[14] This was an atypical controlling activities case in which price fixing among competitors, too, was involved and the surcharge payment order was not issued. This implies that there is no Article 2(5) case where surcharge was imposed.[15]

Criminal penalty may be imposed for an Article 3 violation, but this is the only case in which hard-core cartels were found in practice[16] and thus far, criminal penalty has not been imposed in any IP rights case.

Private enforcement, too, has been rare in intellectual property right (IPR)-related cases. Although the aggrieved party may bring a suit for damage, the chance of obtaining a sufficient amount of damage tends to be limited in general.[17] As far as is known, there has been only one IPR-related case in which a private suit was brought (*Hokkaido Shimbun* Case, see Section 8.4.1).

9 Hirabayashi (1993).
10 See, e.g., Joint R&D Guidelines I.2(1).
11 IP Guidelines, 2.1(5).
12 Negishi (2009).
13 The informal consultation cases exist. See JFTC, Soudan Jirei Shu [Consultation Cases], available at www.jftc.go.jp/dk/soudanjirei/index.html. As for the JFTC consultation procedure, see JFTC, Prior Consultation System for Activities of Business (2001), available at www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines.html.
14 *JA Fukui* Case, JFTC Cease and Desist Order of January 16, 2015. English summary is available at www.jftc.go.jp/en/pressreleases/yearly-2015/January/150116.html.
15 Hayashi (2015).
16 Kawai and Tanaka (2014).
17 Walle (2013).

8.2.2. *Article 19*

Under Article 19, practices that reduce free competition, although not to the extent of establishing a market power, are prohibited. Practices that inhibit well-informed, reasonable decisions from being made are also prohibited as unfair methods of competition. Furthermore, practices that impose unjustified disadvantages on a trading partner, often involving retrospectively breaching the agreement between the parties, are regulated because they undermine the system of free competition.[18]

The prohibited practices are listed under Article 2(9)1–5 (inclusive). Additionally, the JFTC can designate certain practice as such by virtue of Article 2(9)6. The so-called JFTC "General Designation (GD)"[19] is relevant to IPRs. All provisions that prescribe the prohibited practices include the anticompetitive effect element, either reduction of free competition, unfair method of competition, or undermining system of free competition, and a violation is found to have occurred only when a relevant anticompetitive effect arising from one of the listed practices is established.

Among the relevant anticompetitive effects, it is more difficult to define employment of unfair methods of competition and/or undermining the system of free competition, and this blurs the standard of lawfulness. These concepts, however, tend to be of limited importance in practice. For instance, in the IP-related case, the surcharge will be imposed mainly on the kinds of practices that are condemned on the ground of reducing free competition.

The concept of reducing free competition, in contrast, is more closely related to market power. Reduction of free competition may be found where (1) establishing, maintaining, or strengthening of market power is likely; (2) minor degree of market power is established, maintained, or strengthened; or (3) the exercise of such power is facilitated.[20] The concept of reduction of free competition thus aims at regulating market power in its incipiency and appears to fit well with conventional competition policy. However, determining whether free competition is sufficiently reduced to establish a violation is not always straightforward. In practice, the relevant market is generally not rigorously defined under Article 19, which implies there is no rigid market share threshold to assess lawfulness. Violation is often found in the case of exclusion by a company that imposes competitive constraints by way of low price or in the case of exclusion of an innovative product or service in the market where competition is not deemed inactive either due to the existence of a large company or because of an oligopolistic market structure. Fortunately, with regard to IPR-related cases, the same soft safe harbor mentioned above is applicable, which creates certainty to some extent.

18 Dokusenkinshi ho kenkyu kai [The AMA study group], Hukosei na torihiki hoho ni kansuru kihon teki na kangaekata [Report on the Basic Principles in Relation to Unfair Trade Practices] (July 8, 1982). For more details, see, e.g., Wakui (2008) 4.1.
19 JFTC, Designation of Unfair Trade Practices (1982, revised 2009).
20 Sensui (2015).

The procompetitive effect is relevant in the assessment.[21] For some categories of practice, which include concerted refusal to deal or license and resale price maintenance, an adverse effect is presumed. Yet, this is a rebuttable presumption and the defendant is allowed to argue that the practice has a redeeming procompetitive effect.

The penalty for violation is minor, reflecting the practice's minor anticompetitive effects and the precautionary nature of Article 19. Essentially, the cease and desist order issued by the JFTC under Article 20 is the only sanction imposed in the majority of the cases. The surcharge payment order has been associated with a few types of Article 19 practices since the 2009 AML amendments, but it is applied when an offense is repeated within ten years (Article 20-2–20-5 (inclusive)). Exceptionally, surcharge payment is ordered in a case where a superior bargaining position has been abused since the first violation (Article 20-6); all abuse cases in which surcharges were ordered involved such abuses and, in all cases, powerful retailers unfairly used their bargaining position against their suppliers.[22] There is no IP-related case in which a surcharge order was issued. Criminal penalty is not imposed for violation of Article 19. Private enforcement is inactive in terms of both damages and injunction orders in general,[23] and there is no reported private enforcement case in which the court accepted such a claim against the IP owners on the ground of abusive use of IP contrary to Article 19.

8.3. GENERAL PRINCIPLE AND IP EXEMPTION

8.3.1. *General Principle Between IP and Antitrust*

There is a widely recognized view that IP and antitrust should work in a complementary manner.[24] The basis of this view is explained in the following. While a reasonably competitive market tends to encourage innovation, R&D activities promote competition through new technology resulting in cost reduction or new products. This means that antitrust is good for innovation, while IP is good for antitrust.

The language of the statutes also supports the view. Particularly, the statutes are clear that both the antitrust and the IP protection systems aim to ensure development of the economy. While Article 1 of the AML provides that the law is aimed at "promot[ing] fair and free competition" and thereby "stimulat[ing] the creative initiative of enterprises, encourag[ing] business activity ... and thereby promot[ing] the democratic and wholesome development of the national economy," the

[21] IP Guidelines, 2.3 and 4.1(2).
[22] Wakui and Cheng (2015).
[23] Walle (2013).
[24] Negishi (1990).

patent law, for example, provides that "the purpose of this Act is ... to contribute to the development of industry."

The aforementioned complementarity is ensured by the IP laws. The IP laws have various safeguards to prevent them from having a negative effect on competition. Such safeguards include limited period of protection, exhaustion principle, and a compulsory license system under IP law. Furthermore, the Intellectual Property Basic Act, in which the national IP framework policy was set out, provides that the IP system should be crafted considering the requirements to be fulfilled for securing fair and free competition (Article 10).

It is true that IP creates the right to exclude competitors from using certain technology and may be used to drive them out of the market. This, however, occurs rarely. In most cases, alternatives to a patented technology are available. Even if a rival is indeed excluded from the exclusion, it is only for a period, and this is often necessary to secure the incentive to engage in R&D.

Additionally, we can say that the AML is harmonious with IP. There has been no IP-related case where a surcharge or a criminal penalty was imposed. Market power has never been presumed to exist merely because of patent ownership both by the JFTC and by the courts. Although the JFTC appeared to view the licensor as having a stronger bargaining position against the licensee when it issued the International Technology Transfer Guidelines in 1968, that view had changed by the time it published the Guidelines for Patent and Know-how Licensing Agreements under the Antimonopoly Act on July 20, 1999.[25] Furthermore, anticompetitive conduct that affects competition has been distinguished from the existence and abuse of market power, and only the former is prohibited. This implies that merely charging a supracompetitive price is not prohibited. As discussed below, a unilateral refusal to deal is generally lawful, regardless of whether it relates to IP. Indeed, arguably there is no case in which unilateral refusal to license was found contrary to the AML; some might say there is one case, but it is only one anyway. The safe harbor set in the IP Guidelines used to be generous relative to the ones set in the guidelines pertaining to non-IP practices. In the non-IP-related case, the threshold was often 10 percent.[26]

8.3.2. *The Exemption: Article 21*

The AML specifically refers to IP under Article 21, in which it is provided that "the provisions of [the Antimonopoly Law] do not apply to acts found to constitute an exercise of rights under the Copyright Act, Patent Act, Utility Model Act, Design Act or Trademark Act." Unlike its appearance, the outcome of antitrust analysis is hardly

[25] Uesugi (1993).
[26] JFTC, Guidelines Concerning Distribution Systems and Business Practices (as of 1991–2015) (hereinafter referred to as Distribution Systems Guidelines). The guideline was amended in May 2016 and the current threshold is 20 percent.

affected by the provision. Yet, the provision defines the analytical framework and thus has some importance.[27]

The "exercise of rights" implies an IP owner's actions to exclude others from using a technology, or mark, for which exclusive rights were granted under the IP act. This includes the following actions: (1) bringing a law suit against or sending a warning letter to the infringer, (2) refusal of license, or (3) licensing a part of the right, while retaining the remainder, such as licensing with a field restriction.

The exercise of rights is generally exempted under Article 21, yet there is a qualification. The exercise has to be legitimate; in other words, the benefit of exemption is not given to practices deemed to be contrary to the aim and purpose of the IP protection system. Legitimacy is assessed in the light of the stated aim in the relevant laws. For example, for the Patent Act, it is encouraging invention. Furthermore, on the basis of the complementarity principle explained above and Article 10 of the Intellectual Property Basic Act, the impact on competition is considered and using rights to suppress competition might be deemed an illegitimate exercise of rights in the light of the aim of IP laws.

Overall, an examination of the IP-related practice is conducted as shown in Figure 8.1. It would be noteworthy that non-application of Article 21 does not always result in AML violation; the action at issue also needs to satisfy other relevant elements, including the element pertaining to the anticompetitive effect. In that anticompetitive effect, the redeeming procompetitive effect is also taken into account.

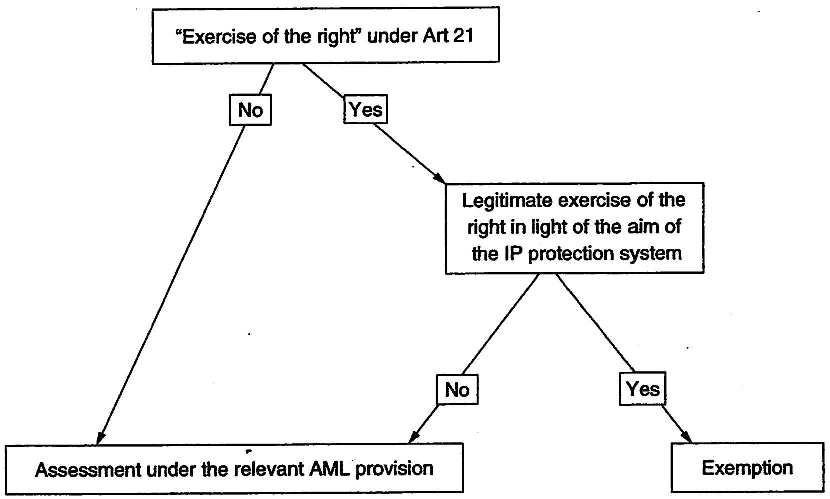

FIGURE 8.1: Examination of IP-related practice under Article 21

[27] The following explanation is in line with the position taken in IP Guidelines, 2.1.

8.4. APPLICATION OF GENERAL PRINCIPLES AND ASSESSMENT

8.4.1. *Acquisition of Rights – Patent and Trademark Application*

Applying for IP rights is of course lawful generally. The practice, however, may constitute an AML violation when the IP system is abused.

In the *Hokkaido Shimbun* case,[28] Hokkaido Shimbun Press, a dominant newspaper publishing company in the region, applied for nine trademarks. This was done only to deter a new entrant and the nine trademarks were selected because they were likely to be chosen by the new entrant. The entrant indeed chose one of the trademarks, and the incumbent continued to harass the new rival using the trademark application as well as through other anticompetitive practices. The incumbent did not have the intention of using any of the trademarks applied for, and the practice was clearly an abuse of the trademark registration system. Together with other exclusive practices, the conduct was found to infringe Article 2(5) and the JFTC issued a cease and desist order. Thereafter, the entrant brought a follow-up suit claiming damages, which resulted in a settlement of JPY 220 million (approximately US$1.8 million) paid by the incumbent.[29] Interestingly, while the JFTC was examining the case, the Japan Patent Office (JPO) rejected the trademark application on the ground of its being contrary to the public interest by virtue of Article 4(7) of the Trademark Act.[30]

8.4.2. *Patent Infringement Lawsuit*

Obviously, bringing a lawsuit against a (likely) infringer is "exercise of the right" under Article 21, and the AML is inapplicable. However, AML violation might be found to occur when the IP system is abused.

Abuse can be found in cases where a patent is obtained by fraud. Another example is the case where the patentee furnishes fraudulent information and misleads the government to adopt his/her patented technology for its standard promulgated for governmental procurement procedures.

The *Paramount Bed* Case[31] is illustrative of the latter scenario. The case relates to the circumstances in which the Tokyo metropolitan government procured beds for its hospitals through public tenders. The beds were required to meet the requirements set by the government. To enhance competiveness in the public tendering process, the Tokyo metropolitan government, as a policy, wrote its specifications in such a way that all major bed manufactures could meet the specifications. There

[28] JFTC Consent Decision of February 28, 2000, Shinketsushu 46:144.
[29] Kyodo News, '22000 man yen Shiharai Wakai [JPY 220 million payment to settle]', available at www.47news.jp/CN/200610/CN2006102401000466.html.
[30] JPO Decision to dismiss a statement of dissatisfaction with a decision of dismissal on March 10, 1999.
[31] JFTC Recommendation Decision of March 31, 1998, Shinketsushu 44:362.

were three bed manufacturers, and Paramount Bed Co., Ltd was one of them. Despite knowledge of the abovementioned Tokyo metropolitan government public tender policy, Paramount Bed induced the official who was in charge to write the specification to include designs that were covered by Paramount Bed's intellectual property (utility model patent, etc.). Obviously, Paramount Bed did not license the IPs to the competitors, and as a result, the beds manufactured by the competitors were excluded from the public tendering process. The JFTC found that Paramount Bed's conduct was an illegal exclusion under Article 2(5) and issued a cease and desist order.

Standard essential patents (SEPs) have been debated fiercely. Some argue that pursuing infringement action in relation to SEPs may constitute AML violation in cases where the patentee is committed to grant licenses on a fair, reasonable, and non-discriminatory basis and the potential licensee has been willingly and reasonably negotiating for a license. On one occasion, the Tokyo High Court adjudged that in such a situation, the patentee's claim for an injunction and damages was unacceptable under the Japanese patent and civil law because such a claim was against the good faith principle.[32] Some argue that such a lawsuit should also constitute AML infringement. The JFTC, too, amended the IP Guidelines to clarify such conducts would constitute AML violation in 2016.[33]

In any case, mere abuse of the IP system cannot be a basis for AML infringement, and the practice should be assessed further in the light of the relevant AML provisions.

8.4.3. *Unilateral Refusal to License*

Unilateral refusal to license is "exercise of the right" for the purpose of Article 21. Furthermore, unilateral refusal to deal is generally lawful, regardless of whether it is IP related. Exceptionally, AML violation may be found in cases where the patent was obtained by fraud. Additionally, the argument pertaining to bringing lawsuits relating to the SEPs applies here.

The *Daiichi Kosho (DK)* case[34] is controversial, and some may argue that the case exemplifies the unilateral termination of copyright license as a possible AML violation. Daiichi Kosho is a Kara-OK system provider and owns a few record company subsidiaries. Having been sued by a patentee, DK decided to terminate its subsidiaries' copyright license contracts with the patentee's subsidiary company, which is also a Kara-OK system provider. It was DK's retaliation to the patent lawsuit, and DK explicitly informed the rival's customer of the fact and warned that

[32] *Apple v. Samsung*, Tokyo High Court Judgment of May 16, 2014, Hanrei-Jiho 2224:146.
[33] JFTC, Press Release, Partial Amendment of "Guidelines for the Use of Intellectual Property under the Antimonopoly Act," www.jftc.go.jp/en/pressreleases/yearly-2016/January/160121.html.
[34] JFTC Examination Decision of February 16, 2009, Shinketsushu 55:500.

the rival company would be unable to use some music. The JFTC found that DK had employed unfair methods of competition and that the series of practices employed reduced free competition given the significance of the copyright at issue. Based on these findings, the JFTC concluded that DK's practices constituted a GD Item ex 15 (current ex 14) violation, but it did not issue any remedial order because DK had already ceased the conduct.

Some view the *DK* case as not being an ordinary unilateral refusal of license because the refusal was retaliatory in nature, and in addition to the refusal, the acts of warning and informing the rival's customers of the fact were involved. However, one may doubt whether these factors are sufficient to characterize otherwise lawful conducts as unlawful. The condemnation was based partly on unfair method of competition, which is a generally unclear concept that is difficult to define. Furthermore, in the present case, the use of IP as a retaliatory measure was viewed as unfair. Considering the prevalence of IP-related conflicts, the appropriateness of such evaluation is doubtful.[35] In relation to the second ground of condemnation, namely, the reduction of free competition, the relevant market was not rigorously defined and the likelihood of the market power was not thoroughly established.[36] Overall, it is considered that the JFTC assessment was not thorough enough in view of the significant impact the case could have on IP licensing practices.

8.4.4. *Restrictive Licenses*

Patentee practices that restrict licensee activities are grouped into two categories depending on whether the licensee infringes the patent right after violating the restrictive condition set under the license agreement. When a license is granted only for manufacturing PCs, using the patented technology for manufacturing TVs would amount to patent infringement. In such a case, the license is granted with the so-called "field-of-use" restriction, and a practice of this type amounts to "exercise of the right" under Article 21 because the practice is simply to grant a license to a part of the right while retaining the remainder.[37] Similarly, setting the license time period and territorial scope is "exercise of the right" for the purpose of Article 21 and, thus, generally lawful, unless some abusive use of the IP system is found.[38] For example, abusive use may be found in cases where territorial restriction is used to disguise a market-divining cartel. This is in contrast to the case where such IP infringement would not be found in any case, where Article 21 is inapplicable.

[35] Shiraishi (2009).
[36] Sensui (2010).
[37] IP Guidelines, 3.1.2 and 4.3.
[38] *Id.*, 3.1.2 and 4.3.

8.4.4.1. Output and Price Restrictions in Relation to Patented Products

The line between "exercise of the right" and non-exercise is not always clear. As for output restriction, the IP Guidelines generally see it as an exercise of right and consider it lawful,[39] although some argue otherwise.[40] Given the guidelines' position, the AML is generally inapplicable to the patentee's practices to limit the licensee's output of patented products. The exception to the rule may be found in the case of disguised cartels. There are some precedents that are arguably in line with such understanding.[41]

Vertical price restriction in general is unlawful under Article 19, although it may be justifiable on the ground of prevention of free ride. Restricting the licensee's price in relation to licensed products is also taken seriously, and the IP Guidelines say that the practice is generally unlawful.[42] In the *Twentieth Century Fox Japan (TCFJ)* case,[43] the film distributor, who had the right to license copyrights to movie theaters, inhibited theaters from providing discounts on the entry fee. The JFTC found TCFJ to be in violation of Article 19 and issued a cease and desist order.

8.4.4.2. Restriction in Relation to an Expired or Exhausted Patent

The licensee's activity after expiration or exhaustion of a patent cannot constitute IP infringement, and thus, Article 21 is inapplicable.[44] Similarly, once IP is transferred, there is no IP to exercise, and Article 21 is inapplicable. Inapplicability does not imply AML violation, and practices are examined on a case-by-case basis in the light of the relevant AML provisions.

Resale price maintenance (RPM) is not exempted because the relevant IP has been exhausted by first sales. Under the general rule on RPM, the conduct almost always constitutes a violation of Article 2(9)4 (RPM),[45] against which the JFTC issues a cease and desist order, and in the event of repeated violation, a surcharge payment order. There are a not-insignificant number of cases in which illegal RPM was found in relation to exhausted trademarked products.[46]

39 *Id.*, 4.3(2).
40 Nakayama (2012).
41 *Hinode-suido (Kita-kyushu)* Case, JFTC Examination Decision of September 10, 1993, Shinketsushu 40:29; *Hinode-suido (Fukuoka)* Case, JFTC Examination Decision of September 10, 1993, Shinketsushu 40:3; *Kaiware* case, JFTC warning of February 17, 1994.
42 IP Guidelines, 4.4(3).
43 JFTC Recommendation Decision of November 25, 2003, Shinketsushu 50:389.
44 IP Guidelines, 2.1.
45 Distribution Systems Guidelines, 2.1(1).
46 *Nike Japan* Case, JFTC Recommendation Decision of July 28, 1998, Shinketsushu 45:130; *Sony Computer Entertainment* Case, JFTC Examination Decision of August 1, 2001, Shinketsushu 48:3; *Scubapro Asia* Case, JFTC Recommendation Decision of December 26, 2002, Shinketsushu 49:247. However, note that for certain copyrighted products such as books, newspapers, journals, and music CDs, setting resale price is specifically exempted under Art 23(4) of AML.

Apart from price restriction, rarely are cases of vertical restriction thought to reduce free competition in general. In relation to IP, the JFTC has issued a cease and desist order on only two occasions.[47] The case involved transfer of know-how to a Taiwanese manufacturer, and it was understood that the transferor did not own any IP to exercise after the transfer. Despite this, the transferor prohibited the transferee from manufacturing and sales of the relevant product in Japan. Although the JFTC decision did not contain details of the facts and reasons, it is known that the practice effectively deterred the significantly cheaper products from the market in Japan and, thus, the transferor's actions seemed to have an anticompetitive effect.[48] Yet, the practice may have promoted competition by promoting licensing, and some may argue that the JFTC should have considered such an effect more rigorously.

The procompetitive effect associated with protection of interest of the IP owner is considered in assessing the anticompetitive effect, as in other cases. For instance, in the *Mediplorer* case, the Osaka District Court dismissed the licensee's counterclaim alleging that the licensor violated the AML by prohibiting the licensee from selling certain products during the period of license plus nine months after the period. The court found that the restriction was justifiable for protecting the licensed know-how.[49]

8.4.4.3. Tying and Package License

Clearly, tying the other product or technology, which is distinct from the licensed patent, does not amount to "exercise of right" for the purpose of Article 21.[50] Similarly, a package license under which a licensee is obliged to license more than one distinct patent right does not amount to "exercise of rights." Such a practice may have an exclusionary effect and violate Section 2(5) if the practice is found anticompetitive, particularly in the sense that there is no justifiable reason to do so and market power is established, maintained, or strengthened by the practice.[51] The same conduct may also violate GD Item 10 (tying)[52] if (1) two distinct products, namely, tying product and tied product, exist in the light of demand, standard commercial practice, and any associated efficiency; (2) licensor coerces to take these; and (3) the practice has an adverse effect on competition. The adverse effect may be lessening competition or employing unfair methods of competition to undermine the system of fair competition.[53]

47 *Asahi-denka* Case, JFTC Recommendation Decision of October 13, 1995, Shinketsushu 42:163; *Oxirane Chemical* Case, JFTC Recommendation Decision of October 13, 1995, Shinketsushu 42:166.
48 Tsukada (1996).
49 Osaka District Court Judgment of April 27, 2006, Handei-Jiho 1958:155.
50 To that effect, see *Pot Cutter (Patent)* Case, Osaka High Court Judgment of May 27, 2003.
51 IP Guidelines, 3.1(3).
52 *Id.*, 4.4(1) and 4.5(4).
53 Kanai (2015).

In relation to packaging licenses, investigating the existence of distinguished products tends to be more complicated than doing so for tangible products or services. Under the prescribed IP Guidelines, a packaging license is not unlawful so long as it accompanies a justifiable reason, for instance when implementing several patents is necessary for effectuating a specific function. Although the IP Guidelines specifically do not note this point, it is possible to consider that, in that case, there is no distinct product.[54]

In the *Microsoft (Tying)* case,[55] the computer manufacturers who wished to obtain a license for the spreadsheet software "Excel" were compelled to obtain licenses also for word processing software "Word." When the practice was commenced, Microsoft ranked first in the former market, but not in the latter market. The JFTC found that as a result of the practice, Microsoft came into first position in the latter market, specifically by excluding its rival, which used to rank first. The JFTC subsequently issued a cease and desist order to Microsoft Japan.

8.4.4.4. Assign/Grant-back

Although assign- or grant-back obligations can increase a patentee's incentive to license out and promote wider adoption of the improved technology developed by the licensee, the obligation can also be anticompetitive by discouraging the licensee's R&D activities aimed at further improvement or development of the next generation of the licensed technology. Considering these effects, the IP Guidelines take different positions toward assign-back and grant-back obligations, namely, Article 19 violations may be found in case of (1) imposition of assign-back obligation or exclusive grant-back obligation if the technology developed by the licensee is implementable independently of the patented technology originally licensed to the licensee or (2) imposition of the obligation to share ownership in relation to the improvement. In both cases (1) and (2), the practice is in violation of Article 19 when it has an anticompetitive effect. In contrast, the licensee's obligation to grant a nonexclusive license or to inform the licensor of the improvement does not violate Article 19 generally.[56]

8.4.4.5. Non-challenge Clause

A non-challenge clause is generally valid under Japanese patent law. Furthermore, the argument or claim that the licensed patent is invalid may not be accepted by the court as well as by the JPO, for example when the licensee and licensor are in a close cooperative relationship and such a challenge is considered contrary to the good faith principle or when such a challenge is expressly restricted under the license agreement.[57]

With regard to treatment under the AML, although the IP Guidelines admit that the practice may constitute Article 19 violation, it takes the position that the obligation is generally procompetitive because it tends to help smooth licensing activities and is unlikely to have an anticompetitive effect.[58] Moreover, the IP Guidelines clarify that stipulating termination of the license agreement once the licensee challenges the validity of the licensed patent does not generally violate Article 19.[59]

8.4.5. *Restriction of R&D Activities*

The IP Guidelines take the position that restriction of R&D activities on the licensee side generally constitutes infringement of GD Item 12.[60] The exception to this rule exists when the licensee is prevented from engaging in joint R&D with third parties and such restriction is necessary to prevent the licensor's know-how from being disclosed to said party. There has been no formal reported case where such a violation was found.

8.4.6. *Royalty Payment and Calculation*

In most cases, it is not conceivable that charging royalties and setting out the calculation method has an anticompetitive effect and thus violates the AML. Yet, imposing the royalty payment obligation regardless of the usage of licensed technology or setting a flat rate may have a foreclosure effect by discouraging the effort to find or develop alternative technologies.

Such possibility is acknowledged in the IP Guidelines, and it is stated that imposing the royalty payment obligation, which does not relate to the usage of licensed technology, may violate Article 19 when it has an anticompetitive effect.[61] The guidelines further note that such conduct is not unlawful when the calculation method is reasonable. Examples of such reasonableness include cases in which the technology in question is involved in the manufacturing of products or parts of the products and the amount of the royalty is calculated on the basis of output or the sales amount of the final products.

The *JASRAC* case exemplifies that flat-rate packaging licensing may violate the AML. The Japanese Society for Rights of Authors, Composers and Publishers (JASRAC) is a collective music copyright management organization and was once

[54] Kawahama (2011).
[55] JFTC Recommendation Decision of December 14, 1998, Shinketsushu 45:153.
[56] IP Guidelines, 4.5(8)–(10)(inclusive).
[57] For more detail, see Nakayama (2012).
[58] IP Guidelines, 4.4(7).
[59] *Id.*
[60] *Id.*, 4.5(7).
[61] *Id.*, 4.5(2).

a statutory monopolist. After several years of market liberalization, JASRAC still had a dominant position in the market. The JFTC found its practice of selling packaging licenses at a flat rate, according to which users pay the same amount of royalty regardless of the amount of usage, to be anticompetitive and to have an exclusionary effect against new entrants, in particular those who started the business and had an attractive music copyright portfolio, and issued a cease and desist order under Article 2(5).[62] JASRAC disputed the finding, and the JFTC revoked its original order by an examination decision on June 12, 2012. However, the Tokyo High Court revoked JFTC's decision and determined that the practice had an exclusionary effect, which was upheld by the Supreme Court.[63] The courts did not examine other necessary elements under Article 2(5), namely the effect of establishing, maintaining, or strengthening market power in the relevant market. Following the courts' decisions, JASRAC has withdrawn its appeal against the original JFTC's order.

8.4.7. *Agreement Among IP Owners*

8.4.7.1. Agreement in Relation to IP Usage

Agreement among IP owners who separately own IPs is clearly not "exercise of the right" for the purpose of Article 21. Such practice is examined on a case-by-case basis.

In the *Concrete Pile* case,[64] the companies who owned patents and utility model patents separately agreed upon their share of sales and, on receipt of the order, the companies coordinated in compliance with the agreed shares and determined who should manage sales. The JFTC found that the companies had violated Article 2(6).

8.4.7.2. Agreement in Relation to Licensing

Fixing the royalty rate among IP owners may amount to a violation of Article 2(6) if the IP owners are in a competitive relationship either in the product or the technology market and the agreement has an anticompetitive effect in the relevant market. An analysis is to be made on a case-by-case basis even in the case of an outright price fixing cartel, and the burden of proving the presence of an anticompetitive effect is eased owing to the current practice of allowing quick determination of the relevant market based on the scope of the agreement.[65] As in other cases, the defendant may argue that the practice has a procompetitive effect and, thus, is lawful. There has not been an IP royalty fixing case in which the JFTC issued a

[62] JFTC Cease and Desist Order of February 27, 2009, Shinketsushu 55:712.
[63] Tokyo High Court Decision of November 1, 2013, Shinketsushu 60-2:22; Supreme Court Decision of April 28, 2015.
[64] JFTC Recommendation Decision of August 5, 1970, Shinketsushu 17:86.
[65] Shinagawa (2015).

cease and desist order, although there is a published consultation case that suggests that the JFTC will view such practices negatively.[66]

A "collective decision of royalty" may take place in the context of IP-pooling. The issue is examined in Section 8.4.8.

An IP owner's agreement to refuse the license to a particular potential licensee is outside Article 21 as well[67] and is assessed on a case-by-case basis in the light of the relevant AML provisions. There are a few famous AML violation cases, but they are related to patent pooling or joint licensing arrangements and are discussed in Section 8.4.8. The *Concrete Pile* case mentioned earlier (Section 8.4.7.1) is a rare example in which the no-pooling arrangement was involved. In this case, in addition to the share agreement, the IP owners agreed not to grant a license unless the other cartel members agreed upon it. The JFTC saw this practice as a part of illegal conduct and ordered it be stopped.

Concerted refusal to license is not always unlawful. The anticompetitive effect arising from the practice is assessed on a case-by-case basis and the procompetitive effect is taken into consideration in the assessment. Furthermore, the Joint R&D Guidelines make it clear that agreeing not to license IP that is the outcome of the joint R&D effort to third parties is generally lawful.[68]

8.4.7.3. Cross-licensing and Non-assertion of Patent (NAP) Obligation

Cross-licensing should be deemed lawful in general and is not condemned unless, for example, it is in fact a disguised cartel.[69] It is likely that stipulating that the licensee not assert the licensee's patent against the licensor, which effectively works as cross-licensing, will be considered lawful in general. The IP Guidelines stipulate, however, that the practice may constitute a GD 12 violation where it results in strengthening the market power of the licensor or in diminishing licensees' incentive to innovate.[70]

In the *Microsoft (NAP)* case,[71] the JFTC issued a cease and desist order for imposition of the NAP clause on the ground of violation of GD Item 12. In this case, the NAP obligation was applied not only against the licensor but also against Microsoft licensees, which effectively meant virtually all personal computer manufacturers. The scope of the obligation was unclear because it was defined only as any patent that needs to be implemented in Microsoft's operating system (OS) software and the function incorporated in the OS would be under sole control of Microsoft.

[66] JFTC Consultation Case #7 (FY 2010), available at www.jftc.go.jp/dk/soudanjirei/h23/h22nendomokuji/h22nend007.html.
[67] *Ringtone* Case, Tokyo High Court Judgment of January 29, 2010, Shinketsushu 56:498.
[68] Joint R&D Guidelines, 2.2(2).
[69] IP Guidelines, 3.2(3).
[70] *Id.*, 4.5(6).
[71] JFTC Examination Decision of September 16, 2008, Shinketsushu 55:380.

Furthermore, as the source code was not disclosed to the licensees, the licensees could not tell which patents were and were likely to be relevant. Microsoft was expanding the OS' functionality, which led to broadening of the scope of the NAP obligation. The patents to which NAP was applied included the patents related to audiovisual technology, which had been a major source of the revenue for the licensee as well as the means to differentiate their PC from those of competitors. Under the NAP obligation, the patents were made valueless and ceased to function as differentiating technologies. The JFTC found the Microsoft practice was anticompetitive on the ground of its R&D chilling effect on licensees and for strengthening Microsoft's already dominant position.[72]

8.4.8. *Patent Pool*

Pooling IPs and joint license arrangements among IP owners tends to have a procompetitive effect by saving transaction cost, lowering royalty level by resolving the double marginalization problem, and facilitating the use of IP. The arrangement, however, may have an anticompetitive effect by suppressing competition among IP owners or excluding outsiders.

In the IP Guidelines, as well as in the guidelines on standard setting and patent pool, the JFTC takes the position that the pooling arrangement and the corresponding agreement should be assessed on a case-by-case basis.[73] The importance, or essentiality, of the pooled patent relationship among the pooled patents (in terms of their coverage of competitive technologies or supplemental technologies), and state of competition in the relevant market are taken into account when assessing the competitive effect. Furthermore, whether the patent pool is operated by an independent party may be taken into consideration.

In the *Pachinko Patent Pool* case,[74] the pachinko manufacturers, who collectively hold the dominant position in the product market, accumulated the patents in the pool and made it their policy not to license their patents to new entrants. The pooled patents included the essential patents for complying with the standard set under the relevant law. Further, the pachinko product market was not competitive due to the collusive practices of existing players. The entry of new players, to whom licenses were not granted, had substantial potential to make the market competitive. The JFTC found a violation of Article 2(5) and issued a cease and desist order.[75]

In the *Ringtone* case, five record companies collectively established a company to operate the ringtone music provider business. In the process, the record companies agreed not to grant the copyrights, which were owned separately by various

[72] For further details, see Kameoka (2014).
[73] IP Guidelines, 3.1(1) and 3.2(1); JFTC, Guidelines on Standardization and Patent Pool Arrangements (2005) pt 3.
[74] JFTC Recommendation Decision of August 6, 1997, Shinketsushu 44:238.
[75] For further details, see Kameoka (2014). Other cases are explained in Wakui (2004).

companies, to other ringtone companies. The JFTC issued a cease and desist order on the ground of GD [ex] Item 1(1) violation (currently AML Article 2(9)(i) violation).[76] On appeal, the Tokyo High Court sustained the JFTC decision and order.[77] The defendants could have tried to justify the exclusiveness as being necessary for the smooth operation of their joint venture, but they did not. Accordingly, the issue was examined neither by the JFTC nor by the court.

8.5. CONCLUSION

It has been discussed that IP and antitrust should work in harmony in Japan. The above analysis appears to demonstrate that they are indeed working complementarily and in harmony. In particular, antitrust does not seem to be presenting serious obstacles to IP enforcement and licensing activities. The penalty for AML violations is, or has been, weak in general, and superficially, licensees and alleged IP infringers, who are in a position to find and litigate AML violation on the side of IP owners, do not play any significant role. The JFTC's position toward IP enforcement and licensing seems to be generous, as observed, for example, in the lack of presumption of market power, no-question policy for refusal to license, and lax attitude toward the non-challenge clause. The JFTC has filed cases in relation to IP violation only on a few occasions. Generally, the JFTC enforcement effort tends to be concentrated on cartels and bid riggings, and vertical agreements and exclusive practices tend to be less prioritized.[78] Given that IP-related issues tend to be either of the vertical agreement type or the exclusion type, the JFTC's inactivity in the field is understandable. This analysis casts doubt on whether there is imbalance between IP and antitrust in Japan, and the AML's lack, or shortage, of oversight is the key concern in the IP/antitrust field.

Yet, one may criticize the AML for presenting excessive regulation, and inhibiting efficient licensing activities and undermining the incentive to innovate. This is valid criticism considering the broad coverage of Article 19, the low safe-harbor threshold in the IP Guidelines, and the lack of precedents. The lack of precedents is fatal because businesses and practitioners are left not knowing the underlying principles and concrete legal standards, and the way to put forward claims. The recently broadened surcharge system and introduction of the civil injunction system under the AML do not lend sufficient impetus to the relevant parties to pursue legal procedures, and more measures must be implemented to encourage the development of case-law as well as AML private enforcement in the IP/antitrust area.

[76] JFTC Recommendation Decision of April 26, 2005, Shinketsushu 52:348; JFTC Examination Decision of July 24, 2008, Shinketsushu 55:294.
[77] Tokyo High Court Decision of January 29, 2010, Shinketsushu 56:498.
[78] JFTC, Annual Reports (2000–2015).

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The Cambridge Handbook of Antitrust, Intellectual Property, and High Tech

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