IP & ANTITRUST 2020 KNOW HOW

Japan

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GCR INSIGHT

Applicable rules

1 Does competition law apply to the obtainment, grant, acquisition, exercise and transfer of intellectual property rights?

Article 21 of the Japanese Antimonopoly Act (the AMA) stipulates that the AMA does not apply to conduct found to constitute an exercise of intellectual property rights.

In practice, however, the term "exercise of intellectual property rights" is construed narrowly. According to the Guidelines for the Use of Intellectual Property under the AMA (the IP Guidelines) issued by the Japan Fair Trade Commission (the JFTC), any act that may seem, on its face, to be an exercise of a right cannot be "recognisable as the exercise of the rights" provided for in article 21, provided that it is found to deviate from or run counter to the intent and objectives of the intellectual property systems, which are, namely, to motivate entrepreneurs to actualise their creative efforts and make use of technology, in view of the intent and manner of the act and its degree of impact on competition. That kind of action may be subject to the regulations under the AMA, including those related to private monopolisation (unilateral conduct), unreasonable restrictions on trade (concerted practices) and unfair trade practices.

The JFTC has issued three guidelines specific to the use of intellectual property rights: (i) the IP Guidelines, (ii) Guidelines on Standardization and Patent Pool Arrangements (the SPPA Guidelines); and (iii) Guidelines concerning Joint Research and Development under the AMA (the R&D Guidelines).

Competent authorities

2 Which authorities are responsible for the application of competition law to intellectual property rights? What enforcement powers do they have? Are there any special procedures for conduct that concerns intellectual property rights?

The JFTC plays the main role in public enforcement of the AMA. If a certain conduct is found to be a violation of the AMA, the JFTC may issue a cease-and-desist order directing the discontinuation of such conduct. As part of the corrective measures, the JFTC may also impose certain remedial conditions. Further, the JFTC may impose surcharges on the relevant party. Surcharges are calculated by multiplying the relevant turnover for up to three years (Note: That period will be extended to 10 years under the amendment to the AMA that will be enacted within 18 months of June 2019) by the relevant surcharge rate, whose surcharge rate is basically as follows:

Type of conduct	Surcharge rate
Unreasonable restraint of trade	10%
Private monopolisation by control	10%
Exclusionary private monopolisation	6%
Certain types of unfair trade practices (eg, retail price maintenance, abuse of superior bargaining position)	1-3% (*Surcharge rate differs depending on the type of unfair trade practices)

In addition, a violation of the AMA could also be subject to criminal sanctions. However, the JFTC has a policy of pursuing criminal sanctions only against vicious and serious cases (typically, hardcore cartel cases), and the JFTC is unlikely to pursue criminal sanctions in the cases of private monopolisation or unfair trade practices.

Courts are also involved both in public enforcement and private enforcement of the AMA. As for the public enforcement, a party who receives cease-and-desist orders and/or surcharge payment orders from the JFTC can bring an appeal before the Tokyo District Court, and both the claimant and the JFTC may further appeal to the Tokyo High Court and the Supreme Court following the lower court decisions. For private enforcement, victims of the illegal conduct may seek damages or injunctive relief through litigation.

Market definition

3 How are markets involving intellectual property rights defined?

The IP Guidelines stipulate that when evaluating any restrictions pertaining to the use of technology pursuant to the AMA, it is imperative to identify the market where the technology is traded (the technology market), where any product incorporating the technology is traded (the product market), and where other technology and products are traded, and to examine the impact of the restriction on competition, according to the transactions affected by the restrictions. As for research and development activities, the JFTC mentions in the IP Guidelines that as no market or trade can be defined for research and development activities by themselves, the effect on competition in developing technologies should be evaluated by the effect on competition in the trade of future technologies resulting from such activities or products incorporating the technology.

As the AMA does not provide any specific regulations for the method of defining the market in cases where intellectual property rights are concerned, the method of defining the market of a general product or service is also used to define both the technology market and the product market. In this respect, the IP Guidelines point out that the defined technology market may include some fields where the technology is not actually traded, given that (i) trade in technology is not normally subject to transport constraints, and (ii) technology is more likely to be diverted from its current usage to other fields of business. On the other hand, the IP Guidelines refer to the possibility that the market may be defined by one technology, especially in cases where it is used by a large number of entrepreneurs in a specific field of business, and it is extremely difficult for them to develop an alternative technology or to switch to any technical substitute.

Acquisition and sale

4 Does competition law apply to the obtainment or grant and transfer or assignment of intellectual property rights?

Article 16, paragraph 1 of the AMA prohibits the transfer of important fixed assets, including intangible fixed assets such as intellectual property rights, which leads to a substantial restraint of competition in the relevant markets, and acquisition of intellectual property rights require merger filing if certain turnover thresholds are met.

See questions 9 and 10 for further details.

Licensing

5 How does competition law apply to technology transfer and licensing agreements?

The IP Guidelines list typical examples of technology transfer agreements and licensing agreements that may possibly raise competitive concerns under the AMA. These can be classified as horizontal restrictions (which fall into unreasonable restraint of trade under the AMA) and vertical restrictions (which fall into private monopolisation or unfair trade practices under the AMA).

0 Horizontal restrictions. It is necessary to examine this from the viewpoint of unreasonable restraint of trade, especially in the situation in which the parties involved in the restrictions pertaining to the use of technology compete. Possible examples include a patent pool and cross-licensing among competitors, and a multiple licensing scheme under which numerous competitors are licensees of the same technology.

1 Vertical restrictions. The IP Guidelines classify restrictions pertaining to the use of technology into four different types: (i) inhibiting the use of technology, (ii) limiting the scope of the use of technology, (iii) imposing restrictions in relation to the use of technology, and (iv) imposing other restrictions.

The IP Guidelines provide the following safe harbour (or safe harbour-like) criteria:

20 Restrictions pertaining to the use of technology are deemed to have a minor effect in reducing competition when the entrepreneurs using the technology subject to the restrictions in the business activity have a share in the product market (hereinafter referred to as “product share” in this section) of 20 per cent or

less in total, provided, however, that this is not applicable to conduct of restricting selling prices, sales quantity, market share, sales territories or customers for the product incorporating the technology, or to the conduct of restricting research and development activities or obliging entrepreneurs to assign rights or grant exclusive licences for improved technology; and

21 The impact of a particular restriction on competition in the technology market is deemed to have a minor effect in reducing competition (i) if the product share is, in principle, 20 per cent or less in total; or (ii) if there are at least four parties holding rights to alternative technologies available with no outstanding detriment to business activities, even if the product share is unavailable or the product share is found not to be appropriate to determine the effect on the technology market.

For more detailed information, the English translation of the IP Guidelines is available at the JFTC website.

Market power and dominance

6 In what circumstances is the possession of intellectual property rights deemed to confer substantial market power on the holder such that the rules on unilateral conduct will apply?

The IP Guidelines do not clearly define the circumstances or criteria in which substantial market power of an intellectual property rights holder would be found. Rather, the IP guidelines provide that whether or not restrictions pertaining to the use of technology reduce competition in the market is determined by fully considering the nature of the restrictions, how they are imposed, the use of the technology in the business activity and its influence on it, whether or not the parties pertaining to the restrictions are competitors in the market, their market positions (such as market share and rank), the overall competitive conditions that prevail in the markets (such as the number of companies competing with the parties concerned, the degree of market concentration, the characteristics and the degree of differentiation of the products involved, distribution channels, and difficulty in entering the market), whether or not there are any reasonable grounds for imposing the restrictions, as well as the effects on the incentives for research, development, and licensing.

Notwithstanding the foregoing, however, the JFTC's Guidelines for Exclusionary Private Monopolization under the Antimonopoly Act do provide that, when deciding whether to investigate a case as exclusionary private monopolisation, the JFTC will prioritise the case where the share of the product exceeds approximately 50 per cent.

Unilateral conduct

7 In what circumstances may unilateral conduct involving the exercise of intellectual property rights be deemed to be anticompetitive (monopolisation, abuse of dominance, etc)?

The IP Guidelines provide that unilateral private monopolisation can be found if an undertaking's conduct excludes or controls the business activities of other undertakings, and such "exclusion" or "control" shall be determined by examining the intent and effects of the conduct.

The IP Guidelines further list certain examples of such "exclusion" and "control", which include:

- the case where an undertaking participating in a patent pool refuses to grant a licence to a new entrant, or any incumbent member, without any reasonable grounds, to prevent such party from using the technology;
- the case where a technology is found to be influential in a particular product market and is actually used by numerous undertakings in their business activities, and any one of the undertakings obtains the rights to the technology from the right-holder and refuses to license the technology to others, preventing them from using such technology;
- the case where an undertaking conducting business activities in a particular technology or product market collects all of the rights to a technology that may be used by its actual or potential competitors, but not for its own use, and refuses to license them, to prevent the competitors from using the technology; and

- the case where a product standard has been jointly established by several undertakings, and the right-holder refuses to grant licences so as to block any development or manufacture of any product compliant with a standard, after pushing for establishment of that standard that employs a technology of the rightholder, through deceptive means, such as falsification of the licensing conditions applicable in the event where the technology is incorporated into the standard, thereby obliging other entrepreneurs to obtain a licence to use the technology.

See also question 13 for unilateral conduct concerning standardisation.

Patent settlements

8 In what circumstances may patent settlements be deemed to infringe competition law?

Merger control (jurisdiction)

9 In what circumstances will the transfer of intellectual property rights constitute a merger for the purposes of competition law?

Filing with the JFTC prior to transaction closing is required for a transfer of fixed assets, including intellectual property rights, if the transaction meets the following thresholds:

- the sum of the total sales in Japan of the acquiring party (group) within the most recent fiscal year exceeds Y20 billion; and
- the turnover from the target fixed assets within the most recent fiscal year exceeds Y3 billion.

Merger control (substantive)

10 In what circumstances will a merger involving intellectual property rights be deemed anticompetitive? Are there any special considerations for mergers involving intellectual property rights or innovation markets?

The JFTC applies the same standard for reviewing M&A transactions, which is whether the transaction would substantially restrain competition. Therefore, if a merger involving intellectual property rights is found by the JFTC to substantially restrain competition, the JFTC may impose a cease-and-desist order to block the transaction.

In practice, intellectual property rights can be a key issue in the course of the JFTC's merger review if, for example, the relevant intellectual property rights are an essential part of competition within the relevant market, and it is not uncommon for the parties to the transaction to propose licensing of the relevant intellectual property rights as a remedial measure, to obtain the JFTC's clearance.

Standardisation

11 How, in general, does competition law treat the development of standards in standard-development organisations (SDOs), and the exercise of intellectual property rights for technology that may be essential to a standard?

The Guidelines on Standardization and Patent Pool Arrangements (the Standardization Guidelines) describe that the development of standards among competitors is generally viewed to enable speedy commercialisation and expansion of demand, and to contribute to greater consumer convenience, and as such, the standardisation activity is not necessarily assumed to pose legal issues with the AMA. However, the Standardization Guidelines also provide that agreements and concerted practices ancillary to the standardisation activity may cause an antitrust problem, as stated below.

Standardisation and anticompetitive agreements

12 How do competition law rules on agreements, concerted practices, etc, apply to the standardisation process?

As stated above, the Standardization Guidelines apply to agreements, concerted practices, etc. in connection with the standardisation process. Under the Guidelines, while the standardisation itself is essentially pro-competitive, if agreements or concerted practices, etc, related to the standardisation activity restrict competition in relevant markets, or threaten to impede fair competition, they will pose legal issues with the AMA. Such anticompetitive agreements or concerted practices include the following.

(1) Restriction of the prices of the relevant products subject to the standardisation
Competitors in the standardisation activity jointly fix prices, production volumes, limit marketing activities, etc.

(2) Restriction of development of alternative specifications
Competitors in the standardisation activity mutually restrict, without due cause, the development of alternative specifications, or prohibit production or distribution of products with alternative specifications. (Restrictions may be allowed when a standardisation activity is effectively a joint research and development activity, in which a limited number of competitors confidentially develop a new product aiming to establish standards through competition.)

(3) Unreasonable extension of the scope of standardised specifications
Competitors in the standardisation activity jointly extend the scope of specifications, when doing so is not necessary to ensure compatibility among their products, but only to mutually restrict competition in developing new products.

(4) Unreasonable exclusion of technical proposals from competitors
Competitors deliberately, without due cause, prevent technical proposals by a certain competitor from being adopted in the standardisation process.

(5) Exclusion of competitors from the standardisation activities
Competitors deliberately exclude certain competitors from the activity, when this makes it difficult to develop and distribute the products with the standardised specifications if the competitors do not participate in the activity, and thus the competitors are at risk of being excluded from the market.

In addition to the above, the Standardization Guidelines discuss antitrust issues related to activities to pool patents for the standardisation, separately from the standardisation itself. If competitors pool their patents for standardisation, they can limit competition by mutually restricting the use of the patents and by restricting businesses of licensees. The Guidelines provide that such antitrust problems should be assessed on a case-by-case basis, considering market conditions such as the share of the products subject to the standardisation in the relevant market, and the position of the pool in that market, and both the anticompetitive and pro-competitive effects. In this regard, the Guidelines establish a safe harbour. In general, it will not cause a problem under the AMA, if (i) the market share of the pool is no more than 20 per cent in the related markets, or (ii) (if market share is inappropriate for analysis of the effect on competition) there are at least four available specifications, other than the standardised specification.

Standardisation and unilateral conduct

13 How do competition rules on unilateral conduct apply to the exercise of intellectual property rights for technology that may be essential to a standard?

The rules on unilateral conduct that are provided by the IP Guidelines (see question 7) will apply to an exercise of intellectual property rights essential for implementation of the standards (a standard essential patent SEP).

The IP Guidelines further establish the rules that shall be applied to a holder of a SEP who makes a FRAND declaration. The rules provide that it may cause a legal issue with the AMA for a FRAND-encumbered holder of a SEP to refuse to license or to bring an injunctive action against a person who is willing to acquire a licence of the SEP, because such unilateral conduct makes it difficult to research and develop, produce, or sell the relevant products adopting the standard, and thus potential competitors may be excluded from the relevant markets. When

the FRAND-encumbered SEP holder does so after the withdrawal of the FRAND Declaration, the same antitrust problem will be caused. Furthermore, the rule will also apply if such conduct is taken by a person who took over a FRAND-encumbered SEP, or is entrusted to manage the FRAND-encumbered SEP.

Whether a person is a "willing licensee" (who is willing to take a licence on FRAND terms) or not will be determined on a case-by-case basis, taking into account the behaviour of both parties in licensing negotiations, etc. However, the IP Guidelines clarify that even if a person who is willing to take a licence disputes the validity, essentiality or possible infringement of the SEP, that fact itself should not be considered to be grounds to deny that the person is a "willing licensee," as long as the person negotiates the licence in good faith in light of the normal business practices.

Recent cases and other developments

14 Provide details of recent noteworthy cases and other developments.

Qualcomm case

In March 2019, the JFTC revoked its previous 2009 cease-and-desist order against QUALCOMM Incorporated (Qualcomm), concluding that Qualcomm's cross-licensing provisions and non-assertion covenants did not violate the AMA.

In 2009, the JFTC investigated Qualcomm, and found that in licensing its intellectual property rights relating to CDMA Wireless Telecommunications, Qualcomm coerced Japanese manufacturers to conclude a licence agreement that included provisions (i) to grant to Qualcomm a royalty-free licence for their intellectual property rights related to CDMA Wireless technologies, and (ii) to agree not to assert their intellectual property rights against Qualcomm. In the 2009 cease-and-desist order, the JFTC alleged that this fell within "Trading on Restrictive Terms," which is prohibited as an Unfair Trade Practice under the AMA. Qualcomm appealed against the order.

As the result of a process that included 37 separate hearings, in 2019, the JFTC finally decided that the licence agreement that included the provisions (i) and (ii) above should be viewed as a cross-licensing agreement, under which Qualcomm granted a licence for its intellectual property rights and, in turn, the Japanese manufacturers granted a non-exclusive licence for their intellectual property rights. The JFTC further decided that as cross-licensing does not basically have a tendency to impede fair competition, investigators must specifically establish by evidence that the agreement in issue did have a tendency to impede fair competition (such as that the agreement tended to impede the manufacturers' incentives to engage in research and development pertaining to the technologies, etc); however, in this case the JFTC concluded that there was not sufficient evidence to establish it.

One-Blue case

One-Blue, LLC (One-Blue) is a patent pool that manages many patents essential for the use of the Blu-ray Disc (the BD) standard under the contracts with the holders of such patents, and it is declared that the licence for the BD SEPs will be granted on FRAND terms.

Around 2012, One-Blue negotiated with a BD manufacturer regarding licence of the BD standard essential patents. During the negotiations, the manufacturer represented that they were willing to pay a fair and reasonable licence fee, and proposed a licence fee that they considered to be fair and reasonable. However, One-Blue declined the proposal, saying that One-Blue was unable to negotiate the licence fee to provide non-discriminatory terms, without giving any explanation about the grounds for its presented licence fee. Further, to advance the negotiations, One-Blue sent a notice to customers of the manufacturer that the holders of the BD standard essential patents had the right to seek an injunction against their conduct constituting infringement on the relevant patent right.

In 2016, the JFTC investigated the conduct of One-Blue, and found it to be Interference with a Competitor's Transactions, which is designated as an Unfair Trade Practice, consequently being in violation of article 19 of the AMA.

This is the first JFTC case after the 2016 amendment of the IP Guidelines to cover unilateral conduct of the FRAND-encumbered SEP holders (see question 13).

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