A. Introduction

Japan’s intellectual property laws are designed to grant exclusive rights so as to facilitate activities that create intellectual property, thereby permitting right holders to enjoin unauthorized exploitation of their intellectual property. On the other hand, the purpose of the Antimonopoly Law is to regulate, or even prohibit, the exercise or enjoyment of an exclusive position. Accordingly, the underlying policies appear on the surface to conflict. It is generally understood in Japan, however, that intellectual property laws and the Antimonopoly Law are both designed to establish the foundation of fair competition and that those laws should be interpreted harmoniously. The Japan Fair Trade Commission (JFTC) takes the position that intellectual property rights may not be exercised in a way that impedes fair competition as protected under the Antimonopoly Law.¹ Leading commentaries support the JFTC’s position, arguing that the intellectual property rights are subject to their built-in limitations so as to protect fair competition.² Notably, however, no judicial decision has ever conclusively addressed this question.

B. The Sources and Basics of Japan’s Antitrust Law

1. Basic Statutory Scheme

The Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade (Antimonopoly Law)³ is the primary antitrust

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law in Japan. The Antimonopoly Law is modeled after the United States antitrust laws, primarily the Sherman, Clayton and Federal Trade Commission Acts. The Antimonopoly Law prohibits, among other things, (i) agreements or other concerted actions between companies that unreasonably restrain trade, (ii) single-firm or joint monopolization, and (iii) unfair trade practices.

In the 2009 amendment to the Antimonopoly Law (2009 Amendment), 4 certain categories of “unfair trade practices,” including joint boycotts, unjust discriminatory pricing, predatory pricing, restrictions on pricing, and abuse of a dominant bargaining position, are proscribed by the Antimonopoly Law. In addition, the JFTC is empowered to designate certain other conduct as unfair trade practices. 5 Effective as of January 1, 2010, the JFTC issued a revised set of general designations that describe practices that amount to unfair trade practices (New General Designations). 6

The JFTC also has announced several antitrust guidelines, including guidelines for the licensing of intellectual property, 7 distribution systems, 8 joint research and development activities, 9 and patent pools. 10

2. The Basics of the Antimonopoly Law

The Antimonopoly Law not only identifies prohibited and regulated acts, but also provides reporting requirements for businesses, 11 determines the powers and authority of the JFTC, 12 and outlines

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5. Antimonopoly Law, art. 2 (9).
7. INTELLECTUAL PROPERTY GUIDELINES, supra note 1.
12. id. arts. 27-44.
procedures to initiate and proceed with antitrust actions. The Antimonopoly Law also entitles private parties to seek injunctive relief against unfair trade practices as well as damages arising from violations of the Antimonopoly Law.

a. Agreements or Other Concerted Actions That Unreasonably Restrain Trade

Article 2(6) of the Antimonopoly Law prohibits “unreasonable restraint[s] of trade,” defined as:

business activities, by which any entrepreneur, by contract, agreement or any other concerted actions, . . . with other entrepreneurs, mutually restrict or conduct their business activities in such a manner as to fix, maintain, or increase prices, or to limit production, technology, products, facilities, or transaction counterparties, thereby causing, contrary to the public interest, a substantial restraint of competition in any particular field of trade.

As the definition suggests, “unreasonable restraint of trade” generally means concerted actions by two or more competitors, together having market power, to preclude competition. The concept of “unreasonable restraint of trade” is thus roughly comparable to Section 1 of the Sherman Act in the United States and Article 101 of the Treaty on the Functioning of the European Union (formerly Article 81 of the EC Treaty).

Price fixing, collusive bidding and other objectively anticompetitive concerted actions that lack justification are sometimes called “hard core cartels,” and joint ventures, standardization and other activities that may accomplish legitimate objectives are sometimes called “non-hard core cartels.” Those actions classified as “hard core cartels” are presumed to constitute “a substantial restraint of competition,” while those actions

13. Id. arts. 45 to 70-22.
15. Id. art. 25.
16. Id. art. 2(6).
17. TAKAJI KANAI, ET AL., ANTIMONOPOLY LAW 62-64 (3d ed. 2010).
classified as “non-hard core cartels” require a careful scrutiny of their possible effects on competition.18

b. Single-Firm and Joint Monopolization

Article 2(5) of the Antimonopoly Law prohibits “private monopolization,” defined as:

business activities, by which any entrepreneur, individually or by combination or conspiracy with other entrepreneurs, or by any other manner, excludes or controls the business activities of other entrepreneurs, thereby causing, contrary to the public interest, a substantial restraint of competition in any particular field of trade.19

In its broadest terms, the concept of “private monopolization” is similar to monopolization under Section 2 of the Sherman Act in the United States and Article 102 of the Treaty on the Functioning of the European Union (formerly Article 82 of the EC Treaty). This category prohibits companies with market power from excluding or controlling other companies’ business activity. Mere possession of monopoly power alone does not constitute “private monopolization.” In other words, it would not be in violation of “private monopolization” if an entrepreneur dominates a market as a result of fair competition.20

c. Unfair Trade Practices

Article 19 of the Antimonopoly Law provides that “[n]o entrepreneur shall employ unfair trade practices.” The term “unfair trade practices” is defined by Article 2(9) of the Antimonopoly Law, which specifies certain categories of conduct as “unfair trade practices.”21 Article 2(9) further provides that, in addition to the types of conduct expressly listed in Article 2(9)(i) to (v), “unfair trade practices” include “any act coming under any one of following sub-paragraphs, which tends to impede fair

18. Id. at 92-108.
19. Antimonopoly Law, art. 2(5).
20. KANAI, et al., supra note 17, at 150-51.
21. Antimonopoly Law, art. 2(9)(vi).
competition and which is designated by the Fair Trade Commission as such.\textsuperscript{22}

The prohibited activities fall into three categories. The first category consists of conduct that restrains free competition, such as concerted and unilateral refusals to deal,\textsuperscript{23} discriminatory pricing,\textsuperscript{24} predatory pricing,\textsuperscript{25} tying,\textsuperscript{26} nonprice restraints,\textsuperscript{27} and resale price maintenance.\textsuperscript{28} The second category consists of conduct that is considered unfair in the sense of being fraudulent or misleading or causing unjust business obstruction to a competitor; examples would include deceptive customer inducement\textsuperscript{29} and interference with a competitor’s transaction.\textsuperscript{30} The third category is abuse of a dominant bargaining position.\textsuperscript{31}

Although “unfair trade practices” may overlap with the prohibition of unreasonable restraints of trade or private monopolization in many cases, the prohibition of unfair trade practices differs from those prohibitions in that it does not require a substantial restraint of competition.\textsuperscript{32} The prohibition on unfair trade practices thus emphasizes fair and equitable methods of competition, and surpasses the scope of the antitrust and competition laws in the United States and European Union, respectively.

d. Mergers

The Antimonopoly Law also provides for a notification and reporting system that is similar to the Hart-Scott-Rodino Act in the United States.\textsuperscript{33} In order to provide greater transparency to the merger review process, the JFTC has published merger review guidelines.\textsuperscript{34} Any merger, spin-off or

\textsuperscript{22} Id.
\textsuperscript{23} Id. art. 2(9)(i).
\textsuperscript{24} Id. art. 2(9)(ii).
\textsuperscript{25} Id. art. 2(9)(iii).
\textsuperscript{26} Id. art. 2(9)(vi).
\textsuperscript{27} Id. art. 2(9)(v).
\textsuperscript{28} Id. art. 2(9)(iv); New General Designations ¶¶ 11, 12.
\textsuperscript{29} Antimonopoly Law, art. 2(9)(vi); New General Designations ¶ 8.
\textsuperscript{30} Antimonopoly Law, art. 2(9)(vi); New General Designations ¶ 14.
\textsuperscript{31} Antimonopoly Law, art. 2(9)(v).
\textsuperscript{32} Id. art. 2(9).
\textsuperscript{33} Id. arts. 9, 10, 11, 15, 15-2, 15-3, 16.
\textsuperscript{34} JFTC, Guidelines to Application of the Antimonopoly Act Concerning Review of Business Combination, (May 2004), available at http://www.jftc.go.jp/e-page/legislation/ama/
transfer of a business unit that meets certain thresholds is subject to prior notification to the JFTC. If a merger satisfies the thresholds under the Antimonopoly Law, the parties, including foreign firms, are not allowed to complete the transaction for 30 days after notification. Until recently, under the Antimonopoly Law prior notification had not been necessary for a firm acquiring another firm’s stock; only post-closing reporting was required. The Antimonopoly Law was amended in June 2009 to rationalize the notification and reporting system and to introduce a prior notification requirement for stock acquisitions.

e. Remedies

In cases of unreasonable restraints of trade, private monopolization, and unfair trade practices, the JFTC may hold a hearing to determine whether a violation has in fact occurred. If a violation is established at the JFTC hearing, the JFTC may order cessation of the conduct concerned. The JFTC also may impose a “surcharge” on any person engaged in a cartel, an exclusionary type of private monopolization or certain types of unfair trade practices in violation of the Antimonopoly Law. This surcharge is not a criminal sanction, but a special administrative sanction designed to disgorge illegal profits generated through a cartel or other types of violations as described above. The amount of surcharge depends upon the volume of business transacted during the period of the violation up to a maximum of three years, and there is no upper limit to the amount of the surcharge. The Antimonopoly Law was amended in 2005 to increase the maximum rate of the surcharge for cartels from 6 percent to 10 percent of the total sales of the goods or services (for a first violation; the maximum rate for a repeated violation is 15 percent). The 2005 amendment also introduced a

RevisedMergerGuidelines.pdf). The last revision was made in January 1, 2010.
35. Antimonopoly Law, arts. 9, 10, 11, 15, 15-2, 15-3, 16.
36. Id. arts. 10(8), 15(3), 15-2(4), 15-3(3), 16(3).
38. Antimonopoly Law, art. 47.
39. Id. art. 49.
40. Id. art. 7-2.
41. Id.
leniency program that offers immunity from or a reduction of surcharges.\footnote{Id. arts. 7-2(10), (11).}

In addition, the Antimonopoly Law was amended in 2009 to extend the scope of the application of surcharges.\footnote{Law No. 51 of June 10, 2009.} Pursuant to the amendment, a surcharge also may be imposed on so-called exclusion-type private monopolization that restricts competition, such as the exclusion of a rival company from a market by means of unfairly low sales prices, and on certain types of unfair trade practices, such as joint boycotts,\footnote{Antimonopoly Law, art. 20-3.} discriminatory pricing,\footnote{Id. art. 20-4.} predatory pricing,\footnote{Id. art. 20-5.} resale price maintenance,\footnote{Id. art. 20-6.} and abuse of a dominant bargaining position.\footnote{Id. art. 20-6.}

Administrative actions by the JFTC may be challenged before the Tokyo High Court and the Supreme Court. While criminal sanctions theoretically may be imposed for private monopolization and unreasonable restraints of trade, the JFTC generally has sought criminal penalties only in cartel cases.\footnote{NEGISHI & FUNADA, supra note 2, at 366-68.}

Violation of the Antimonopoly Law also can be the basis for a private action seeking damages under the Civil Code of Japan.\footnote{Article 709 of the Civil Code (Law No. 89 of 1896, as amended) provides that “[a] person who has intentionally or negligently infringed any right of others, or legally protected interest of others, shall be liable to compensate any damages resulting in consequence.” Based on this provision, a private action may be initiated.} In addition, Article 25 of the Antimonopoly Law provides that companies shall be strictly liable for compensatory damages arising out of violations of the Antimonopoly Law.\footnote{Antimonopoly Law, art. 25.} Treble damages or punitive damages are not available under Japanese law. Injunctive relief may be awarded if an unfair trade practice is established in accordance with Article 24 of the Antimonopoly Law.\footnote{id. art. 24.} However, no injunctive relief is available in cases of monopolization or unreasonable restraints of trade. In a case of
private monopolization, however, injunctive relief may be awarded if the conduct at issue falls under the category of an unfair trade practice.53

C. The Sources and Basics of Intellectual Property Law

Intellectual property laws protect certain results of intellectual creative activity as a property that belongs to its creator. For instance, Article 2(1) of the Intellectual Property Basic Act54 defines “intellectual property” as follows:

The term “intellectual property” mean inventions, devices, new varieties of plants, designs, works and other property that is produced through creative activities by human beings (including discovered or solved laws of nature or natural phenomena that are industrially applicable), trademarks, trade names and other marks that are used to indicate goods or services in business activities, and trade secrets and other technical or business information that is useful for business activities.55

As Article 2(2) stipulates, it is generally understood that “intellectual property right” means a patent right, a utility model right, a plant breeder’s right, a design right, a copyright, a trademark right and the like.56

1. TRIPS

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which is attached to the Agreement Establishing the World Trade Organization as Annex 1C thereof, provides for national treatment, most-favored-nation, and enforcement procedures with respect to copyrights, trademarks, geographical indications, designs, patents, and integrated circuits.57 Part III of TRIPS sets out the obligations of member governments to provide procedures and remedies under their domestic law to ensure that intellectual property rights can be effectively

53. KANAI, et al., supra note 17, at 545-46.
54. Law No. 122 of 2002.
55. Intellectual Property Basic Act, art. 2(1).
56. Id. art. 2(2).
57. TRIPS arts. 3, 4, 41-60.
enforced, by foreign right holders as well as by their own nationals. TRIPS has been incorporated into the laws of Japan.

2. **Patent Law**

The Patent Law of Japan sets forth the basic statutory framework governing patents in Japan. Additionally, in order to achieve consistency among decisions reached by patent examiners, the Japan Patent Office (JPO) has issued comprehensive patent examination guidelines.

a. **Subject Matter**

The Patent Law offers protection for “inventions,” defined as highly creative technological ideas utilizing laws of nature. The scope of protection under the Patent Law extends to such fields as mechanical engineering, chemical engineering, electronics, biotechnology, computer programs, and business methods.

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58. *Id.* arts. 41, 42.
60. Law No. 121 of 1959 (as amended).
61. JPO, EXAMINATION GUIDELINES FOR PATENT AND UTILITY MODEL (June 2010), available at http://www.jpo.go.jp/cgi/link.cgi?url=/shiryou/kijun/kijun2/tukujitu_kijun.htm. The Examination Guidelines were first issued in December 2000 and have since been amended on a number of occasions, the most recent of which became effective in June 2010.
62. Patent Law, art. 2(1).
63. In 1997, the JPO issued a Guideline for Examination of Software-related Invention, which clarified that a computer readable data storage device incorporating a software-related invention may qualify for patent protection even if it is not combined with hardware. (JPO, IMPLEMENTING GUIDELINES FOR INVENTIONS IN SPECIFIC FIELDS (February 27, 1997), available at http://www.jpo.go.jp/cgi/linke.cgi?url=/tetuzuki_e/t_tokkyo_e/sisine.htm. The amended Patent Law, which became effective as of September 1, 2002, made clear that the invention of a computer program is included in the invention of a product under the new Article 2 thereof. The JPO grants patent protection to a business method utilizing a computer process if it meets the criteria prescribed in the Guideline. JPO, POLICIES CONCERNING “BUSINESS METHOD PATENTS” (November 2000), available
b. **Who May Seek a Patent**

The inventor, or any person who acquired the rights to patent the invention from the inventor or the inventor’s successor, may file a patent application.\(^{64}\) The Patent Law explicitly allows an employer to acquire from an employee rights to patent inventions within the scope of the employer’s business that are created by the employee in the course of his or her duties to the employer.\(^{65}\) In many cases, companies acquire their employees’ rights to patent inventions and apply for patents in the company’s name.

c. **Patentability**

Patent protection is available only for an invention that: (a) satisfies the standards of (i) industrial applicability, (ii) novelty, and (iii) inventive step; and (b) is not identical to any invention described in any application that had been filed prior to the application for the patent (even if not publicly disclosed in Japan’s Patent Gazette until later).\(^{66}\) Examination of patentability usually takes one to two years.\(^{67}\) If the JPO does not find any reason to reject a patent application, a patent will issue. After the applicant pays the patent fee to the JPO, the patent is registered with the JPO and effectively granted to the applicant. Upon registration of the patent, the registration is published in the JPO’s official Patent Gazette.

As a general rule, any person may file a request for a trial for patent invalidation with the JPO on such grounds as lack of novelty or inventive step and the existence of prior application.\(^{68}\) A request for a trial for patent invalidation on the ground that the applicant did not have the right to obtain a patent may only be filed by an interested person, such as a

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\(^{64}\) Patent Law, art. 29.

\(^{65}\) Id. art. 35.

\(^{66}\) Id. art. 29.

\(^{67}\) The average first action pendency in 2010 was 28.7 months. The first action pendency refers to a period that lasts from the request for the examination by the applicant until the examination is first performed. See JPO, PATENT ADMINISTRATION ANNUAL REPORT 2011, available at http://www.jpo.go.jp/cgi/link.cgi?url=/shiryou/toukei/nenpou_toukei_list.htm.

\(^{68}\) Patent Law, art. 123.
person who has a legitimate right to obtain a patent. If the request is successful, the patent shall be deemed never to have existed.69

d. Rights Conferred By a Patent

Patents are issued on a first-to-file basis70 with a term that generally ends 20 years from the date of application.71 The Patent Law grants the patentholder the exclusive right to exploit the patented invention.72 A patent holder may initiate a patent infringement action against any entity exploiting the patented invention. If a defendant has independently developed the same invention that is covered by a plaintiff’s patent, and the defendant is merely exploiting the invention without knowledge of the patent, the defendant nonetheless may be liable for patent infringement.73

e. Remedies

A successful plaintiff in a patent infringement suit is entitled to: (i) injunctive relief;74 (ii) damages; and (iii) measures to restore business reputation.75 The amount of damages is generally the greatest of: (i) lost profits suffered by the patent owner;76 (ii) the profits of the infringing party from the infringement activities; or (iii) the ordinary license royalty for the infringing use of the patent.77 The infringing party also may be subject to criminal sanctions under the Patent Law.78

69. Id. art. 125.
70. Id. art. 39.
71. Id. art. 67.
72. Id. art. 68.
73. Id. arts. 100-101.
74. Id. art. 100.
75. Id. art. 106.
76. The lost profits may be presumed to be the amount of profit per unit of product that would be earned by the patentee, multiplied by the quantity of articles sold by the infringer, such quantity of articles sold not to exceed the maximum production capacity of the patentee. Id. art. 102(1).
77. Id. art. 102.
78. Id. art. 196.
3. The Sources and Basics of Copyright Law

The Copyright Law of Japan sets forth the basic statutory framework governing copyrights in Japan.

a. Subject Matter

The Copyright Law protects the expression of a “work,” defined as a creative expression of thoughts or sentiment that falls within the literary, scientific, artistic, or musical domains. Only expression of a work may be protected by copyright; protection does not extend to any idea underlying the work. Moreover, in order to qualify for protection under the Copyright Law, a work must involve creativity. The Copyright Law does not require any formalities, such as publication or registration of a work, for protection.

Since Japan is a signatory to the Berne Convention, works created by nationals of any Berne Convention signatory country and works first published in such countries qualify for the same protection enjoyed by works created by Japanese nationals.

b. Authorship

The authorship of a work generally belongs to the person who created it. Where a work (other than a computer program) has been created by an employee at the employer’s direction during the course of employment, and the work is published under the name of the employer, authorship belongs to the employer, absent agreement to the contrary.

79. Law No. 48 of 1970 (as amended).
80. Copyright Law, art. 2(1)(i).
82. Copyright Law, art 2(1)(i).
83. Though registration is not a condition for the acquisition, enjoyment, or exercise of copyright, the Copyright Law does provide for certain copyright registration systems. For example, a work whose date of publication is registered is presumed to be published on the date registered. See id. art. 76. Additionally, assignment of a copyright is perfected upon registration of the patent. See id. art. 77.
84. Id. art. 6.
85. Id. art. 2(1)(ii) (defining the term “author” as “a person who creates a work”).
86. Copyright Law, art. 15(1).
Where a computer program has been created by an employee at the employer’s direction during the course of employment, whether or not the work is published under the name of the employer, authorship belongs to the employer, absent agreement to the contrary.87

c. Moral Rights

Upon creation of a copyrightable work by an author, the Copyright Law confers upon the author certain moral rights in addition to copyrights. Moral rights consist of: (i) the right to decide publication of the work,88 (ii) the right to determine the indication of the author’s name,89 and (iii) the right to preserve the integrity of the work.90 These rights protect authors’ personal interests and may not be assigned or forfeited by the authors. Although moral rights expire upon the death of the author, the Copyright Law provides that “even after the death of the author, no person who offers or makes available a work to the public may commit an act which would be prejudicial to the moral rights of the author if he were alive.”91

d. Copyrights (Commercial Rights)

Upon creation of a copyrightable work, an author becomes entitled to certain copyrights, which include the rights to: (i) reproduce the work; (ii) publicly perform the work; (iii) publicly make a presentation of the work; (iv) publicly transmit the work; (v) publicly recite the work; (vi) publicly exhibit the work; (vii) distribute cinematographic works to the public; (viii) transfer works (other than cinematographic works) or any reproductions (other than those of cinematographic works) to the public; (ix) lease the work to the public; and (x) translate, adapt, or prepare derivative works.92 If a derivative work is created from an original work, both the author of the original work and the author of the derivative work are entitled to copyrights in the derivative work.93

87. Id. art. 15(2).
88. Id. art. 18.
89. Id. art. 19.
90. Id. art. 20.
91. Id. art. 60.
92. Id. arts. 21-28.
93. Id. art. 28.
The right to reproduce the work is often seen as the most fundamental right granted by the Copyright Law. Japanese courts generally hold that, in order for a copyright holder to establish an infringement of the right to reproduce, the copyright holder must present evidence of the infringing person’s access to the copyrightable work and similarity between the copyrightable work and the reproduction.94

e. Fair Use Limitations on Copyright

Although the Copyright Law does not expressly include a general fair use doctrine, copyrights nonetheless are subject to certain fair use limitations set forth in the Copyright Law, including reproduction for private use, reproduction in libraries, quotation, reproduction in school textbooks, reproduction in Braille, performance for nonprofit purposes, reporting of current events, reproduction for judicial proceedings, ephemeral recordings by broadcasting organizations, exhibition of artistic work by the owner of the original and reproduction by the owner of a copy of a computer program.95

f. Term of Copyright

As a general rule, the term of a copyright is the life of the author plus 50 years.96 For works authored by a company, copyrights last for 50 years after publication. If the work is not published within 50 years from the work’s creation, the protection terminates upon expiration of the 50-year period.97

g. Remedies

If a copyright holder establishes an infringement of its copyright, the copyright holder may claim injunctive relief98 and damages from the infringing person or entity. Damages are generally the greater of (i) the profits that the infringing person obtains from the infringing activities, or (ii) the ordinary license fee that the infringing person should have paid to the copyright holder if the infringing person had used the copyrightable

94. NAKAYAMA, supra note 81, at 458-68.
95. Copyright Law, arts. 30 to 47-4.
96. Id. art. 51.
97. Id. art. 53.
98. Id. art. 112.
work under a license from the copyright holder. In the case of infringement of moral rights, the author may also require the infringing person to take appropriate measures to restore the author’s reputation.

4. Trademarks

The Trademark Law of Japan sets forth the basic statutory framework governing trademarks in Japan. A trademark is a mark used by a manufacturer, dealer, service provider or other entrepreneur with respect to goods or services in order to differentiate them from goods and services offered by other parties that are of the same or a similar type. In order to obtain a trademark right, an applicant must fill out the forms prescribed in the relevant ordinances and submit them to the JPO. An application submitted to the JPO will be checked to determine whether it fulfills the necessary procedural, formal and substantive requirements. The contents of a trademark that has been registered and comes into force are published in the trademark gazette. In principle, trademarks will be protected for ten years from the time it is registered. This 10-year period is renewable by filing a renewal application and paying a renewal fee.

5. Trade Secrets

The Unfair Competition Law of Japan sets forth the basic statutory framework governing trade secrets in Japan. Article 2 (6) of the Unfair Competition Law defines a “trade secret” as technical or business information useful in commercial activities, such as manufacturing or marketing methods, which is kept secret and not publicly known. In accordance with the Unfair Competition Law, the following remedies are allowed for infringement or unauthorized use: injunction; compensation for damages caused by the infringement;
and measures necessary to restore business credibility.108 Also, criminal sanctions may be obtained in cases where a material violation, as specified by the Unfair Competition Law, is found.109

D. The Resolution of Conflicts Between Antitrust and Intellectual Property Law

1. Overview

a. Article 21 of the Antimonopoly Law

   Article 21 of the Antimonopoly Law provides that “[t]he provisions of this Act shall not apply to any act recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act or the Trademark Act.”110 Literally interpreted, this would seem to absolve rightsholders from liability arising out of conduct that would otherwise violate the Antimonopoly Law, insofar as the conduct in question constitutes the exercise of any of the prescribed rights. As discussed below, however, the JFTC considers the Antimonopoly Law applicable to any conduct that impedes fair competition.

b. Intellectual Property Guidelines

   The JFTC has issued a series of guidelines intended to explain the potential application of the Antimonopoly Law to conduct involving intellectual property. In 1968, the JFTC issued its first set of guidelines applicable to licensing of intellectual property.111 The 1968 Guidelines provided a short “blacklist” of prohibited licensing transactions, each with specific exceptions, as well as a “white list” of expressly permitted practices.112 The 1968 Guidelines applied only to international licensing transactions, which was a source of criticism.113 In 1989, the JFTC promulgated a more comprehensive set of guidelines applicable

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108. Id. art. 14.
109. Id. art. 21.
110. Antimonopoly Law, art. 21.
112. Id.
113. Id.; see also AKINORI UESUGI, Q&A PATENT AND KNOW-HOW LICENSING GUIDELINES 66-68, 71-72 (1989).
specifically to patent and know-how licensing. The 1989 Guidelines retained the “black list” and “white list” approach, but added a “gray list” as well. Many of the restrictions formerly on the black list were transferred to the gray list, reflecting a shift away from per se treatment of many restraints and toward application of a type of rule of reason analysis. The 1989 Guidelines also applied equally to international and domestic licensing transactions. In 1999, the JFTC issued a revised set of guidelines applicable to patent and know-how licensing. The 1999 Guidelines reflected a more subtle shift in emphasis, but generally continued the trend toward greater liberalization of licensing practices.

The JFTC in 2005 issued an additional set of guidelines focused specifically on standardization and patent pools. The Patent Pool Guidelines discuss particular issues that arise in the context of the formation and operation of patent pools to license patents relating to a standard. The Patent Pool Guidelines contain a brief discussion of the application of the Antimonopoly Law to practices relating to the process of setting standards. Most of the Patent Pool Guidelines deal not with the process of setting standards themselves, however, but with the organization and operation of patent pools relating to standards.

115. UESUGI, supra note 113, at 59-61.
118. Thus, the Patent Pool Guidelines state that it might constitute an unreasonable restraint of trade for competitors to set the prices or output of standardized products or to restrict the development of alternative specifications. PATENT POOL GUIDELINES, supra note 10, pts. 2.2(1), (2). Similarly, it can constitute private monopolization for participants in a standards setting body to deliberately exclude competitors from the body or to prevent technical proposals of a specific competitor from being adopted without “due cause.” Id. pts. 2.2(4), (5). The Patent Pool Guidelines note that it might be permitted, indeed necessary, to exclude competitors in the case of a joint research and development venture among a limited number of companies seeking to develop a new product confidentially. Id. pt. 2.2, n. 4.
119. PATENT POOL GUIDELINES, supra note 10, pt. 3.
Finally, the JFTC in 2007 issued the *Guidelines for the Use of Intellectual Property under the Antimonopoly Act.* The *Intellectual Property Guidelines* replace the *1999 Guidelines.* They abandon the use of specific black, white and gray lists in favor of a more general fact-based analysis, although certain restrictions continue to be treated as effectively as per se unlawful. Although the *Intellectual Property Guidelines* address patent pools briefly, they do not purport to cover patent pools in detail. Thus, the *Intellectual Property Guidelines* and the *Patent Pool Guidelines* should be considered as complementary.

The *Intellectual Property Guidelines* comprehensively address the application of the Antimonopoly Law to patent and know-how license agreements. They illustrate by example the JFTC’s views on application of the Antimonopoly Law to intellectual property license agreements from both the perspective of unreasonable restraints of trade and the perspective of private monopolization. From the perspective of unfair trade practices, the *Intellectual Property Guidelines* explain, for many restrictions on licensees that commonly appear in patent and know-how license agreements, whether such restrictions: (i) do or do not, in principle, constitute unfair trade practices; or (ii) may, in certain circumstances, constitute unfair trade practices.

It is important to bear in mind that the majority of positions set forth by the JFTC in the *Intellectual Property Guidelines* and the *Patent Pool Guidelines* have yet to be tested in court.

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120. *See INTELLECTUAL PROPERTY GUIDELINES, supra* note 1.
121. *Id., supra* note 10, pt. 1(3).
122. *Id.* pt. 3(2)(i).
123. The *Intellectual Property Guidelines* are applicable to reciprocal licensing agreements, or patent or know-how licensing agreements among three or more parties, such as cross-licensing agreements, patent pools, multiple licensing agreements, and the like, as well as the licensing of patents or know-how as part of a joint-venture agreement. The *Intellectual Property Guidelines* also are applicable to the licensing of technology protected under the Copyright Act and the Design Act. The viewpoints stated in the guidelines will be applied *mutatis mutandis* to the extent possible, depending on the nature of such other intellectual property rights.
124. *INTELLECTUAL PROPERTY GUIDELINES, supra* note 1, pt. 4.
2. **Safe Harbor / Safety Zone**

The *Intellectual Property Guidelines* provide that a restriction imposed on exploitation of a technology is deemed to have a negligible effect on competition if all firms using the technology in question account for 20 percent or less of the downstream product market, or (if it is not possible to determine the shares of the relevant product market), at least four firms hold rights to available alternative technologies.\(^{125}\) The *Intellectual Property Guidelines* specifically provide, however, that this safe harbor does not apply to cases where a firm employs an unfair method of competition or impedes the basis of free competition.\(^{126}\) Since a restriction on price, volume, territory, customers, or research and development activities or an assignback or exclusive grantback obligation\(^{127}\) might entail an unfair method of competition or impede the basis of free competition, it is not sufficient to rely on the safe harbor.

3. **Refusal to License**

a. **Outright Refusal to License**

The *Intellectual Property Guidelines* generally accept the position that an IP-holder unilaterally may refuse to license its IP, but with exceptions. They provide that a decision by an IP holder not to grant a license is viewed “as an exercise of [the underlying IP] rights and normally constitutes no problem.”\(^{128}\) The *Intellectual Property Guidelines*, however, specify certain exceptions. For example, a company may be found to violate the Antimonopoly Law if it “obtains” or “collects” from other holders significant IP rights that the company does not plan to use itself, but recognizes that it is essential for competitors to use the IP rights for their business operations, and subsequently refuses to license that IP.\(^{129}\) Also, an IP holder may violate

\(^{125}\) *Id.* pt. 2(5)

\(^{126}\) *Id.*

\(^{127}\) *Id.*

\(^{128}\) *Id.* pt. 3(1)(i).

\(^{129}\) *Id.* pt. 3(1)(ii)(iii), pt. 4(2)(i). Apparently, the JFTC seems to take into consideration a case where The Hokkaido Shim bun Press applied for a variety of trademarks that Hakodateshinbun Co., its competitor, was likely to use as the name of its newspapers. In that case, the JFTC issued a recommendation to discontinue activities obstructing penetration of the market by Hakodateshinbun Co. In the end, The Hokkaido Shim bun
the Antimonopoly Law by encouraging another company to use the technology in question “through deceptive means” and then refusing to grant a license.130 Thus, while a mere unilateral refusal to grant a license normally raises no issues, the right to refuse to license IP is not unlimited.

b. Exclusive Licenses

The Intellectual Property Guidelines do not specifically address the issue of exclusive licenses. The JFTC takes the position that exclusive licenses themselves would not constitute a violation of the Antimonopoly Law.131 If competitors grant each other exclusive licenses, however, thereby precluding competition, those exclusive licenses may be deemed to be a method to accomplish anticompetitive objectives and violate the Antimonopoly Law.132 In addition, if a licensee is obligated to grant an exclusive license to its licensor, the licensor’s conduct may be held to violate the Antimonopoly Law.133

c. Veto Rights Over Additional Licensees

The Intellectual Property Guidelines state that, under certain circumstances, it may constitute an unfair trade practice for an IP holder “discriminatorily” to refuse to license a particular company “without justifiable grounds.”134 This provision applies if a technology “provides a basis for business activities in a particular product market,” the IP holder has licensed a number of companies to practice the IP, and the refusal tends to impede fair competition “by degrading the competitive function of the entity in the product market.”135 The phrasing of this provision leaves unclear whether such a discriminatory refusal to license may be an unfair trade practice if it harms only the disadvantaged

Press accepted the recommendation in 2000. However, the potential scope of application of this provision is unclear. For example, it is uncertain whether it might apply to a company that acquires a second company with a patent portfolio, and the acquiring company subsequently refuses to license a patent from that patent portfolio.

130. Id. pt. 4(2)(ii).
131. UESUGI, supra note 113, at 73-74.
132. INTELLECTUAL PROPERTY GUIDELINES, supra note 1, pt. 3(2).
133. Id. pt. 4(5)(viii).
134. Id. pt. 4(2)(iii).
135. Id.
company, or whether a violation would require harm to competition as a whole.136

d. Collective Refusal to License

Section (1) of the Designation of Unfair Trade Practices stipulates that refusing to trade with a particular competitor or restricting the quantity or substance of goods or services pertaining to trade with a particular competitor may constitute an unfair trade practice.137 In 2008, the JFTC issued a hearing decision against four major record companies including Sony Music Entertainment (Japan).138 In this case, the JFTC determined that, while these four companies and Toshiba-EMI Ltd. entrusted their joint venture company with the music distribution business to enable the use of performers’ singing voices in master recordings as ringtones for mobile phones, they did not grant to other ringtone providers licenses to enable a similar use. Based on these facts, the JFTC determined that such refusals to license the master rights to other ringtone providers fell within a category of unfair trade practice.139 The four companies thereafter brought this case to the Tokyo High Court, arguing that they did not collectively refuse to grant the license but individually decided whether to grant a license based on each company’s own judgment. On January 29, 2010, the Tokyo High Court upheld the JFTC’s decision based on its findings that the four major record companies implicitly agreed not to grant to other ringtone providers requisite licenses, which constituted a joint boycott.140

136. This question is not answered by the accompanying footnote, which states that restrictive conduct of this type is “examined not only from the perspective of the impact that they themselves have on competition but also from the perspective of the influence of their discriminatory aspect, if any, on competition.” Id. pt. 4(2), n. 12.
139. Id.
4. **Unidirectional Licensing Provisions**

a. **Royalty Provisions**

(1) **Amount of Royalties**

The *Intellectual Property Guidelines* are silent on the issue of royalty rates. The *Guidelines* imply, however, that the JFTC believes a violation of competition law might arise from “the unjustifiable imposition of disadvantageous conditions on licensees . . . in a situation in which the licensor enjoys a dominant bargaining position.” 141 Unfortunately, the *Guidelines* themselves contain no explanation of the meaning of “unjustifiable” or “disadvantageous conditions.” The JFTC has interpreted the *Guidelines* as generally permitting parties to determine appropriate royalty rates, but may treat excessive royalties as equivalent to a refusal to license.142

(2) **Methods of Calculation**

The *Intellectual Property Guidelines* refer to certain specific royalty arrangements that may violate the Antimonopoly Law. Thus, imposing an obligation to pay royalties on use of a technology after the IP rights associated with the technology have expired “generally hampers the free use of technology” and will constitute an unfair trade practice “if it tends to impede fair competition.” 143 In this regard, whether “it tends to impede fair competition” will be determined mainly based on (i) whether it would exclude the licensee’s business chance or would directly reduce the licensee’s competitiveness; and (ii) whether it would reduce competition on price and customer acquisition, and the like.144 This provision apparently applies only to royalties incurred with respect to use of the technology after the IP rights have expired. The *Intellectual Property Guidelines* appear to permit an arrangement calling for the deferred payment, after the IP rights expire, of royalties incurred for use of the technology before the IP rights expire.145

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141. *INTELLECTUAL PROPERTY GUIDELINES*, supra note 1, pt. 4(1)(iii)(b).
142. *Id.* pt. 3(1)(i).
143. *Id.* pt. 4(5)(iii).
144. *Id.* pt. 4(1)(iii).
145. *Id.* pt. 4(5)(iii).
The *Intellectual Property Guidelines* also provide that a license provision requiring payment of royalties in a manner “unrelated to the use of the licensed technology” will constitute an unfair trade practice if it tends to impede fair competition.146 The underlying concern appears to be the possibility that such an arrangement could discourage the manufacture of products using a different or competing technology. Thus, an obligation to pay royalties on the basis of the total quantity of products manufactured or sold could constitute an unfair trade practice. 147 Although the *Intellectual Property Guidelines* do not address the issue, it would appear that the JFTC would not have concerns with respect to an arrangement such as payment of a flat amount as a license fee without regard to output or sales volume, since such a payment presumably would be treated as a one-time sunk cost and thereafter would not hinder use of competing technologies. The *Intellectual Property Guidelines* also provide that calculation of royalties on the basis of total output or sales may be reasonable if the technology is used as part of the manufacturing process or is associated with components or raw materials used in the manufacturing process.148

With respect to the method of calculation of royalties, the 2009 Japanese Society for Rights of Authors, Composers and Publishers (JASRAC) case raised additional issues that were not specifically discussed in the *Intellectual Property Guidelines*.149 In this case, the JFTC found that JASRAC had engaged in activities that constituted private monopolization and thus issued a cease and desist order against JASRAC.150 In accordance with the order, “[i]n calculating royalties for broadcasting, etc. collected from the broadcasters by a method of comprehensive collection” (the method of collecting royalties for the set of managed music works as a whole), JASRAC adopted a method whereby “the percentage of use for broadcasting, etc. was not reflected in the royalties. This made the total amount of royalties for broadcasting, etc. paid by such broadcasters increase by the amount paid to other copyright management business operators if such broadcasters also paid

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146. *Id.* pt. 4(5)(ii).
147. *Id.* pt. 5(2).
148. *Id.*
150. *Id.*
them the royalties for broadcasting, etc.\textsuperscript{151} In response to this order, JASRAC requested an appeal by arguing, \textit{inter alia}, that the method of comprehensive collection was reasonable and was widely adopted by copyright management organizations in other countries, since it was currently difficult for the organizations to determine the number of music works that the broadcasters actually used.\textsuperscript{152} It is expected that this appeal will examine whether there is a “reasonable” and practical alternative method to collect royalties for broadcasting.

b. Price Restrictions – Downstream Products

The \textit{Intellectual Property Guidelines} provide that a restriction on a licensee’s sales or resale price of products incorporating the licensed technology “limits the most fundamental means of competition in the business activities of licensees and distributors . . . and it evidently lessens competition.” \textsuperscript{153} Thus, “as a rule,” a license provision that restricts the sale or resale price of downstream products incorporating the licensed technology is “recognized to constitute an unfair trade practice.”\textsuperscript{154}

The \textit{Intellectual Property Guidelines} describe one case decided by the JFTC involving an IP-holder’s restrictions on downstream prices.\textsuperscript{155} The licensor held certain IP relating to iron covers for public sewage systems. As a condition for adopting its model, a local public entity insisted that the IP-holder license other companies. The IP-holder granted licenses to six other companies, but established a volume allocation scheme and set the minimum prices that the licensees could charge for the licensed products. The JFTC found this conduct to be a violation of the Antimonopoly Law.\textsuperscript{156}

The \textit{Intellectual Property Guidelines} do not state whether the JFTC might recognize any exceptions to its general position that a restriction

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\textsuperscript{151} Fair Trade Commission Cease and Desist Order No. 2 of 2009 (February 27, 2009).


\textsuperscript{153} \textit{INTELLECTUAL PROPERTY GUIDELINES}, \textit{supra} note 1, pt. 4(4)(iii).

\textsuperscript{154} \textit{Id}.

\textsuperscript{155} \textit{INTELLECTUAL PROPERTY GUIDELINES}, \textit{supra} note 1, pt. 3(2)(ii).

\textsuperscript{156} \textit{Id}. 
on a licensee’s sales or resale price of products incorporating the licensed IP constitutes an unfair trade practice and, if so, under what circumstances it might recognize an exception. The language of Part 4 (4)(iii) implies that any exceptions are likely to be rare and narrow.\footnote{\textit{Intellectual Property Guidelines}, supra note 1, pt. 4(4)(iii).} As noted above, a restriction on the sale or resale price of downstream products will not qualify for the safe harbor provision.\footnote{\textit{Id.} pt. 2(5).}

c. NonPrice Restrictions

Japanese law is considerably more tolerant of nonprice restrictions than of price restrictions. It would appear that, in most cases, territorial or field of use restrictions in a one-way license agreement are permitted as a legitimate exercise of IP rights.\footnote{Id. pt. 4(3).} Under certain circumstances, however, nonprice restrictions can violate the Antimonopoly Law.\footnote{Id.} Subtle differences in the treatment of various types of nonprice restraints, combined with certain ambiguities in the \textit{Intellectual Property Guidelines}, make this a complex area of law.

\textbf{(1) Field of Use Restraints}

In most cases, field of use restrictions in a one-way license agreement are permitted as a legitimate exercise of IP rights. Under certain circumstances, however, field of use restrictions may violate the Antimonopoly Law.\footnote{Id. pt. 4(3)(i)(c).} Unfortunately, neither Japanese law nor the \textit{Intellectual Property Guidelines} define those circumstances clearly. The \textit{Intellectual Property Guidelines} imply that the JFTC may find that a field of use restriction applicable after the exhaustion of relevant IP rights would violate the Antimonopoly Law.\footnote{Id. pt. 4(5)(iii).} Unclear is whether field of use restrictions may be problematic if an IP-holder licenses more than one licensee.

The concern with field of use restrictions after exhaustion of the applicable IP rights is demonstrated in the 2001 \textit{Sony Computer Entertainment} (SCE) case.\footnote{Kōsei Torihiki Iinkai, 48 SHINKENTSUSHÛ 3 (JFTC, Aug. 1, 2001).} In that case, the JFTC rendered a formal
decision in relation to conduct by SCE that could have been interpreted as constituting the exercise of copyrights covering computer game software. SCE prohibited its dealers from handling copies of game software that previously had been sold to consumers to play on the PlayStation gaming platform. SCE argued that the distribution of copies of copyrighted game software was protected under the distribution rights granted by the Copyright Law and that SCE should be entitled to control or prohibit distribution of secondhand copies of game software. The JFTC rejected this position and decided that SCE’s conduct, combined with other restrictions imposed by SCE on its dealers including prohibitions on discounts and sales to unauthorized retailers, constituted an unfair trade practice — trading on restrictive terms — which was prohibited by Section (13) of the Designation of Unfair Trade Practices. According to the JFTC’s ruling, Article 21 of the Antimonopoly Law confirms that such restrictions on the distribution of products after their initial sale deviated from, and was inconsistent with, the spirit of the intellectual property rights system and could not be considered to be the legitimate exercise of intellectual property rights. While the JFTC found that SCE had already revised its terms of distribution, the JFTC held that the effect of restrictive terms had yet to disappear.

The Intellectual Property Guidelines, although not entirely clear, appear to reflect this approach. Part 4(3) of the Intellectual Property Guidelines provide that a restriction on the scope of use of a technology is “generally recognizable as an exercise of rights and in principle it does not constitute [an] unfair trade practice” but add that “in some cases

164. A formal decision may be made after the JFTC holds one or more hearings under Article 49 of the Antimonopoly Law. As SCE refused to accept the recommendation that was provided by the Antimonopoly Law before the amendment made in 2005, JFTC held hearings for more than three years and rendered the formal decision discussed above.

165. At the time of this case, controversy existed over the issue of whether distribution of secondhand copies of game software infringe upon copyrights. On April 25, 2002, the Supreme Court of Japan finally held that distribution of secondhand copies of game software does not infringe upon game vendors’ distribution rights as the distribution rights are exhausted upon the sale of the copies to the public. Saikō Saibansho [Sup. Ct.] Apr. 25, 2002, 1785 HANREI JIHÔ [HANJI] 3.

166. 48 SHINKENTSUSHÔ, supra note 163, at 3.

167. Id.

168. Id.
[such a restriction] cannot be recognized substantially as an exercise of rights."\textsuperscript{169} Although the Intellectual Property Guidelines do not explain what those cases might be, they refer to Part 2(1), which among other topics addresses the issue of patent exhaustion. That section states that, after an entity owning a right to technology legally distributes any product based on that technology in Japan, the IP right has been exhausted and is not infringed by any other entity trading that product.\textsuperscript{170} Although these sections are not entirely clear, it appears that the JFTC would consider a territorial or scope of use restraint to be problematic if applied after an initial lawful sale of a product containing the relevant IP.\textsuperscript{171}

The Intellectual Property Guidelines raise the question of whether the JFTC might consider it a violation of the Antimonopoly Law if the IP holder licenses, and imposes certain nonprice restrictions on, multiple licensees. The confusion in this area arises from a possible inconsistency between Parts 4(3) and 3(2)(ii) of the Intellectual Property Guidelines.\textsuperscript{172} As noted above, Part 4(3) provides that restricting a licensee’s right to use IP only in connection with certain specific business activities, or only in a specific business field, is generally recognized as an exercise of the IP rights and in principle will not constitute unfair trade practices.\textsuperscript{173} Part 3(2)(ii) provides, however, that if an IP-holder grants “multiple firms licenses to use a technology,” a restriction on the scope of use of the technology or the customers to whom products can be sold can constitute an unreasonable restraint of trade “if it substantially restricts competition in the market associated with the product.”\textsuperscript{174} The more specific language of Part 3(2)(ii) would appear to swallow most of the general rule in Part 4(3)—as it implies that the JFTC would recognize an IP-holder’s right to impose a field of use restriction only if it licensed only a single licensee.\textsuperscript{175} Adding to the confusion is Part 2(5), Note 9, which implies that the concern addressed in Part 3(2) relates to reciprocal

\textsuperscript{169} INTELLECTUAL PROPERTY GUIDELINES, supra note 1, pt. 4(3).
\textsuperscript{170} Id. pt. 2(1).
\textsuperscript{171} \textit{See also id.} pt. 4(4)(ii)(a) (implying that a limitation on the scope of use of technology may constitute an unfair trade practice “if the rights are recognized to have been exhausted in Japan”).
\textsuperscript{172} Id. pts. 4(3), 3(2)(ii).
\textsuperscript{173} Id. pts. 4(3)(i)(a), 4(3)(i)(c).
\textsuperscript{174} Id. pts. 3(2)(ii).
\textsuperscript{175} Id.
field of use restrictions.\textsuperscript{176} The precise language of Part 3(2)(ii) is not limited to reciprocal restrictions, however. A separate section, Part 3(2)(iii), specifically addresses cross-licenses.\textsuperscript{177} As mentioned above, the \textit{Intellectual Property Guidelines} are not necessarily clear on this point. However, the most logical interpretation is that in Part 3(2)(ii), the JFTC intended to focus on restrictions not only between the IP-holder and its licensees, but also on restrictions among licensees. To the extent that such restrictions hinder competition under the guise of “multiple firms licenses” with the mutual recognition that “the licensor and licensees are subject to common restrictions,”\textsuperscript{178} the conduct may constitute an “unreasonable restraint of trade.”

It remains to be seen how the JFTC, and ultimately the courts, will apply the law in this area. IP-holders may want to exercise caution with respect to use of field of use restraints in Japan if they intend to license more than one licensee in Japan, at least until such time as the JFTC’s position is clarified.

(2) \textit{Territorial Restraints}

A restriction prohibiting a licensee from exporting from Japan products incorporating the licensed IP will not violate the Antimonopoly Law, as it will not have effects in Japan.\textsuperscript{179} The same is true of a restriction limiting the countries to which a licensee may export products incorporating the licensed IP.\textsuperscript{180}

The situation is less clear with respect to nonprice restrictions that have an impact in Japan. The \textit{Intellectual Property Guidelines} treat territorial restrictions on manufacturing separately from territorial restrictions on sales.\textsuperscript{181} The JFTC did not explain the reason for this distinction. In principle, a restriction limiting the territory in which

\textsuperscript{176} Id. pt. 2(5), n. 9 (“However, if multiple parties \textit{reciprocally} impose [sales quantity and sales area] restrictions on one another, they are not recognizable as an exercise of rights, as is discussed below in Part 3-2.”) (emphasis added). Although Note 9 refers to restrictions on sales quantity and sales territory, Part 4(4)(ii)(a) confirms that the JFTC would apply the same analysis to a field-of-use restriction.

\textsuperscript{177} Id. pt. 3(2)(iii).

\textsuperscript{178} Id. pt. 3(2)(ii).

\textsuperscript{179} Id. pt. 4(3)(iii)(a).

\textsuperscript{180} Id. pt. 4(3)(iii)(b).

\textsuperscript{181} Id. pt. 4(3)(ii)(a).
licensees may use the licensed IP to manufacture products will not violate the Antimonopoly Law.\footnote{Id. pt. 4(3)(ii)(a).}

The Intellectual Property Guidelines state that the JFTC would analyze a restriction on the territory where a licensee may sell products incorporating the licensed IP in the same manner in which it would analyze a restriction on the scope-of-use of the licensed IP.\footnote{Id. pt. 4(4)(ii)(a).} In other words, a restriction on the territory in which a sole licensee may sell products incorporating the licensed IP generally would be permitted so long as the IP rights have not been exhausted in Japan.\footnote{Id. pt. 2(5).} For the reasons explained in the discussion of field of use restrictions, it is unclear whether the JFTC may consider problematic a restriction on sales territories if the IP holder has licensed more than one licensee.\footnote{Id. pt. 4(4)(ii)(a) (the JFTC position with respect to scope of use restrictions is also “basically applicable” to limitations on the area in which products incorporating the licensed IP may be sold); Part 3(2)(ii) (“Under [a] multiple licensing scheme, restrictions on the scope of the use of technology . . . or the like” is an unreasonable restraint of trade if it substantially restricts competition); \textit{but cf.} pt. 2(5), n. 9 (“if multiple parties reciprocally impose [restrictions on sales areas] on one another, they are not recognizable as an exercise of rights, as discussed below in Part 3-2.”).} As a result, an IP-holder may wish to exercise caution with respect to use of territorial restrictions on where in Japan products may be sold if it intends to license more than one licensee in Japan.

\begin{quote}
\textbf{(3) Customer Restraints}
\end{quote}

Depending on how they are used, customer restraints may serve a similar purpose to scope-of-use and territorial restraints. Nevertheless, it appears that the JFTC considers customer restrictions to be more likely to violate the Antimonopoly Law than scope-of-use or territorial restrictions.\footnote{Id.} As noted above, the Intellectual Property Guidelines...
exclude from the safe harbor license provisions that restrict sales customers. In addition, Part 4(3) does not include a restriction on customers as among the practices generally recognizable as an exercise of IP rights. Part 4(4)(ii) provides that placing limitations “on the counterparties to trade” is “not recognized as imposing a limitation on the scope of use of the technology,” and will constitute an unfair trade practice if it tends to impede competition. The meaning of the term “limitations on the counterparties of trade” is not completely clear, but this section implies that the JFTC will consider a customer restriction (even as to a sole licensee) to violate the Antimonopoly Law. The JFTC did not explain why it analyzes customer restraints differently than it analyzes restrictions on scope-of-use or sales territories.

(4) Exclusivity or Performance Requirements

The Intellectual Property Guidelines indicate that the JFTC is likely to examine carefully any arrangement in which a patent holder requires a licensee to deal exclusively in its licensed products or otherwise prevents a licensee from agreeing to license a competing technology or manufacturing or selling products that compete with those containing the licensed technology. The Intellectual Property Guidelines indicate that such an arrangement is likely to be lawful if there is confidential know-how associated with the license arrangement and an exclusive arrangement is the only means of preventing unauthorized use or disclosure of the know-how. Otherwise, such an arrangement constitutes an unfair trade practice if it impedes fair competition.

A licensor is entitled to include in a license agreement other provisions designed to ensure that the licensee undertakes sufficient efforts to promote the licensed technology and to protect confidential information if such provisions do not otherwise restrict the licensee’s freedom of operation. Thus, an IP license agreement may include obligations that a licensee use its best efforts to use the technology in question and to protect the confidentiality of licensed know-how during

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187. *Id.* pt. 2(5). This is similar to treatment of restrictions on sales territories, but unlike treatment of scope-of-use restrictions.
188. *Id.* pt. 4(4)(ii)(b).
189. *Id.*; see also *id.* pt. 4(3).
190. *Id.* pt. 4(4)(iv).
191. *Id.*
192. *Id.* pt. 4(4)(v)(vi).
the period of the license agreement and for a reasonable period after the agreement expires.\textsuperscript{193}

d. Tying Arrangements / Package Licensing / Bundling

The JFTC has demonstrated concern with IP tying, bundling and package licensing without, however, acknowledging the potential benefits of such practices or providing clear guidance regarding the potential limits of liability.\textsuperscript{194}

The JFTC addressed tying of IP rights in 1998, in the first Microsoft case (involving the alleged tying of Microsoft’s “Word” and “Excel”).\textsuperscript{195} In that case, the JFTC found that: (i) although Excel had achieved the top market share in the spreadsheet market in Japan since about 1991, the word processing software industry in Japan had been led in 1994 by a competing product known as Ichitaro; (ii) in 1995, Fujitsu planned to preinstall Excel and Ichitaro on its personal computers, and requested that Microsoft grant it a license to preinstall Excel without Word; (iii) Microsoft refused Fujitsu’s request, forcing Fujitsu to license both Excel and Word; and (iv) other hardware vendors likewise needed to license both Excel and Word. Based on these findings, the JFTC concluded that Microsoft’s conduct constituted unjustified tying.\textsuperscript{196} The JFTC rendered a recommendation decision (the equivalent of a consent agreement)\textsuperscript{197} that, with Microsoft’s consent, required Microsoft to terminate its practice of tying its word processing software to its spreadsheet program.\textsuperscript{198}

In the Intellectual Property Guidelines, the JFTC provided some additional explanation of its approach to such practices.\textsuperscript{199} Unfortunately, however, the Intellectual Property Guidelines fail to provide clear guidance. To start with, the Intellectual Property Guidelines do not define the practices of bundling or package licensing. A footnote states that a determination of whether a practice amounts to

\begin{itemize}
  \item \textsuperscript{193} Id.
  \item \textsuperscript{194} Id. pt. 4(5)(iv).
  \item \textsuperscript{195} Kōsei Torihiki Iinkai, 45 Shinketsushū 153 (JFTC, Dec. 14, 1998) (JFTC Recommendation Decision).
  \item \textsuperscript{196} Id.
  \item \textsuperscript{197} JFTC may render a recommendation decision without holding a hearing if an alleged offender accepts JFTC’s recommendation pursuant to Article 48 of the Antimonopoly Law.
  \item \textsuperscript{198} 45 Shinketsushū, supra note 195, at 153.
  \item \textsuperscript{199} INTELLECTUAL PROPERTY GUIDELINES, supra note 1, pt. 4(5)(iv).
\end{itemize}
bundling “depends on whether . . . it is effectively difficult for licensees to choose any technology other than that designated by the licensor.”

In other words, the JFTC apparently would regard as bundling an IP-holder’s licensing of two technologies as a package if, as a result, licensees found it difficult to license one of the two technologies from the IP-holder and an alternative to the second technology from another source. This provision is sufficiently broad to include situations where the IP-holder licenses the two technologies separately, but the pricing is such that it would be uneconomical for a licensee to license only one of the two technologies. A separate footnote provides that the JFTC would not consider bundling to include a situation in which licensees are required to take a license to multiple patent rights, but royalties are based solely on the patent rights actually used. The references to technology in the text but patents in the footnote create confusion as to how these provisions might be applied in practice. For example, an IP-holder might license a set of Japanese and foreign blocking and implementing patents relating to a single product as a single package, with royalties to be paid only with respect to the patents actually used. The royalty structure might make it uneconomic for a licensee to select any implementation other than that provided by the IP-holder. The Intellectual Property Guidelines leave it unclear as to how the JFTC would analyze such a licensing scheme.

If a licensing practice can be identified as bundling, the Intellectual Property Guidelines provide that a bundled license is lawful if it is “essential to obtain the effect of the technology sought by the licensee or is otherwise recognized as reasonable to some extent.” Otherwise, it “constitutes [an] unfair trade practice[] if it tends to impede fair competition.” Despite the vague language of this section and the lack of relevant precedent, it is possible to make educated guesses as to how the JFTC might seek to enforce this section. The reference to bundling being an unfair trade practice “if it tends to impede fair competition” implies that bundled licensing of IP rights will not be found to violate the Antimonopoly Law in the absence of an effect on competition in a relevant market, which would be likely only if the IP-holder and its

200. Id. pt. 4(5)(iv), n. 15.
201. Id.
202. Id.
203. Id. pt. 4(5)(iv), n. 16.
204. Id. pt. 4(5)(iv).
205. Id.
licensees had market power in a technology or product market. This conclusion is consistent with the fact that a bundled licensing provision would qualify for the safe harbor provision if the firms using the technology account for 20 percent or less of the downstream product market or, if the share of the product market cannot be determined, at least four firms hold rights to alternative technologies. The reference to a particular bundling practice as being “otherwise recognized as reasonable to some extent” implies that, even if an IP-holder has some degree of market power and a bundled license restricts licensees’ choice of technology, it would nevertheless be possible for the IP-holder to advance other potential justifications for the practice. One possible example might be if, in the absence of bundling of a group of patents relating to a particular technology or product, it would be difficult or impossible to determine the extent to which particular individual patents were being used. Because of the lack of precedent on this issue, however, this analysis remains speculative.

e. Restrictions Affecting Future Research and Development

The Intellectual Property Guidelines demonstrate considerable concern with respect to restrictions that might hinder a licensee’s ability or incentive to develop its own technology. As a result, the JFTC would be likely to review carefully restrictions on the research and development (R&D) that a licensee is permitted to perform as well as obligations that might reduce a licensee’s incentives to engage in independent R&D, such as overly-burdensome grantback obligations.

(1) Restrictions on R&D

The Intellectual Property Guidelines state that restrictions on the ability of licensees to conduct independent research activities “generally affect[] research and development competition and ultimately lessen future competition” in technology and product markets. As a result, such restrictions “are in principle recognized as unfair trade practices.” The principle applies as well with respect to a licensee’s joint research

206. Id.
207. Id. pt. 2(5).
208. Id. pt. 4(5)(iv).
209. Id. pt. 4(5)(vii).
activities with a third party. 210 In that situation, however, the Intellectual Property Guidelines recognize that it might be difficult for an IP-holder to ensure that confidential information is protected. Thus, the Intellectual Property Guidelines provide that, in a know-how license agreement, the IP-holder may restrict the licensee from conducting joint research and development activities with any third party to the extent necessary to protect against unauthorized disclosure of such know-how. 211 The JFTC might interpret this provision as requiring that the licensee be permitted to engage in joint R&D activities with third parties with respect to technologies unrelated to the licensed know-how.

A separate footnote clarifies that a copyright holder may, according to the terms of the Copyright Act, prohibit a software licensee from modifying a software program, except to the extent that the licensee seeks to do so for the sole purpose of being able to use it more effectively as permitted under the Copyright Act. 212

(2) Grantback Obligations

The JFTC has taken the position that an obligation on a licensee to assign or to license exclusively to the licensor any improvements in the licensed technology is likely to enhance the position of the licensor and to discourage R&D on the part of the licensee. 213 As a result, the Intellectual Property Guidelines provide that any such requirement in a license agreement generally constitutes an unfair trade practice. 214 An exception is recognized, however, if the improvement cannot be used without the underlying licensed technology and the licensor provides adequate compensation to the licensee for the improvement. 215 An obligation on a licensee to grant back to the licensor a nonexclusive license to any improvements in the licensed technology is recognized as unlikely to discourage R&D, and thus will not violate the Antimonopoly

210. Id.
211. Id.
212. Id. pt. 4(5)(vii), n. 18.
213. Id. pt. 4(5)(viii).
214. Id. pt. 4(5)(viii)(a).
215. Id. pt. 4(5)(viii)(c). See also id. pt. 4(5)(ix)(b), n. 21 (noting that, if an improvement cannot be used independently of the licensed technology, the licensor may also restrict the entities to which the licensee is permitted to license its improvement).
Law, so long as the licensee retains the freedom to exploit and license its improvements.\textsuperscript{216}

The JFTC has demonstrated greater concern with respect to nonassertion provisions (whereby a licensee is prohibited from asserting patents against the licensor) that are not limited to improvements in the licensed technology. In the 2004 Microsoft case, the JFTC initiated hearing procedures against Microsoft Corporation with respect to so-called nonassertion provisions in its license agreements with Japanese personal computer manufacturers for Microsoft’s Windows operating system.\textsuperscript{217} As a result, the JFTC in 2008 issued a hearing decision, finding that Microsoft, when licensing Windows to PC manufacturers and sellers (OEMs), had included nonassertion provisions in the license agreements requiring the licensees to covenant not to sue, or to assist or participate in any suit against, Microsoft or its licensees for infringement of any patents held by the licensee. The JFTC determined that such conduct by Microsoft constituted dealing with OEMs on conditions that unjustly restricted their business activities, which the JFTC concluded constituted “unfair trade practices.”\textsuperscript{218} According to the JFTC, the nonassertion provisions created disincentives for the manufacturers to engage in development activities in relation to audio-visual technologies.\textsuperscript{219}

\textsuperscript{216} Id. pt. 4(5)(ix). Part 4(5)(viii)(b) provides that an obligation on the licensee to “share the rights” to improvements in the licensed technology will constitute an unfair trade practice if it tends to impede fair competition. It is unclear to what extent this paragraph would apply. This paragraph is generally intended to cover a situation where the licensee is required to assign a joint ownership interest in the rights to improvements in the licensed technology. It may also refer to a situation where a licensee is entitled to retain certain rights in independently-useful improvements to the licensed technology, but is subject to certain restrictions in how it may exploit those rights, such as a restriction on the entities to which it may license its improvements. \textit{See id.} pt. 4(5)(ix)(b).


\textsuperscript{218} Id.

\textsuperscript{219} Id.
Furthermore, on September 30, 2009, the JFTC issued a cease and desist order against Qualcomm Incorporated.\textsuperscript{220} The order asserted that Qualcomm’s licensing terms with respect to its CDMA (W-CDMA and CDMA 2000) patent, which had been agreed upon with several Japanese cell phone makers, included a nonassertion provision as well as a grantback provision, both of which constituted unfair trade practices. The JFTC determined that the cell phone manufacturers were forced to obtain a license from Qualcomm to manufacture and sell third-generation standard cell phones.\textsuperscript{221} The cell phone makers had no choice but to agree to licensing terms that included the nonassertion and grantback provisions, primarily because (i) they were not given a chance to determine whether the relevant Qualcomm patents would be of value, (ii) Qualcomm suggested that it would raise licensing fees if cell phone makers did not accept the licensing terms, and (iii) Qualcomm suggested that it would bring patent enforcement actions against cell phone makers that requested amendment of Qualcomm’s licensing terms.\textsuperscript{222} As a remedy, the JFTC ordered Qualcomm to abandon the challenged licensing terms.\textsuperscript{223}

\textit{(3) No-Challenge Clauses}

The JFTC has taken the position that a no-challenge clause, whereby a licensee is prohibited from challenging the validity of the licensed IP rights, is likely to violate Japanese law only if it has an effect on competition.\textsuperscript{224} Although the \textit{Intellectual Property Guidelines} are unclear as to how this might occur, the JFTC may have contemplated a situation where no nonlicensees would be likely to challenge the validity of the licensed IP.\textsuperscript{225} Generally, a provision terminating the license agreement if the licensee challenges validity or infringement would not be problematic.\textsuperscript{226}

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{220} For more information about this case, see Press Release, JFTC, Cease and Desist Order against Qualcomm Incorporated (Sept. 30, 2009), available at http://www.jftc.go.jp/en/pressreleases/archives/individual-000038.html.
\item \textsuperscript{221} \textit{Id.}
\item \textsuperscript{222} \textit{Id.}
\item \textsuperscript{223} \textit{Id.}
\item \textsuperscript{224} \textit{Intellectual Property Guidelines}, supra note 1, pt. 4(4)(vii).
\item \textsuperscript{225} \textit{Id.}
\item \textsuperscript{226} \textit{Id.}
\end{enumerate}
\end{footnotesize}
5. **Mutual or “Multilateral” Licensing Provisions**

a. **Cross-Licensing**

Japanese law contains very little precedent with respect to cross-license agreements. It would appear that most provisions would be analyzed in a similar manner in one-way and cross-license agreements. Two exceptions are price restrictions and the nonprice restrictions that are excluded from the scope of the safe harbor provision.

The treatment of price restrictions in the *Intellectual Property Guidelines* should be analyzed from two different aspects: whether price restrictions constitute “unreasonable restraints of trade” and whether they constitute “unfair trade practices.” If price restrictions fall under “unreasonable restraints of trade,” more severe sanctions, including criminal penalties and surcharges, may be imposed on offenders. Part 3(2)(iii) deals with the issue of “unreasonable restraints of trade” and provides that price restrictions in a cross-license constitute unreasonable restraints of trade if “the participating parties collectively hold a high market share of a particular product market” and if they “substantially restrain[] competition in the field of trade of the product in question.”

In Part 4(4)(iii), the issue of “unfair trade practices” with respect to one-way licenses is discussed. That paragraph provides that a price restriction in a one-way license agreement “is as a rule recognized to constitute an unfair trade practice” without regard to the market share of the participants and apparently without regard to existence or absence of anticompetitive effects. The omission of a similar discussion of cross-licenses from the *Intellectual Property Guidelines* does not mean that only price restrictions in one-way licenses constitute unfair trade practices. Rather, if a price restriction in a cross-license is found not to constitute an “unreasonable restraint of trade,” it may constitute an “unfair trade practice.”

The *Intellectual Property Guidelines* provide that restrictions on price, quantity, customers and the like, or agreements for joint boycotts in cross-license agreements constitute unreasonable restraints of trade if

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228. *Antimonopoly Law*, art. 89.
229. *Id.* art. 7-2.
230. *INTELLECTUAL PROPERTY GUIDELINES*, supra note 1, pt. 3(2)(iii).
231. *Id.* pt. 4(4)(iii).
they substantially restrict competition. They also provide that if the scope of use is jointly agreed, and thereby substantially restricts competition, such conduct constitutes an unreasonable restraint of trade. Although it is not clearly stated, this rule is most likely applicable if the parties to the cross-license are horizontal competitors and they have a significant combined market share. Although the section on cross-licensing is silent with respect to other nonprice restrictions, a footnote in the safe harbor section implies that reciprocal territorial restrictions in a cross-license agreement would be analyzed in a similar manner.

b. Patent Pools

The Antimonopoly Law rarely has been applied to patent pools. Nevertheless, the JFTC has issued a set of guidelines specifically addressing issues arising in the context of patent pools. As with the Intellectual Property Guidelines, the Patent Pool Guidelines set forth the JFTC’s views of the potential application of the Antimonopoly Law to a number of specific restraints of a type sometimes associated with patent pools. Indeed, many of the issues discussed in the Patent Pool Guidelines are the same as those that arise in the context of bilateral licensing arrangements, but the analysis sometimes differs due to the unique context of patent pools. The Patent Pool Guidelines also include a number of hypothetical fact patterns, with accompanying analysis, intended to help illustrate the general discussion.

(1) Safe Harbor

The Patent Pool Guidelines confirm that the equivalent of a safe harbor also applies to patent pools. In most cases, a patent pool, even among competitors, will have little effect on competition if the market share of the products covered by the patent pool is not high, in particular, if it does not exceed 20 percent, and if there are at least four other technologies available.

232. Id. pt. 3(2)(iii)(b).
233. NEGISHI & FUNADA, supra note 2, at 431.
234. Id. pt. 2(5), n. 9.
235. PATENT POOL GUIDELINES, supra note 10.
236. Id.
237. Id. pt. 3.1(2).
238. Id.
(2) Refusal to License

The Patent Pool Guidelines provide that a patent holder’s refusal to grant a license (i.e., to permit entry into a patent pool) generally does not raise any issues under the Antimonopoly Law.\textsuperscript{239} If a patent holder has taken part in standardization activities, however, and has sought to have its patented technologies included in the standard, a subsequent refusal to license relevant patents may violate the Antimonopoly Law.\textsuperscript{240}

In hypothetical Case 5, three companies have pooled their patents to an operating system to control the functions of a particular type of multimedia product and to facilitate interconnections between different models.\textsuperscript{241} The pool licenses the patents in the pool and the operating system software as a package. Models compatible with the operating system and licensed from the pool account for 80 percent of the multimedia products sold. After some licensees begin to sell the products at low prices, the three pool members release an upgrade of the operating system containing new features. The three pool members decide to delay granting licenses to their patents for the new operating system to discounting licensees. As a result, those licensees are driven out of the market. Although the analysis is not entirely clear, the Patent Pool Guidelines appear to provide that the patent pool members’ general decisions regarding the scope and timing of licenses would be an exercise of patent rights and would not violate the Antimonopoly Law.\textsuperscript{242} Delay of granting licenses only to discounting sellers, however, appears to be intended to stabilize retail prices of the multimedia product, and as such, would constitute monopolization under the Antimonopoly Law.\textsuperscript{243} It is unclear whether the determinative factor in the outcome would be the intent of the members of the pool or the economic effect of their actions.

\textsuperscript{239} Id. pt. 2.3.
\textsuperscript{240} Id. The JFTC has stated that any joint activity by which patent holders seek to have their technology incorporated in a standard and then refuse to license their patents would be regarded as a violation of the Antimonopoly Law, either as an unreasonable restraint of trade if competition is substantially inhibited, or as an unfair trade practice if it is not. Id. pt. 2.3, n. 6.
\textsuperscript{241} Id. Case 5.
\textsuperscript{242} Id.
\textsuperscript{243} Id.
(3) Exclusivity

Requiring pool participants to license their patents exclusively through the patent pool “is generally not recognized as reasonably necessary [to the pool] . . . and is likely to have a significant impact on competition.” Therefore, prohibiting pool members from licensing their patents on an individual basis outside the pool “poses the risk” of violating the Antimonopoly Law.

The leading case discussing the scope of Article 21 of the Antimonopoly Law in the context of patent pools focused in particular on this issue. In the Pachinko Machine case, ten Pachinko machine manufacturers formed a patent pool that controlled most of the patents relating to Pachinko machines. The manufacturers’ output represented approximately 90 percent of the Pachinko machines in the Japanese market. The members of the pool agreed that neither they individually, nor the pool, would license the patents outside of the pool. As a result, no entity was able to obtain a license to the patents in the pool other than the members of the pool. The JFTC found private monopolization by the manufacturers and the pool, and ordered termination of the pool. The JFTC held that the manufacturers and the pool conspired to preclude the entry of other entrepreneurs into the Pachinko machine manufacturing industry, thereby causing, contrary to the public interest, a substantial restraint of competition in the industry. For these reasons, the JFTC concluded that the conduct of the manufacturers and the pool could not be considered an exercise of rights under the Patent Law or the Utility Model Law, and thus the conduct did not qualify for the exemption provided by Article 21 of the Antimonopoly Law.

The Patent Pool Guidelines imply that a joint refusal to license patents outside of a pool is likely to be problematic if the pool controls technology used in a significant share of a downstream product.

244. Id. pt. 3.2(2)b.
245. Id.
247. In addition to the ten manufacturers, nine other entities were admitted to the pool, for a total of 19 members.
248. See 44 SHINKENTSUSHŪ, supra note 246, at 238.
249. Id.
250. Id.
Hypothetical Case 1 presents the situation of three major manufacturers with a 70 percent share of the market for a particular home appliance, which is used together with peripheral equipment. The three manufacturers form a pool consisting of patents essential to practicing the interface specification between the appliance and the peripheral equipment. Two competing manufacturers have jointly developed an alternative interface protocol, which is covered by their patents. These two manufacturers decide to join the patent pool, and not to license their patents outside of the pool. The Patent Pool Guidelines state that, “given the market conditions described” in the hypothetical, the conduct in question would constitute an unfair restraint of trade.

The Patent Pool Guidelines appear to focus on whether the pool members are free to license their patents outside the pool, rather than whether they in fact do so. Thus, individual decisions by pool members not to license their essential patents outside of a pool would not constitute a competition issue, even if the pool controls technology used in a substantial share of a market, so long as the pool or other pool members do not restrict the ability of pool members to make individual decisions regarding their independent licensing practices. For example, in hypothetical Case 3, two manufacturers of equipment that incorporate semiconductors and a semiconductor manufacturer jointly develop specifications for the relevant semiconductors. They agree to pool their patents essential to the manufacture and use of the semiconductors. Up to 80 percent of the semiconductors for the equipment in question are produced under license from the pool. A competing semiconductor manufacturer develops a new, alternative specification. However, the new specification is likely to infringe patents held by each of the two equipment manufacturing firms. These firms, after consultations with the third member of the patent pool, refuse to license their patents separately to the competing semiconductor manufacturer. The Patent Pool Guidelines state that, if the equipment manufacturers decide independently not to license their patents outside of the pool, it would not give rise to a violation under the Antimonopoly Law. Because they decide not to license their patents in consultation with the other member of the patent pool, however, in light of the market

251. Patent Pool Guidelines, supra note 10, pt. 3.3(1).
252. Id. Case 1.
253. Id.
254. See, e.g., id. Case 3.
255. Id.
conditions described, the conduct “substantially restrains competition in
the technology market.” 256

(4) Inclusion of Non-Essential Patents

The Patent Pool Guidelines confirm that formation of a patent pool will not restrict competition among the technologies included in the pool if only essential patents are included in the pool. 257 The Patent Pool Guidelines define an essential patent as one that as a practical matter must be used by a party seeking to practice the technology subject to the pool, even if technically it might be avoided. 258 In other words, it would appear that a patent would be deemed to be essential, despite the existence of technical alternatives, if the patent covered the only cost-effective means of implementing the subject matter of the pool. The Patent Pool Guidelines suggest that the determination of whether a patent is essential be conducted by an independent third party, and that a patent be excluded from a pool as soon as an alternative technology is developed. 259

The Patent Pool Guidelines provide that evaluation of the inclusion of nonessential patents in a pool will depend on multiple factors, including whether inclusion of such patents is reasonably necessary or has procompetitive benefits and whether the participants in the pool are permitted to license their patents independently of the pool. 260 According to the Patent Pool Guidelines, the inclusion of nonessential patents is likely to restrict competition and violate the Antimonopoly Law if the patents in the pool are licensed on “fixed conditions” (i.e., the patents in the pool are licensed for a flat amount regardless of whether the nonessential patents are used), or if competing technologies outside the pool “are hardly adopted by licensees of the pool and are excluded from the technology market.” 261

For example, hypothetical Case 2 presents the situation where three major manufacturers of an information communications product have

256. Id.
257. Id. pt. 3.2(1)a.
258. Id. pt. 3.2(1) n. 11 (defining an essential patent as a patent “that will be inevitably infringed upon in practical terms, even though it is avoidable technically.”).
259. Id. pt. 3.2(1)a.
260. Id. pt. 3.2(1)b.
261. Id.
pooled their essential patents covering a core specification regarding data transmissions among products. The pool members and licensees of the pool together account for about 80 percent of total sales of the information communications product. The three pool members subsequently add new functions to the specification. Two competitors develop an alternative technology to achieve the new functions. They hope that pool licensees will continue to license the core technology from the pool, but will license their alternative technology for the add-on functions. The three pool members decide to add their patents covering the new add-on functions to the pool and license them as a package with the patents essential to the core technology. As a result, the two competitors face difficulties finding licensees, and withdraw from the market. The Patent Pool Guidelines conclude that the pool members’ addition of the patents covering the new functions to the pool and package licensing of the nonessential and essential patents would constitute monopolization in violation of the Antimonopoly Law.

The language of the Patent Pool Guidelines implies that inclusion of nonessential patents in a pool does not necessarily violate the Antimonopoly Law. It further implies that a violation is less likely to occur if licensees have a choice of whether to license only the essential patents or the full package of essential and nonessential patents, and if the pool charges a higher royalty rate for the full package. Nevertheless, it appears that these measures would not necessarily preclude a patent pool from violating the Antimonopoly Law, and the JFTC may believe that optional inclusion of nonessential patents in a pool could be problematic if competing nonessential technologies outside the pool are not used. The latter statement appears to infer causation, i.e., that inclusion of the nonessential patents in the pool causes the competing technologies outside the pool not to be used, regardless of other possible factors (e.g., that the competing technologies outside the pool are inferior). It is important to note, however, that this position has never been tested in court.

262. Id. Case 2.
263. Id.
264. Id. pt. 3.2(1)b.
265. Id.
266. Id.
267. Id.
(5) Protection of Confidential Information

The Patent Pool Guidelines note that it is important to limit access to individual licensees’ business information. For this reason, the Patent Pool Guidelines recommend outsourcing the management of the patent pool to an independent third party.268 Hypothetical Case 4 presents the situation of eight major home appliance manufacturers that pool patents necessary to practice compression technology in a manner that is compatible with different models.269 The eight pool members jointly fund a new management organization that is responsible for licensing the patent package, collecting royalties from licensees, and distributing the royalties among the pool members. In connection with the collection of royalties, the jointly funded entity audits the businesses of licensees. So long as the jointly funded entity is subject to secrecy obligations and specific measures are taken to ensure the effectiveness of those obligations, such an arrangement would not create any issues under the Antimonopoly Law.270

(6) Differing Royalty Rates

The Patent Pool Guidelines state that charging different royalties of different licensees will be reviewed on a case-by-case basis to determine the impact, if any, on competition.271 The Patent Pool Guidelines imply that it is generally permissible for a patent pool to charge different royalties of different licensees if there is a legitimate reason to do so, but possibly not otherwise.272 The Patent Pool Guidelines confirm that it is generally permissible to set terms and conditions for companies that do not hold an essential patent that are different from those for companies that do, “provided that the disparities between the two sets of conditions do not exceed [a] reasonable limit.”273 The Patent Pool Guidelines do not provide any indication of what a “reasonable limit” might be.

268.  Id. pt. 3.2(3).
269.  Id. Case 4.
270.  Id.
271.  Id. pt. 3.3(1).
272.  Id.
273.  Id. pt. 3.3(1), n. 13.
(7) Restriction on Independent Research and Development

The Patent Pool Guidelines indicate that a restriction on licensees’ independent research and development activities might be justified under a limited set of circumstances. 274 If a small number of companies are working jointly to develop technologies for a specification, a restriction on R&D with objectives similar to that of the specification may be appropriate to induce the participants to dedicate their efforts to develop the joint specification.275 Once the specification is completed, however, limiting licensees’ independent R&D activities “may not be deemed to be reasonably necessary and will pose a legal problem” under the Antimonopoly Law.276

Hypothetical Case 6 describes four manufacturers involved in joint research and development relating to technology to compress data for multimedia software.277 The four manufacturers agree to a restriction on independent R&D involving the same technology. Subsequently, once a specification for data compression is completed, the four manufacturers pool their essential patents. Ultimately, 70 percent of home appliance manufacturers in Japan produce products that comply with the specification. The four pool members include a restriction prohibiting licensees from conducting R&D with respect to competing technologies. Two licensees had been developing a competing data compression specification, but canceled their R&D in order to be able to license the technology from the pool. The Patent Pool Guidelines provide that the initial limitation on R&D among the four manufacturers would not create any competition issues so long as such a restriction was necessary to prevent the diversion of confidential information about the shared technology.278 Once the specification is completed and the companies begin to license their patents through the pool, however, “there are no reasonable grounds to impose such restrictions on the licensees in the pool.”279 Imposition of this restriction under the conditions described would constitute monopolization in violation of the Antimonopoly Law. 280

274. Id. pt. 3.3(2)b.
275. Id. pt. 3.3(2)b, n. 14.
276. Id. pt. 3.3(2)b.
277. Id. Case 6.
278. Id.
279. Id.
280. Id.
Grantback Obligation or Non-Assertion Clause

The Patent Pool Guidelines take the position that an obligation on a licensee to grant a license through the pool to its own patents could restrict competition by reinforcing the position of the pool, discouraging the development of alternative technologies, and potentially reducing competition among competing technologies.\(^{281}\) The Patent Pool Guidelines do not, however, provide any analysis of the specific conditions in which such effects might occur. They state that an obligation on a licensee to grant a license through the pool to its own patents generally will not create problems under the Antimonopoly Law if: (1) the obligation is limited to improvements or developments that are essential to practice the specification that is the subject of the pool; (2) the obligation to license through the pool is nonexclusive, (i.e., the licensee retains the right to license its invention separately); (3) there are no other restrictions on the licensee’s use of its invention; and (4) the licensee is treated in a nondiscriminatory manner with respect to the distribution of the pool’s license fees.\(^{282}\) It remains unclear how a grantback obligation containing some, but not all, of these restrictions might be treated.

In hypothetical Case 7, the Patent Pool Guidelines present a situation in which four telecommunications equipment companies form a patent pool consisting of their essential patents to a specification for data transfer among portable terminal devices.\(^{283}\) As a condition of receiving a license, the pool members require licensees to agree to add their own essential patents to the pool. An independent third party would determine whether a licensee’s patents were essential. License fees would be allocated to additional patents brought into the pool on the same terms as for the patents originally in the pool. The Patent Pool Guidelines conclude that, under these circumstances, this provision would not restrict competition and would not give rise to legal issues under the Antimonopoly Law.\(^{284}\)

The Patent Pool Guidelines treat nonassertion clauses in a similar manner. They state that a provision preventing a licensee from asserting patent rights against pool members or other licensees will risk reinforcing the position of the pool and restrict the ability of licensees to

\(^{281}\) Id. pt. 3.3(3)a.  
\(^{282}\) Id. pt. 3.3(3)b.  
\(^{283}\) Id. Case 7.  
\(^{284}\) Id. Case 7.
compete with alternative technologies.\textsuperscript{285} Such a provision is unlikely to violate the Antimonopoly Law, however, to the extent that it is limited to essential patents, accompanies an obligation to license the patents through the pool on a nonexclusive basis (presumably with corresponding nondiscriminatory rights to share in the pool’s license fees), and does not otherwise restrict the licensee’s use of its own technology.\textsuperscript{286}

Hypothetical Case 9 addresses this situation.\textsuperscript{287} It postulates a patent pool formed among three manufacturers of a marketing home appliance, to which each of the three members contributes patents essential for practicing a specification for an operating system to control the functions of the appliance. Approximately 80 percent of the products sold in the relevant market comply with the specification, and the pool members account for 40 percent of the products sold in the relevant market. Additional parties hold essential patents but have chosen not to participate in the patent pool. The pool members include as a condition of obtaining a license a requirement that a licensee refrain from enforcing its own patents against any company practicing the standard until its patents are reviewed by a third party. If the licensee’s patents are determined to be essential to practice of the standard, the licensee would be required to add its patents to the pool, and would then be entitled to a share of the pool proceeds on the same terms as the initial pool members. Under the circumstances described, the Patent Pool Guidelines conclude that the condition would not restrict competition and therefore would not pose a problem under the Antimonopoly Law.\textsuperscript{288}

(9) No-Challenge Restriction

The Patent Pool Guidelines provide that imposing a no-challenge obligation on licensees may create issues under the Antimonopoly Law depending on the consequences that are provided for such a challenge.\textsuperscript{289} A provision specifying that a licensee’s challenge to the validity of one patent in the pool would result in termination of the license agreement for all patents in the pool could be construed as a concerted refusal to
Hypothetical Case 8 posits a situation in which four leading manufacturers pool their patents essential for production of standardized integrated circuits for a certain type of telecommunications equipment. Approximately 70 percent of the integrated circuits produced for the telecommunications equipment in question is produced under license from these four companies. A rival manufacturer had produced semiconductors for its own competing telecommunications equipment under license from the pool, but subsequently developed its own integrated circuit technology. One of the members of the patent pool sues the rival, alleging that the new technology infringes its patents, and in response, the rival seeks a ruling that that individual company’s patents are invalid. The other three members of the patent pool then notify the rival that they would revoke the package license unless the rival withdraws its invalidation claim. The Patent Pool Guidelines state that this conduct would constitute a joint refusal by the other three members of the patent pool to deal with the rival, and under the circumstances described would constitute an unfair trade practice.

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290. Id. pt. 3.3(4)b.
291. Id.
292. Id. Case 8.
293. Id.