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Licensing of IP rights and competition law – Note by Japan

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More documents related to this discussion can be found at

<http://www.oecd.org/daf/competition/licensing-of-ip-rights-and-competition-law.htm>

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1. Introduction

1. The legal frameworks to protect IP in relation to technology may encourage companies to conduct research and development and may serve as a driving force for creating new technologies and products based on the technologies. They can be seen as having pro-competitive effects. In addition, technology transactions assist in promoting competition by enabling increased efficiency in the use of technology through combinations of different technologies, the formation of new markets for technologies and their associated products, as well as an increase of competing parties. In a free market economy, IP systems motivate companies to actualise their creative efforts and contribute to the development of the national economy. It is important to ensure that their basic purposes are respected and that technologies are traded without impedance.

2. Under IP systems, however, competition in technologies and products may be diminished if a right holder does not allow other companies to use its technology or grants other companies a license to use the technology on the condition that their research and development, production, sales or any other business activities are restricted, depending on how such refusals or restrictions are imposed and the specific conduct to which the restrictions apply.

3. Consequently, when applying the Antimonopoly Act (hereinafter referred to as the “AMA”) to such restrictions, it is important for competition policy to insulate competition in technologies and products from any negative effect caused by any restrictions that deviate from the intent of the IP systems, while making every effort to facilitate competition through the IP systems.

4. This contribution paper firstly introduces the basic relationship between IP rights and the AMA in section 2. Then section 3 outlines JFTC’s approaches to competition concern related to licensing of IP rights in accordance to the Patent Pool Guidelines¹ and the Intellectual Property Guidelines². After that, recent cases in Japan related to licencing of IP rights are introduced in Section 4. Section 5 briefly summarises this paper.

2. Basic relationship between IP rights and the AMA

5. Article 21 of the AMA prescribes that “[t]he provisions of this Act shall not apply to such acts recognisable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act, or the Trademark Act”³. This means that the AMA is applicable to any action which is not considered to be “the exercise of rights”. Also, any action which is not “substantially” regarded as the exercise of rights is subject to the AMA,

1 The Guidelines on Standardisation and Patent Pool Arrangements. See: https://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines_files/Patent_Pool.pdf.

2 The Guidelines for the Use of Intellectual Property under the Antimonopoly Act. See: https://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines_files/IPGL_Frand.pdf.

3 Article 21 of the AMA applies to any other acts related to IP rights than listed.

even if it appears to be. In other words, any action which may appear to be the exercise of rights cannot be “recognisable as the exercise of the rights” prescribed in Article 21 of the AMA, if it deviates from or runs counter to the intent and objectives of the IP systems, which are, namely, to motivate companies to actualise their creative efforts and make use of technology, in view of the intent and manner of the action and its degree of impact on competition.

3. FTC’s guidelines regarding IP rights

6. In order to make its view on competition concerns related to IP rights clear to the public and promote competition compliance, JFTC has been published and continuously revised guidelines on its treatment of the exercise of IP rights under the AMA, responding to the changes in IP-related business models and business environment surrounding IP holders and implementers. This section describes JFTC’s approach on IP related competition issues in accordance with the Patent Pool Guidelines and the Intellectual Property Guidelines.

3.1. Patent Pool Guidelines⁴

7. JFTC published the Patent Pool Guidelines in 2005, which clarified its principles of the application of the AMA to **standardisation activities** and associated **patent pool arrangements and practices**. At that time, it had been becoming important for companies to jointly set and promote standards or to pool their patents covering standards and license them as a package, in order to expand the market of new products rapidly. In this regard, there were growing demands to clarify JFTC’s view on those conduct.

8. The Patent Pool Guidelines explains the application of the AMA to the exercise of patent rights included in standards. It describes that **refusal to license** by a patent holder generally does not pose a problem under the AMA when the patent holder is not involved in the standardisation activities. On the other hand, when the patent holder has taken part in the activities and encouraged to have its patented technologies adopted by the standards, and actually adopted and diffused widely, and if the patent holder refuses to license, it can be a problem under the AMA. This indicates that a so-called “**patent hold-up**” can be a violation of the AMA.

9. The Patent Pool Guidelines also refer to the view on licensing activities through patent pools. According to them, if competitors license their patents for specifications through a patent pool, imposing on licensees certain restrictions are analysed on a case-by-case basis from the viewpoint of the effect on competition. The restrictions described in the Patent Pool Guidelines are; setting differential licensing conditions, restricting research and development activities, grant back, non-challenge clauses and non-assertion clauses.

4 https://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines_files/Patent_Pool.pdf.

3.2. Intellectual Property Guidelines⁵ ⁶

3.2.1. Background of the development of the Intellectual Property Guidelines and its overview

10. In 2007, JFTC updated and replaced the “Patent and Know-how Guidelines” published in 1999 by the Intellectual Property Guidelines, in the light of the situation where there were growing moves of companies to utilise their IP rights not only for the protection of their IP but also for their business strategies, and there was an increasing number of injunctions and damages actions which raise issues related to the AMA. The system for protecting and utilising IP, such as the introduction of Intellectual Property Basic Act and the establishment of the Intellectual Property High Court, was also being implemented.

11. The Intellectual Property Guidelines clarified the principles of the AMA application to restrictions on the use of IP. Specifically, while in principle refusal to license or an injunction by a patent holder does not pose any problem under the AMA, if such conduct deviates from or runs counter to the intent and objectives of the IP systems, it cannot be “recognisable as the exercise of the rights” and thus falls within the scope of the AMA (section 2 above). Such conduct can constitute a violation of the AMA as private monopolisation, unreasonable restraint of trade or unfair trade practices, if it causes a substantial restraint of competition in any particular field of trade or is likely to impede fair competition. That is to say, whether it can be “recognisable as the exercise of the rights” and whether it has such effects on competition are analysed on a case-by-case basis by fully considering the nature of the restrictions, how they are imposed, the use of the technology in the business activity and its influence on it, whether or not the parties pertaining to the restrictions are competitors in the market, their market positions, the overall competitive conditions that prevail in the markets, whether or not there are any reasonable grounds for imposing the restrictions, as well as the effects on incentives of research, development and licensing.

3.2.2. Revision of the Intellectual Property Guidelines

12. In sectors experiencing remarkable technological innovation such as the ICT sector, there have been observed cases where holders of so-called Standard Essential Patents (SEPs), patents which are essential for implementation of the functions and effects prescribed in standards, seek injunctions against those who use such SEPs. In this regard, JFTC conducted a survey⁷ on those injunctions brought by SEPs holders, and clarified the actual situation regarding standardisation and licensing of SEPs. Some respondents argued

5 https://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines_files/IPGL_Frand.pdf.

6 JFTC recognises that there is a controversy regarding the treatment of the so-called “grant-back” in the Intellectual Property Guidelines. The Intellectual Property Guidelines explain that if a licensor imposes on licensees an obligation to hand over to the licensor or any designated companies the rights for improved technology developed by them or to grant the licensor an exclusive license for it, that can violate the AMA as an unfair trade practise (Paragraph 12 of the Designation of Unfair Trade Practices), however, there would not be a competition issue in a case where the improved technology created by a licensee cannot be used without the licensed technology, and the obligation is to assign the rights for the improved technology in exchange for fair consideration. There was also a case regarding a similar business model to the grant-back where JFTC took a case-by case approach analysing the effect on competition in the relevant market.

7 https://www.jftc.go.jp/en/pressreleases/yearly-2015/July/150708_files/Attachment2.pdf.

that those actions by SEPs holders can pose an obstacle to their business activities such as research and development, production and sales of related products, and in some cases, they might lead to substantial restraint of competition. JFTC therefore revised the Intellectual Property Guidelines in 2016 to include its view on the application of the AMA to those actions by SEPs holders.

13. The revised Intellectual Property Guidelines clarified that: if a holder of SEPs who already declared its willing to grant the SEPs under **Fair, Reasonable And Non-Discriminatory (FRAND) conditions** actually **refuses to licence** or brings an injunction for the SEPs against a company which is willing to obtain SEPs under the FRAND conditions (“willing licensee”), such conduct can be considered to be a violation of the AMA.

14. JFTC understands that there is an argument that the so-called “hold-up problem” is basically not regarded as a competition issue but a contractual issue. Surely, in the country where the competition law application could cause huge damages suits to SEPs holders, the competition authority might as well take cautious approach on this issue. On the other hand, in Japan, while there is little possibility of such huge damages, it is relatively easy for a patent holder to bring an injunction, and such situation creates a bigger risk to implementers and competition concerns.

15. In fact, Article 100 of the Patent Act prescribes that “[a] patentee or exclusive licensee may file a claim against a person that infringes or is likely to infringe the patent right or exclusive license for the cessation or prevention of the infringement”. This means that a patent holder can bring a patent injunction if there is any patent infringing act objectively, without fulfilling subjective requirements such as an intention and/or negligence of the patent infringer⁸. This ease of bringing an injunction is likely to lead to an abuse of dominant position by a SEPs holder, which possibly creates an entry barrier by raising rivals’ costs, and which may restrict competition in the market of goods or services related to the SEPs. To address this competition issue, dispute settlements based on the contract law is not enough. Also, as implied in the One-Blue case described below, there is a possibility of withdrawal or bankruptcy of companies during contractual disputes in courts, which can lead to serious damages to competition in the related market. In this respect, JFTC believes that there is a need and room for the AMA to intervene in order to restrict the right to seek an injunction, although we need to carefully assess the business negotiations as the Intellectual Property Guidelines stipulate the details of requirements to be a “willing licensee”.

16. Comparatively, so-called “hold-out problem” has also been raised as an issue regarding licensing of SEPs, while JFTC has not observed relevant cases so far. This is basically seen as a contractual dispute between a licensor and licensee and to be dealt by the Patent Act and, however, for example, if multiple licensees make an agreement not to pay a royalty to certain SEPs, it can be a violation of the AMA as a cartel.

⁸ Intellectual Property Strategy Headquarters, “Direction towards enhancement of function of intellectual property dispute settlement system”, p.43. See: http://www.kantei.go.jp/jp/singi/titeki2/tyousakai/kensho_hyoka_kikaku/2016/syori_system/hokokusho2.pdf (Japanese).

4. Japan's cases concerning licensing of IP rights

17. This section touches upon the case where JFTC found the AMA violation concerning licencing of IP rights, and also the case where the Intellectual Property High Court stated its view on the exercise of the right to demand an injunction by a SEPs holder.

4.1. One-Blue case

18. In this case, One-Blue, LLC (hereinafter referred to as “One-Blue”), a patent pool which holds SEPs for Blu-ray Disc, was engaged in negotiations to license its SEPs with Imation Corporation (hereinafter referred to as “Imation”), a Blu-ray Disc manufacturer. The manufacturer declared its will to obtain the SEPs under FRAND conditions, however, they could not agree on the license fee and the negotiations failed.

19. In order to advance the negotiations, in June 2013, One-Blue notified three of major customers of Imation that licensors of One-Blue had the right to seek an injunction against Imation's infringement of patent rights, in an attempt to restrict sales of Imation's Blu-ray Discs. Responding to that, one of those three customer retailers suspended the sales of Blu-ray Discs manufactured and sold by Imation for a certain period of time.

20. In August 2013, Imation filed a lawsuit against One-Blue with the Tokyo District Court. The ruling was made in February 2015. The court ruled in favour of Imation saying that One-Blue licensors were not allowed to exercise the right to seek an injunction because it could constitute an “abuse of right”. Subsequent to this judgment, the customer retailer above resumed the sales of Blu-ray Discs manufactured and sold by Imation. However, Imation withdrew from the manufacture and sales of Blu-ray Discs around December 2015.

21. JFTC later found that this conduct by One-Blue constituted a violation of the AMA⁹. Based on the fact that some licensors of One-Blue manufactured Blu-ray Discs, JFTC found that One-Blue is seen as a competitor of Imation and therefore the conduct by One-Blue was an interference of competitor's (i.e. Imation's) transactions. Also, Imation was willing to obtain SEPs from One-Blue on FRAND conditions, and bringing an injunction against that “willing licensee” can impede fair competition by depriving it of trading opportunities or impairing its competitive ability.

4.2. Apple Japan vs. Samsung Electronics case in the Intellectual Property High Court (2014)

22. On a separate note, the Intellectual Property High Court stated its view on the exercise of the right to demand an injunction by a SEPs holder who declares its willing to grant the SEPs under FRAND conditions, in the judgement of the case of Apple Japan vs. Samsung Electronics¹⁰. This is a case where Samsung Electronics Co., Ltd (Samsung Electronics), which held SEPs and already had declared its willing to grant the SEPs under FRAND conditions, filed an injunction against Apple Japan LLC (Apple Japan). The court held that bringing an injunction by a SEPs holder who declares its willing to grant the SEPs

9 Paragraph 14 of the Designation of Unfair Trade Practices.

10 May 16, 2014.

under FRAND conditions against “willing licensees” constitutes an “abuse of right” under the Civil Code of Japan¹¹ and thus is not permitted.

5. Summary

23. As described above, the AMA is applied to actions which seem to be the exercise of IP rights but actually conflict with the intent and objectives of the IP systems. Legal framework regarding IP systems and lawsuit systems in each jurisdiction have different characteristics, and accordingly, approaches to conduct related to licensing of IP rights taken by competition authorities differ depending on those characteristics. JFTC been published and continuously revised guidelines on its treatment of the exercise of IP rights including the “hold-up” problem under the AMA, fully taking into account those characteristics and responding to the changes in behaviours of IP holders and related business activities.

¹¹ Article 1 (3).