

Guidelines for the Use of Intellectual Property under the Antimonopoly Act (Draft)

(Tentative translation)

Only underlined portion is proposed revision.

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Part 1 Introduction

(1) Competition Policy and Intellectual Property Systems

The legal frameworks to protect intellectual property (Note 1) in relation to technology (hereinafter referred to as “intellectual property systems”) may encourage entrepreneurs 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, intellectual property systems motivate entrepreneurs to actualize 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.

Under intellectual property systems, however, competition in technologies and products may be diminished if a right-holder does not allow other entrepreneurs to use its technology or grants other entrepreneurs a license to use the technology on the condition that their research and development, production, sales or any other business activities are restricted (“restrictions pertaining to the use of technology”), depending on how such refusal or restrictions are imposed and the specific conduct to which the restrictions apply.

Consequently, when applying the Antimonopoly Act with respect to the restrictions pertaining to the use of technology, 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 intellectual property systems, while making every effort to facilitate competition through the

intellectual property systems.

Note 1: Under the Intellectual Property Basic Act, intellectual property is defined as “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” (in Article 2, paragraph (1)).

Generally intellectual property is not confined to that relating to technology.

However, the Guidelines deal solely with intellectual property concerned with technology.

(2) Scope of Application of the Guidelines

The Guidelines have application to those intellectual properties that are concerned with technology. They are meant to comprehensively specify the principles by which the Antimonopoly Act is applied to restrictions pertaining to the use of technology.

- (i) As used in the Guidelines, “technology” refers to any technology protected under the Patent Act, the Utility Model Act, the Act Concerning the Circuit Layout of a Semiconductor Integrated Circuit, the Plant Variety Protection and Seed Act, the Copyright Act and the Design Act (Note 2) and to any technology protected as know-how (Note 3).

From the legal point of view, the use of such technology is identical to the use of intellectual property relating thereto. The use of technology is hereinafter used as an expression synonymous with the use of intellectual property.

Note 2: The term “technology” used herein covers technology protected as computer program works under the Copyright Act and as design in the form of an article under the Design Act.

Note 3: Technology protected as know-how in the Guidelines refers to any technical knowledge or experience that is not publicly known or any accumulation thereof the economic value of which is independently protected or controlled by entrepreneurs. It generally corresponds to those trade secrets under the Unfair Competition Prevention Act which are concerned with technology. Given that know-how is not given any monopolistic or exclusive right by any specific act, it is characterized, in comparison to what is protected by patent and other rights, by an unclear scope of technology subject to protection, poor exclusiveness of protection and uncertainty concerning the protection period.

- (ii) The restrictions pertaining to the use of technology subject to the Guidelines by the right-holder to the technology include (i) any conduct of inhibiting any other party from using the technology, (ii) any conduct of licensing other parties to use the technology within a limited scope and (iii) any conduct of imposing restrictions on activities conducted by other parties licensed to use the technology (Note 4).

The restrictions pertaining to the use of technology may involve either the right-holder to the technology alone or other entrepreneurs as well. The right-

holder may impose restrictions either directly on the parties wishing to use the technology or indirectly through a third party. These restrictions may either be imposed in the form of restrictive provisions in an agreement or be imposed implicitly.

The Guidelines apply to any conduct that substantially imposes restrictions pertaining to the use of technology, irrespective of its manner or form.

Note 4: Hereinafter, the conduct of authorizing other parties to use technology (including the conduct of authorizing the use of computer program works) is referred to as "licensing," the party that grants a license as the "licensor" and the party to which the license is granted as the "licensee." The technology that may be used under the license may be referred to as the "licensed technology." In some cases of licensing, the licensor may grant a licensee the right to sublicense the licensed technology to third parties. Any restrictions imposed by the licensee on such third parties (sub-licensees) are treated in the same manner as restrictions imposed by the licensor on licensees.

- (iii) Whether the business activities by entrepreneurs are conducted inside or outside Japan, the viewpoints specified in the Guidelines apply, provided that the activities affect the Japanese market.

(3) Outline of the Guidelines

Part 2 of the Guidelines explains the basic principles according to which the Antimonopoly Act applies to restrictions pertaining to the use of technology. It is followed by Part 3, where the principles of the Antimonopoly Act are stated from the viewpoint of private monopolization or unreasonable restrictions on trade, and Part 4, where they are stated from the viewpoint of unfair trade practices.

The Illustrative Examples given in Parts 3 and 4 herein are sample cases of violations that have been found in past decisions. They are presented for the purpose of building an understanding of the descriptions herein. The Reference Example describes alleged facts of violation in a case in which the Japan Fair Trade Commission (JFTC) issued a warning. It is presented as a reference. With the establishment of these Guidelines, the Guidelines for Patent and Know-how Licensing Agreements under the Antimonopoly Act published on July 30, 1999 are abolished.

Part 2 Basic Principles on Application of the Antimonopoly Act

(1) The Antimonopoly Act and Intellectual Property Acts

Article 21 of the Antimonopoly Act prescribes: "The provisions of this Act shall not apply to such acts recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act, or the Trademark Act" (Note 5). This means that the Antimonopoly Act is applicable to restrictions pertaining to the use of technology that is essentially not considered to be the exercise of rights.

An act by the right-holder to a technology to block other parties from using its technology or to limit the scope of use may seem, on its face, to be an exercise of rights. The provisions of the Antimonopoly Act apply even to this case if it cannot be recognized substantially as an exercise of a right. In other words, any act that

may seem to be an exercise of a right cannot be “recognizable as the exercise of the rights” provided for in the aforesaid Article 21, provided that it is found to deviate from or run counter to the intent and objectives of the intellectual property systems, which are, namely, to motivate entrepreneurs to actualize their creative efforts and make use of technology, in view of the intent and manner of the act and its degree of impact on competition. The Antimonopoly Act is applicable to this kind of act (Note 6).

When determining whether or not any specific act is recognizable as an exercise of the right, attention must be paid to the exhaustion of a right. After a party owning the right to technology legally distributed any product based on the technology in the Japanese market at its own discretion, its right is not infringed by any other party trading in the product in the Japanese market. In other words, the patent or other rights have been exhausted. There is no difference, in the principles of application of the Antimonopoly Act, between the cases where the right-holder imposes restrictions on another party that deals in the product that it has distributed at its own will and where a supplier, in general, imposes restrictions on the dealers that deal in its products.

Note 5: It is understood that the provision of Article 21 of the Antimonopoly Act applies to technology the exclusive use of which is authorized by any act other than that listed in the same article. In the case of technology protected as know-how, no act confers exclusive rights and the aforementioned provision does not apply.

However, given that technology protected as know-how has the characteristics described in Note 3, it will be treated in the same manner as the technology covered by Article 21 of the Antimonopoly Act.

Note 6: Article 10 of the Intellectual Property Basic Act prescribes: “In promoting measures for the creation, protection and exploitation of intellectual property, consideration shall be paid to secure the fair exploitation of intellectual property and public interests and to promote fair and free competition.”

(2) Principles in identifying a market

(i) In evaluating restrictions pertaining to the use of technology in accordance with the Antimonopoly Act, it is considered, as a general rule, which transactions are affected by them. Then the restrictions will be examined to determine whether or not competition is reduced in the market where the transactions take place. Whether there is a reduction in competition is examined both from the viewpoint of substantial restraint of competition and from the viewpoint mentioned in Part 4-1-(2) within unfair trade practices in this section.

Apart from examining the effect in reducing competition, when examining the effect from the viewpoint of unfair trade practices, it is occasionally vital to examine whether or not the restrictions constitute unfair competition or an infringement of the basis for free competition (See Part 4-1-(3)).

(ii) The conduct of inhibiting the use of technology or licensing with a limited scope of the use of technology has an adverse impact on competition in the market for the technology or of any product (including a service; hereinafter the same shall apply) using it. The conduct of imposing restrictions on the business activities of licensees when licensing a technology affects not only transactions of technology or any product incorporating the technology but transactions of other

items as well, such as those of technology and products supplied with the use of the technology or any product incorporating the technology, and those of other technology, components and raw materials, or the requisites to manufacture the product using the technology.

When evaluating any restrictions pertaining to the use of technology according to the Antimonopoly Act, it is imperative to identify the market where the technology is traded, where any product incorporating the technology is traded and where other technology and products are traded, and to examine the impact of the restriction on competition, according to the transactions affected by the restrictions affect.

- (iii) The method of defining the market of a general product or service is also used to defining the markets where the technology is traded (hereinafter referred to as "technology market") and where any product incorporating the technology is traded (hereinafter referred to as "product market").

Fundamentally, the market is specified in each case from the viewpoint of substitutability to consumers. Trade in technology is not normally subject to transport constraints. Technology is more likely to be diverted from its current usage to other fields of business. Considering these possibilities, the defined technology market may include some fields where the technology is not actually traded. In other cases, however, the market may be defined the one technology provided that it is used by a large number of entrepreneurs in a specific field of business and that it is extremely difficult for them to develop an alternative technology or to switch to any technical substitute.

Restrictions pertaining to the use of technology can affect competition in developing technologies. No market or trade, however, can be defined for research and development activities by themselves. Therefore the effect on competition in developing technologies should be evaluated by the effect on competition in the trade of future technologies resulting from such activities or products incorporating the technology.

(3) Method of analyzing the effect in reducing competition

Whether or not restrictions pertaining to the use of technology reduce competition in the market is determined by fully considering the nature of the restrictions, how they are imposed, the use of the technology in the business activity and its influence on it, whether or not the parties pertaining to the restrictions are competitors in the market (Note 7), their market positions (such as market share (Note 8) and rank), the overall competitive conditions that prevail in the markets (such as the number of companies competing with the parties concerned, the degree of market concentration, the characteristics and the degree of differentiation of the products involved, distribution channels and difficulty in entering the market), whether or not there are any reasonable grounds for imposing the restrictions, as well as the effects on incentives of research, development and licensing.

In a case in which multiple restrictions are imposed on the use of technology and the restrictions have an influence on the same market, their combined effect on competition in the market is examined. If they have an influence on different markets, it is necessary to examine their effect on competition in each market and then examine the secondary effects on competition in each market to competition in other markets.

If other entrepreneurs grant licenses for an alternative technology, it should also be examined whether or not they are concurrently practicing similar activities.

Note 7: In evaluating this point, consideration is given to whether (i) the parties are competitors before the license is granted, (ii) the parties become competitors if one party grants another the license, (iii) the parties are not competitors even after the license in question is granted.

Note 8: It is thought that in many cases calculation of the market share in the technology market can be substituted by the market share of the product using the technology in question.

(4) Cases where restrictions may have major impacts on competition

(i) Acts between competitors

If restrictions pertaining to the use of technology are imposed among competitors, they are more likely to result in evasion of competition among them or more likely to be used to exclude other competitors than restrictions imposed among non-competitors. This type of conduct is thought to have a relatively strong influence on competition.

(ii) Influential technologies

Restrictions pertaining to the use of technology are likely to have a greater effect on competition when the technology is influential than when it is not.

Generally whether or not particular technology is influential is determined, not by the fact that the technology is deemed to be superior, but through a comprehensive consideration of how the technology is used in the product market, whether or not it is difficult to develop any alternative technology or difficult to switch to any technical substitute and the position of the right-holder to the technology in the technology or product market.

For instance, if any technology becomes a de facto standard in the technology or product market, it is likely to be determined as influential.

(5) Cases where restrictions are deemed to have minor effect in reducing competition

In principle, restrictions pertaining to the use of technology are deemed to have a minor effect in reducing competition when the entrepreneurs using the technology subject to the restrictions in the business activity have a share in the product market (hereinafter referred to as "product share" in this section) of 20% or less in total. This is not applicable however to conduct of restricting selling prices, sales quantity, market share, sales territories or customers for the product incorporating the technology (Note 9) or to the conduct of restricting research and development activities or obliging entrepreneurs to assign rights or grant exclusive licenses for improved technology.

The impact of a particular restriction on competition in the technology market is also deemed to have minor effect in reducing competition if the product share is in principle 20% or less in total. Where the product share is unavailable or the product share is found to be not appropriate to determine the effect on the technology market, the effect in reducing competition is considered to be minor provided that there are at least four parties holding rights to alternative technologies available with no outstanding detriment to business activities.

(The viewpoints given in this section are not applicable, however, when restrictions should be examined from the viewpoint mentioned in Part 4-1-(3) below.)

Note 9: Restrictions imposed by the licensor on licensees on the sales quantity and the sales area of the product incorporating the licensed technology are seen to be an exercise of rights to limit the scope of the use of technology. However, if multiple parties mutually impose such restrictions on each other, the activity is not recognizable as an exercise of rights, as is discussed below in Part 3-2.

Part 3 Viewpoints from Private Monopolization and Unreasonable Restraint of Trade

With respect to restrictions pertaining to the use of technology, a question is raised as to whether Article 3 (prohibition of private monopolization or unreasonable restraint of trade) or Article 19 (prohibition of unfair trade practices) is applicable. An infringement of the provision in Article 3 occurs with any conduct that complies with the behavioral criteria described below and that causes, contrary to public interest, a substantial restraint of competition in any particular field of trade. Trade associations violate the provision in Article 8 if they substantially restrict competition in a particular field of trade. (The viewpoint of Article 19 in the Antimonopoly Act is discussed in Part 4.)

On the basis of the principles on identifying the market described in Part 2-2 the particular field of trade is identified according to the scope of influence of the conduct, in the light of the objects, other parties, areas and modes of trade in the technology or product market.

The method of analyzing the effect on competition is as explained in Part 2-3 above, and hereinafter, “substantially restrict competition” refers to establishing, maintaining and strengthening a state of market control (Note 10).

Note 10: With respect to the meaning of “substantially restraining competition in any particular field of trade” as provided for in Article 2, paragraph (5) of the Antimonopoly Act, there are court rulings that defined it as a state in which there actually appears or at least is going to emerge a situation in which a specific entrepreneur or trade association can control the market by controlling the price, quality, quantity or other conditions freely at its own will to a certain degree as a result of reducing competition in a market (Refer to the ruling of the Tokyo High Court on the Toho-Subaru case on September 19, 1951, and the ruling of the Tokyo High Court on the Toho-Shinto case on December 7, 1953). It is understood that the expression refers to establishing, maintaining and strengthening the state of market control as depicted by these rulings. (JFTC Decision No.2 of 2004 on March 26, 2007)

(1) Viewpoints from Private Monopolization

Restrictions pertaining to the use of technology will be examined from the viewpoint of applying provisions regarding private monopolization if they “exclude or control the business activities of other entrepreneurs” (Article 2, paragraph (5) of the Antimonopoly Act).

Whether a restriction pertaining to the use of technology is classified as “exclusion” or “control” may not be uniformly determined according to the manner of the

conduct. It should be judged specifically by examining the intent and effects of the individual conduct.

Hereinafter, by categorizing the restriction into that of inhibiting the use of technology, limiting the scope of use of technology and imposing conditions for the use of technology, the principle of whether or not the restriction constitutes private monopolization is explained.

(i) Inhibiting the use of technology

Restrictions by the right-holder to a technology such as not to grant a license for the use of the technology to an entrepreneur (including cases where the royalties requested are prohibitively expensive and the licensor's conduct is in effect equivalent to a refusal to license; hereinafter the same shall apply) or to file a lawsuit to seek an injunction against any unlicensed entrepreneur using the technology are seen as an exercise of rights and normally constitutes no problem. However, if any such restriction is found to deviate from or run counter to the intent and objectives of the intellectual property systems, as mentioned below, it is not recognizable as an exercise of rights. It then constitutes private monopolization if it substantially restrains competition in a particular field of trade.

- (a) In a case where entrepreneurs participating in a patent pool (See 2-(1) below) refuse to grant a license to any new entrant or any particular existing entrepreneurs without any reasonable grounds, to hinder it from using the technology, the restriction may fall under the exclusion of business activities of other entrepreneurs.

Illustrative Example

○ Company X and nine other companies engaging in the manufacture of pachinko game machines, and Association Y held a patent and other rights relating to the manufacture of pachinko machines. It was difficult to manufacture any such machines without receiving licenses from them. The ten companies commissioned Association Y to manage these rights and restrained any third party from entering the market by refusing to grant licenses. This was found to be a violation of Article 3 of the Antimonopoly Act. (JFTC Recommendation Decision No. 5 of 1997 on August 6, 1997)

- (b) Where a technology is found to be influential in a particular product market and is actually used by numerous entrepreneurs in their business activities, it may fall under the exclusion of business activities of other entrepreneurs if any one of the entrepreneurs obtains the rights to the technology from the right-holder and refuses to license the technology to others, preventing them from using it. (Interception)

For instance, this could apply to a case in which a number of entrepreneurs participate in a patent pool and accept licenses from the pool administrator to use technologies that are essential to their business activities in a particular product market and some of the entrepreneurs in the pool purchase a pooled technology from the pool administrator without notifying other participants to block other participants in the pool from using the technology in their business activities.

- (c) In a case in which an entrepreneur conducting business activities in a particular technology or product market collects all of the rights to a technology that may be used by its actual or potential competitors but not for its own use and refuses to license them to prevent the competitors from using the technology, this activity may fall under the exclusion of business activities of other entrepreneurs. (Concentration of rights)

An example might be a situation in which technology A and technology B are alternatives in a product market and the right-holder to technology A and the right-holder to technology B are competing with each other to make their technology the de facto standard, and the right-holder of technology A purchases the rights to a technology that is essential only for the use of technology B but not required for the use of technology A and then refuses to license to any entrepreneur using technology B to conduct its business activities in the product market.

- (d) Under the circumstances in which a product standard has been jointly established by several entrepreneurs, it may fall under the exclusion of the business activities of other entrepreneurs when the right-holder refuses to grant licenses so as to block any development or manufacture of any product compliant with a standard, after pushing for establishment of that standard, which employs a technology of the right-holder, through deceptive means, such as falsification of the licensing conditions applicable in the event the technology is incorporated into the standard, thereby obliging other entrepreneurs to receive a license to use the technology.

This also applies in a case in which an entrepreneur holding rights to a technology refuses to grant licenses so as to prevent other entrepreneurs from participating in the bidding after deceiving a public institution into setting out specifications of the product it will be purchasing through bidding that can be satisfied solely by the use of the technology, thereby creating a situation in which no bidder can manufacture any product meeting the specifications without receiving the license to use the technology.

- (e) The standard setting organization or trade association (hereinafter referred to as the "SSO") generally specifies in the document (IPR Policy) describing principles for license of patents (including the other intellectual property rights) essential for implementation of the functions and effects prescribed in the standards (hereinafter referred to as the "Essential Patent") that, in order to prevent exercise of right in respect of Essential Patents from impeding research & development, production or sale of the products adopting the standards and to broadly diffuse the standards, it makes the participants in standard setting clearly show whether they hold any Essential Patent (including those pending) and their intention for licensing for fair, reasonable and non-discriminatory conditions (such conditions are generally called "FRAND conditions"). An Essential Patent (including those pending) holder's declaration in writing to show that it is willing to grant licenses under FRAND conditions to the SSO is referred to as the "FRAND Declaration". According to the IPR policy, the SSO will study change of the standards to exclude the technology protected by such if such declaration is not made. Since it can be considered that those who research & develop, produce or sell the products adopting the standards can access all Essential Patents under FRAND license conditions, they can positively make investments required for research &

development, production or sale of the products adopting the standards. Essential Patent is essential for realization of the functions and effects prescribed in the standards, and its use is indispensable in the market of the products adopting the standards diffused broadly. Under such circumstances, refusal to license or claim for injunction to a party who is willing to take a license by a FRAND-encumbered Essential Patent holder, or refusal to license or claim for injunction to a party who is willing to take a license by a FRAND-encumbered Essential Patent holder when the standard which includes the Essential Patent had already been set and subsequently, the FRAND declaration for that Essential Patent was withdrawn, generally makes it difficult to research & develop, produce or sell the products adopting the standards diffused broadly. Therefore, such acts may fall under the exclusion of business activities of other entrepreneurs. The description above shall be applied no matter whether the act is taken by the party which has the Essential Patent at the of the standard setting or by the party which accepts assignment of Essential Patent or is entrusted to manage the Essential Patent after standard setting. Regarding the fact that an exercise of the right in respect of Essential Patent against FRAND declaration makes it difficult to research & develop, produce or sell the products adopting the standard diffused broadly, whether a party is not a “willing licensee (who willing to take a license on FRAND terms)” should be strictly judged based on the situation of each case. Therefore, for example, in case the parties do not reach an agreement of license conditions even after a certain period of negotiations, a party which shows its intention to determine the license conditions at court or through arbitration procedures is deemed to be the “willing licensee”. Even if a party which intends to be licensed challenges dispute validity, essentiality or possible infringement of the Essential Patent, the fact itself should not be considered as grounds to deny that the party is a “willing licensee”.

(ii) Limiting the scope of the use of technology

When a right-holder to a technology grants other entrepreneurs a license to use the technology within a limited scope, it is seen as an exercise of rights and normally constitutes no problem. However, any acts of specifying and enforcing the scope within which the use of technology is authorized (See Part 4-3 for specific details of such conduct) could be deemed acts of controlling the business activities of licensees. As a result of examination according to the principle stated in Part 2-1, if it is found to deviate from the intent of the intellectual property systems, etc., it is not recognizable as an exercise of rights. It then constitutes private monopolization if it substantially restrains competition in a particular field of trade.

(iii) Imposing conditions on the use of technology

When the right-holder to a technology sets a condition for granting a license for the technology to other entrepreneurs, it may correspond to an act of controlling the business activities of licensees or of excluding the business activities of other entrepreneurs, depending on the particular circumstances. If it causes a substantial restraint of competition in a particular field of trade, it will be deemed to constitute private monopolization.

- (a) When the right-holder to a technology implements a multiple licensing scheme (see 2-(2) below) for entrepreneurs wishing to conduct business activities using the technology and issues instructions that must be followed by the licensees on selling price, sales quantity, customers and other factors concerning the products supplied with the use of the technology, the holder may be found to have committed an act of controlling the business activities of these entrepreneurs.

Reference Example

○ The production of Product A. To adjust the demand-supply relationship and stabilize the market by controlling the output of the product from the association production of Product A. To adjust the demand-supply relationship and stabilize the market by controlling the output of the product from the association members, Association X as a means stipulated in the normal licensing agreement with the members that production quantities shall be determined by the local assembly and approved by the board of directors and that the Association may terminate the agreement with any licensee that has produced more than the predetermined quantity. Association X was found to have enforced these provisions, and the activity was recognized as possibly violating the provision in Article 8 of the Antimonopoly Act. (Warning issued on February 17, 1994)

- (b) When the right-holder to a technology concerned with product standards or the technology essential for business activities in the technology or product market ("essential technology") prohibits the development of any alternative technology when granting a license to other entrepreneurs, it corresponds in principle to the act of controlling the business activities of licensees. Preventing licensees from adopting alternative technology corresponds in principle to the act of excluding business activities of other entrepreneurs (Note 11).

Note 11: This is not limited to any conduct of explicitly preventing licensees from developing or adopting alternative technology. It also applies to any case of substantially limiting the development of alternative technology or the like, for instance, by establishing extremely advantageous conditions only to those that refrain from developing the alternative technology.

- (c) When the right-holder to essential technology imposes an obligation to obtain a license on any technology other than that concerned or to purchase any product designated by the licensor without reasonable grounds when granting a license to other entrepreneurs, it may constitute an act of controlling the business activities of the licensees or the act of excluding the business activities of other entrepreneurs.

(2) Viewpoints from Unreasonable Restraint of Trade

Restrictions pertaining to the use of technology will be examined from the viewpoint of applying the provision regarding unreasonable restraint of trade if "an entrepreneur in concert with other entrepreneurs, colludes to restrict or engage in their business activities" (Article 2, paragraph (6) of the Antimonopoly

Act).

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

(i) Patent pool

(a) A patent pool refers to a business activity in which multiple parties holding the rights to a certain technology concentrate their rights individually or the rights to license the technology in a particular corporation or organization so that the body may grant the necessary licenses to the members of the pool or others. The form of corporation or organization varies: it may be set up specifically for the purpose or an existing body may be appointed to fulfill this role. A patent pool can be useful in encouraging the effective use of technologies required for business activities and a patent pool itself does not immediately constitute an unreasonable restraint of trade. For (patent pools formed for standardization, refer to the Guidelines on Standardization and Patent Pool Arrangements published on June 29, 2005.)

(b) Notwithstanding the above, it is an unreasonable restraint of trade if the parties holding the rights to the substitute technologies in a particular technology market establish a patent pool and jointly set forth licensing conditions (including the scope of use of technologies) for their rights to substitute technologies and substantially restrain competition in the field of trade associated with these technologies.

When these entrepreneurs collude to restrict any improvement to the technology licensed to the pool or restrict the licensees, it is an unreasonable restraint of trade if it substantially restrains competition in the field of trade associated with the technology.

(c) When entrepreneurs that compete with one another in a particular product market establish a patent pool for the mutually use technologies required to supply their product and obtain licenses for these technologies from it, their conduct to jointly determine the price, quantity or customers of their products using the licensed technology is an unreasonable restraint of trade if the conduct substantially restrains competition in the field of trade of the product in question.

(d) In a case in which entrepreneurs competing with one another in a particular product market establish a patent pool for technologies required to supply their product as a sole body that can grant licenses to other entrepreneurs, its refusal to grant licenses to new entrants or certain existing entrepreneurs without reasonable grounds constitutes conduct of jointly impeding new entries or hampering the business activities of the existing entrepreneurs. It is an unreasonable restraint of trade if this conduct substantially restrains competition in the field of trade of the product in question.

(ii) Multiple licensing

Multiple licensing refers to a system for granting multiple entrepreneurs licenses to use a technology.

Under the multiple licensing scheme, restrictions on the scope of the use of technology, and selling price, sales quantity, customers or the like with respect to the product manufactured using the technology with the mutual recognition that the licensor and licensees are subject to common restrictions correspond to mutual restraint of the business activities of these entrepreneurs. It is an unreasonable restraint of trade if it substantially restricts competition in the field of trade associated with the product. In addition, by applying the same principle, imposing restrictions on licensees with respect to a technology resulting from research for the improvement or application of the technology hereinafter referred to as "improved technology" or the adoption of an alternative technology is also an unreasonable restraint of trade if it substantially restrains competition in the field of trade associated with the technology.

Illustrative Example

○ With regard to iron covers for public sewerage systems to be purchased by a local public entity, specifications that incorporate Company X's utility model were adopted on the condition that the utility model would be licensed to other entrepreneurs. Company X granted the license to six other companies. However, it prescribed that the price estimate for iron covers submitted by the six companies to the local government should be equivalent to or higher than that of Company X, that the price at which the covers are supplied by Company X and the six companies to manufacturers and the margin for the manufacturers should be fixed and that Company X should secure a 20% share of the sales quantity with the remainder divided equally among Company X and the six companies. These and other forms of conduct were found to be in violation of Article 3 of the Antimonopoly Act. (JFTC Decision No. 2 of 1991 on September 10, 1993)

(iii) Cross-licensing

- (a) Cross-licensing refers to a business activity in which multiple parties that own rights to technology mutually license their rights to one another. Generally cross-licensing involves fewer entrepreneurs compared to the number of the entrepreneurs participating in a patent pool or in multiple licensing.
- (b) Even if the number of entrepreneurs involved is small, cross-licensing may produce similar effects as those caused by the patent pool when it includes joint arrangements on the price, quantity, customers or the like or on not granting the license to others in a situation and where the participating entrepreneurs collectively hold a high share of the market for a particular product. For these reasons, as in (1) above, it constitutes an unreasonable restraint of trade if it substantially restrains competition in the field of trade of the product in question.
- (c) It constitutes an unreasonable restraint of trade to set forth jointly each party's scope of the use of technology, which is equivalent to a restriction on the scope of the business activities using the technology, if it substantially restrains competition in the field of trade relating to the technology or product.

Part 4 Viewpoints from Unfair Trade Practices

(1) Basic Viewpoints

- (i) Restrictions pertaining to the use of technology are examined not merely from the perspective of private monopolization and unreasonable restraint of trade, but from that of unfair trade practices as well.

The following discusses whether or not restrictions pertaining to the use of technology constitute an unfair trade practice. For convenience, restrictions pertaining to the use of technology are classified into four different types: (i) inhibiting the use of technology, (ii) limiting the scope of the use of technology, (iii) imposing restrictions in relation to the use of technology, and (iv) imposing other restrictions.

- (ii) From the viewpoint of applying unfair trade practices, restrictions pertaining to the use of technology will be examined to determine if they comply with certain behavioral criteria and tend to impede fair competition ("tendency to impede fair competition"). With respect to the type of tendency to impede fair competition, the Guidelines focus on what can be judged from the following criteria in accordance with the method of analyzing the effect of reducing competition mentioned in Part 2-3. For other types of tendencies to impede fair competition, refer to (3) below.

(i) Whether or not an entrepreneur (including any entrepreneurs that have a close relationship with it; hereinafter the same shall apply) may deprive its competitors and other parties of trading opportunities or directly impede the ability of the competitors and the others to compete.

(ii) Whether or not the restriction may reduce competition in pricing, acquiring customers and other means.

In this event, with regard to criterion (i), the impact on competition should be judged by specifically considering factors such as the number of entrepreneurs subject to the restriction and the level of competition between the entrepreneurs. With regard to criterion (ii) the degree of effectiveness of the restrictions should be considered.

When examining criteria (i) and (ii), it is not the case that the restriction meets the criteria only if it causes a tangible effect in reducing competition.

- (iii) Apart from criteria (i) and (ii), whether or not the conduct constitutes unfair competition or an infringement of the basis for free competition must in some cases be examined with regard to the tendency to impede fair competition. In this event, judgment should be made by an overall consideration of the details and degree of influence on the licensees' business activities, the number of other parties engaged in the conduct and the duration or repetitiveness of the conduct, etc.

The viewpoint stated in Part 2-5 is not applicable to the examination from these perspectives:

- (a) Whether or not the conduct constitutes unfair competition is questioned in a transaction involving technology in relation to the act of deliberately causing misunderstanding of the function or effect of the technology or the details of the rights to the same, the act of disseminating any defamatory information about the technologies of competitors and the act of interfering with competitors' business activities by filing a vexatious lawsuit for an injunction

to prevent an infringement of rights, knowing that the rights are invalid (Paragraphs (8), (9) and (15) of the General Designation).

- (b) A question over an infringement of the basis of free competition is studied mainly for the unjustifiable imposition of disadvantageous conditions on licensees when granting them licenses in a situation in which the licensor enjoys a dominant bargaining position with respect to the licensees (Paragraphs (10) and (14) of the General Designation).

With respect to the types of activity discussed in 2 to 5 below, besides examining whether or not it tends to impede fair competition (tendency to reduce competition) mentioned in (2) above, depending on individual cases, whether or not the activity breaches the basis of free competition may be examined.

Whether or not the licensor has a dominant bargaining position over licensees is examined through a comprehensive consideration of the degree of influence of the technology (see Part 2-4-(2) above), the extent to which the licensees' business activities depend on the technology, the positions of the parties in the technology or product market, the state of the technology or product market and the disparity in the scale of business activities between the parties.

- (iv) The following discussion focuses on whether or not individual restrictions tend to impede fair competition (tendency to reduce competition) as mentioned in (2) above.

Applicable paragraphs of the General Designation of Unfair Trade Practices are noted as supplements in the context of the conduct described below. It is not suggested, however, that the applicable paragraphs are limited to those shown, but that they are presumed to be chiefly applied

(2) Inhibiting the Use of Technology

When the right-holder to a technology refuses to grant a license to use the technology to any other entrepreneur or files a lawsuit for an injunction against any unlicensed entrepreneur using the technology to prevent the infringement of the right, the conduct is normally seen as an exercise of the right. According to the viewpoint explained in Part 2-1 above, however, the following conduct is not recognizable as an exercise of the right but are examined whether or not they constitute unfair trade practices.

- (i) In a case where an entrepreneur acquires the rights to a technology from the right-holder, with the recognition that a competitor uses the licensed technology in its business activities and that it is difficult for the competitor to replace the technology with an alternative, and the entrepreneur refuses to grant a license for it in order to block the competitor from using the technology, this conduct impedes the use of the technology with the intent of interfering with the competitor's business activities. It is found to deviate from or run counter to the intents and objectives of the intellectual property systems. It is therefore considered to constitute an unfair trade practice if it degrades the competitive function of the competitor and tends to impede fair competition. (Paragraphs (2) and (15) of the General Designation)

For example, if any of the licensees of a technology used by several entrepreneurs as a basis for their business activities in the product market

obtains the rights from the right-holder to the technology in order to block competitors (other licensees) from using the technology by refusing to license it to them, this conduct may constitute an unfair trade practice.

- (ii) When the right-holder to a technology refuses to grant a license to stop other entrepreneurs from using its technology after urging them to use its technology in their business activities through unjustifiable means, such as falsification of licensing conditions, and making it difficult for them to shift to other technology, the conduct unjustifiably creates the status of an infringement on rights and is found to deviate from or run counter to the intents and objectives of the intellectual property systems. Such conduct constitutes an unfair trade practice if it degrades the competitive function of the other entrepreneurs and tends to impede fair competition. (Paragraphs (2) and (15) of the General Designation)

A sample case that may constitute an unfair trade practice is one in which one of the entrepreneurs engaging in the joint formulation of standards vows to grant a license with extremely advantageous conditions so as to make its technology the basis for a standard and then refuses to grant a license to use the technology to other entrepreneurs after seeing the standard has been established and it has become difficult for the entrepreneurs to shift to another technology.

- (iii) In a case where the technology provides the basis for business activities in a particular product market and a number of entrepreneurs, accepting licenses for the technology from the right-holder, engage in business activities in the product market, the conduct of discriminately refusing to license a particular entrepreneur without reasonable grounds is found to deviate from or run counter to the intent and objectives of the intellectual property systems. If such conduct tends to impede fair competition by degrading the competitive function of the entrepreneur in the product market, it constitutes an unfair trade practice (Note 12). (Paragraph (4) of the General Designation)

- (iv) The acts described in Part3-(1), (i), (e), that is, refusal to license or claim for injunction to a party who is willing to take a license by a FRAND-encumbered Essential Patent holder, or refusal to license or claim for injunction to a party who is willing to take a license by a FRAND-encumbered Essential Patent holder when the standard which includes that Essential Patent had already been set and subsequently, the FRAND declaration for that Essential Patent was withdrawn, generally makes it difficult to research & develop, produce or sell the products adopting the standards diffused broadly. As the entrepreneurs who research & develop, produce or sell the products adopting the standards will be deprived of trading opportunities or impeded the ability of the party to compete, such acts adversely affect the competition in the market of the products adopting the standards and tend to impede fair competition.

Therefore, such acts are considered to be Unfair Trade Practices (Paragraph (2) and (14) of the General Designation), even if the acts do not substantially restrict competition in the product market described above and are not considered to be Private Monopolization.

Note 12: Restrictive conduct of the kinds mentioned in 3 to 5 below are also examined not only from the perspective of the impacts that they themselves have on

competition but also from the perspective of the influence of their discriminatory aspect, if any, on competition.

(3) Limiting the Scope of the Use of Technology

Although an act on the part of the right-holder to the technology of granting other entrepreneurs the license to use a technology within a limited scope, instead of granting a license for unlimited use, may seem, on its face, to be an exercise of rights, in some cases it cannot be recognized substantially as an exercise of rights, as mentioned in Part 2-1 above. Therefore, it is necessary to examine whether this conduct can be recognized as an exercise of rights in accordance with the principles explained in Part 2-1 above. If they are not recognizable as an exercise of rights, they are examined from the viewpoint of unfair trade practices.

(i) Licensing rights in part

(a) Function-specific licensing

When a licensor limits the business activities of licensees using the licensed technology (for example, in the case of patent, the licensor limits the activities, for example, to produce, use, assign or export the technology), it is generally recognizable as an exercise of rights and in principle it does not constitute an unfair trade practice.

(b) Limiting the license period

In principle, when a licensor limits the period during which licensees can use the licensed technology, it does not constitute an unfair trade practice.

(c) Limiting the field where the technology may be used

In principle, when a licensor limits the field in which licensees may engage in business activities using the licensed technology, for example, by limiting the scope of the license to the manufacturing of a specific product, it does not constitute an unfair trade practice.

(ii) Restrictions pertaining to manufacturing

(a) Limiting the area in which manufacturing is allowed

In principle, as in (1) above, when a licensor limits the area in which licensees may use the technology to manufacture products, it does not constitute an unfair trade practice.

(b) Limiting the quantity of products or the number of times the technology is used in manufacturing

In principle, when a licensor imposes a limit on the minimum quantity of products that licensees must manufacture using the technology or the minimum number of times the technology is used, it does not constitute an unfair trade practice provided limiting the minimum number does not eliminate the use of any other technology by the licensees.

However, establishing a ceiling on the quantity of products or the number of times within which licensees can use the technology to manufacture products is not recognizable as an exercise of rights if it has the effect of restricting the

volume of the products supplied to the overall market. It constitutes an unfair trade practice if it tends to impede fair competition. (Paragraph (13) of the General Designation)

(iii) Restrictions pertaining to export

- (a) In principle, when a licensor prohibits licensees from exporting the product incorporating the licensed technology, it does not constitute an unfair trade practice.
- (b) In principle, limiting areas to which licensees may export products incorporating the licensed technology will not constitute an unfair trade practice.
- (c) The principle discussed in 4-(2)-(a) below applies to judgments made about any limitations on export quantities of the product, if it has the effect of impeding the return of exported products to the domestic market.
- (d) Obligations to export via any entrepreneur designated by the licensor are examined in the same manner as restrictions on sales set out in 4-(2)-(b) below.
- (e) Limits on export prices are examined in the same manner as mentioned in 4-(3) below where they have an impact on competition in the domestic market.

(iv) Sublicensing

In principle, when a licensor limits parties to which licensees may grant a sublicense, it does not constitute an unfair trade practice.

(4) Imposing Restrictions in relation to the Use of Technology

When the right-holder to a technology licenses other entrepreneurs to use the technology, it may occasionally place restrictions in relation to the licensees' use of the technology for the purpose of realizing the functions or effects of the technology, ensuring safety or preventing any know-how or other confidential information from being divulged or used for unintended purposes. Many such restrictions are considered reasonable to some extent in order to promote the effective use of technology or technology transactions. However, since they restrict the business activities of licensees, they tend to reduce competition in some cases. Whether or not they have the tendency to impede fair competition must be examined in the light of the question such as whether or not such restrictions are within the extent necessary to meet the aforesaid purposes.

(i) Restrictions on raw materials and components

A licensor may impose limits on licensees as to the quality or suppliers of raw materials, components and other items needed to supply the product using the licensed technology (including services and other technologies; hereinafter collectively referred to as "raw materials and components"). Such limits could be considered necessary to ensure the functions and effect of the technology, to maintain safety and to prevent the disclosure of confidential information and hence are recognized as reasonable to some extent.

However, because the supply of products that incorporate the licensed technology is part of the business activities conducted by licensees, restrictions on raw materials and components have the effect of constraining the means of competition used by licensees or, in other words, the freedom of choosing the

quality of raw materials and components and suppliers of them. They have another effect of depriving the entrepreneurs that supply alternative raw materials and components of trading opportunities. They therefore constitute an unfair trade practice if they exceed the necessary extent from the above viewpoint and may tend to impede fair competition. (Paragraphs (10), (11) and (13) of the General Designation)

(ii) Restrictions on sales

In the case in which a licensor sets a limit on the area or quantity in which licensees may sell products (including copies of computer program works) using the licensed technology that applies to the customers or the trademarks that licensees can use, it may constitute restrictions on the licensee's business activities. (For restrictions on prices, see the following section.)

(a) The stance on limiting the scope of using technology discussed in the first paragraph of 3 and 3(2) above is basically applicable to limiting the area and quantity in which products using the licensed technology may be sold.

However, such conduct may constitute an unfair trade practice if the rights are recognized as having been exhausted in Japan or in the case where know-how is licensed, and there is a tendency to impede fair competition. (Paragraph (13) of the General Designation)

(b) Unlike the restrictions on the sales area and quantity mentioned in (a) above, placing limitations on the counterparties of the sale of products who may use a licensed technology is not recognized as imposing a limitation on the scope of use of the technology. It constitutes an unfair trade practice if it tends to impede fair competition. Examples of this conduct includes limiting counterparties (distributors) to those designated by the licensor, limiting counterparties to those assigned to the licensees and prohibiting sale with specific parties (Note 13). (Paragraph (13) of the General Designation)

Note 13: In a case in which licensees engaging in the production of seeds and seedlings for which variety registrations have been made under the Plant Variety Protection and Seed Act are subject to limitations that requires them to sell their seeds and seedlings only to customers licensed to produce crops from such seeds and seedlings, such limitations are considered requisite to protect the rights concerning crop production from infringement.

(c) When a licensor imposes on licensees an obligation to use a specific trademark, it is in principle not deemed to constitute an unfair trade practice as this obligation is considered not to tend to reduce competition, except in cases where the trademark is a material means of competition and where licensees are prohibited from using other trademarks as well.

(iii) Restrictions on selling and resale prices

In the case in which a licensor places a restriction on licensees on the selling or resale prices of products incorporating licensed technology, this restriction limits the most fundamental means of competition in the business activities of licensees and distributors purchasing such products from them, and it evidently reduces competition. Therefore it is in principle recognized as constituting an

unfair trade practice. (Paragraph (13) of the General Designation)

(iv) Restrictions on the manufacture and sale of competing products or on transactions with competitors

If any licensor imposes a restriction on licensees in relation to the manufacture or selling of any product that competes with the licensor's products or the acquisition of a license for a competing technology from a competitor of the licensor, the conduct has the effect of impeding licensees from effectively using technology and obstructing technology transactions, with the effect of depriving competitors of trading opportunities. Such a restriction therefore constitutes an unfair trade practice if it has the tendency to impede fair competition. (Paragraphs (2), (11) and (13) of the General Designation)

Notwithstanding the above, it is thought that such restrictions to the extent necessary to maintain confidentiality are likely to be recognized as not tending to impede fair competition if the licensed technology is concerned with know-how and there exists no other means of preventing disclosure or unauthorized use of the technology. This applies also to restrictions that remain effective for a short period after the termination of the agreement.

(v) Best-effort obligations

When a licensor imposes on licensees an obligation to make their best possible efforts in the use of licensed technology, this obligation is regarded as having the effect of ensuring that the licensed technology is effectively utilized. As long as it is confined to an obligation to make an effort, the effect of restricting licensee's business activities is limited and it is unlikely to reduce competition. Therefore, it does not constitute an unfair trade practice in principle.

(vi) Obligations to protect the confidentiality of know-how

An obligation imposed by the licensor on licensees to protect the confidentiality of licensed know-how during the period of the agreement and after termination of the agreement does not tend to impede fair competition and in principle does not constitute an unfair trade practice.

(vii) No-contest obligation

Imposing an obligation by a licensor on its licensees not to contest the validity of rights for licensed technology (Note 14) is recognized to have aspects to promote competition by facilitating technology transactions and is unlikely to reduce competition directly.

However, it may constitute an unfair trade practices when it is found to tend to impede fair competition by continuing rights that should be invalidated and by restricting the use of the technology associated with the said rights.

(Paragraph (13) of the General Designation)

In principle, stipulating termination right of the agreement for the technology with any licensee that challenges the validity of rights may not constitute unfair trade practices.

Note 14: "Obligation not to contest the validity of rights" refers to, for example, an obligation to agree not to initiate legal action for the invalidation of patents for licensed inventions. It differs from the obligation of non-assertion of rights, detailed

in 5-(6) below, which prohibits licensees from exercising any right owned or to be acquired by them against the licensor and other parties.

(5) Imposing Other Restrictions

In addition to those mentioned in 4 above, there are many other restrictions that may be placed on the business activities of licensees on the occasion of granting a license to them.

The following discusses the viewpoints applied to these restrictions.

When it is seen as an exercise of rights that a licensor imposes a particular restriction on licensees, this conduct will be examined in accordance with the principles mentioned in Part 2-1.

(i) Unilateral termination provisions

It is an unfair trade practice to set forth termination terms that are unilaterally disadvantageous to licensees in a licensing agreement if the provision is made in combination with any other restrictive activities that infringe the Antimonopoly Act and is used as a means of ensuring the effectiveness of the restrictions. Such terms include, for example, terms that authorize the licensor to terminate the licensing agreement either in a unilateral manner or immediately without allowing for an appropriate grace period. (Paragraphs (2) and (13) of the General Designation)

(ii) Establishment of royalties without relation to the use of technology

When a licensor establishes royalties based on a standard unrelated to the use of the licensed technology, for example by imposing an obligation to pay royalties according to the quantity of products manufactured or sold without the licensed technology, licensees may be hindered from using any competing product or technology. This conduct therefore constitutes an unfair trade practice if it tends to impede fair competition. (Paragraphs (11) and (13) of the General Designation)

In principle, however, it will not constitute an unfair trade practice if the licensed technology is used in part of the manufacturing process or is associated with any component and is reasonable as a means of calculating royalties. For instance, calculating royalties using the manufactured or sales quantity or the value of the final product using licensed technology or components or the quantity of raw materials and components used is recognized as reasonable for the convenience of computation.

(iii) Restrictions after the extinction of rights

When a licensor imposes on a licensee a restriction on the use of a technology or an obligation to pay royalties even after the rights to the technology have become extinct, it generally impedes the free use of technology. It will constitute an unfair trade practice if it tends to impede fair competition. (Paragraph (13) of the General Designation)

Notwithstanding the above, the royalty payment obligation is thought not to unjustifiably restrain licensees' business activities if it is within the permissible extent of an installment or the deferred payment of royalties.

(iv) Package licensing

An obligation imposed by a licensor on licensees to obtain a package license covering a technology other than the technology they wish to use (Notes 15 and 16) is examined based on the same viewpoint as that which applies to restrictions on raw materials and components discussed in 4-(1) above, provided, for instance, that it is essential to obtain the effect of the technology sought by licensees or is otherwise recognized as reasonable to some extent.

However, if such an obligation is not essential for ensuring that the licensed technology exerts its effect or if licensees are obliged to obtain a technology license beyond the necessary extent, licensees may be restrained from freely choosing technology and competing technology may be excluded. It therefore constitutes an unfair trade practice if it tends to impede fair competition.

(Paragraphs (10) and (13) of the General Designation)

Note 15: The determination on whether or not any such obligation is imposed depends on whether or not it is substantially difficult for licensees to choose any technology other than that designated by the licensor.

Note 16: Package licensing as discussed in this section does not correspond to the case in which licensees are obliged, under a package licensing agreement for multiple patents and other rights, to pay royalties solely for those patent and other rights that they actually use and not for the other items licensed.

Illustrative Example

○ Company X imposed on manufacturers and distributors of personal computers (PCs) in trading relations with the company an obligation to (i) additionally pre-install or bundle word processing software unduly under the license to ship PCs pre-installed or bundled with spreadsheet software and to (ii) pre-install or bundle unjustifiably schedule management software under the license to ship PCs pre-installed or bundled with spreadsheet software and word processing software.

Company X was found to be in violation of Article 19 of the Antimonopoly Act (Paragraph (10) of the General Designation). (JFTC Recommendation Decision No. 21 of 1998 on December 14, 1998)

(v) Addition of functions to technology

Granting a license again by a licensor for the use of a technology already licensed but with new functions added is generally identical to a license for improved technology. Therefore this conduct is not immediately recognized as a restriction associated with licensing.

However, let us assume a situation in which a particular technology provides a function whereby other products and services are offered on the basis of the specifications and standards of the technology ("platform function") and where many different applied technologies have been developed on the basis of the platform function to compete with one another. If the licensor of this technology introduces new licensing that incorporates some of the functions supported by the existing applied technologies into its platform function under the circumstances assumed above, the new licensing has the effect of preventing the licensees from using other applied technologies and of depriving other entrepreneurs of the trading opportunities associated with offering the applied technologies, given that licensees have no alternative but to be granted the new

license. It therefore constitutes an unfair trade practice if it has the tendency of impeding fair competition. (Paragraphs (10) and (13) of the General Designation)

(vi) Obligations of the non-assertion of rights

When a licensor imposes on licensees an obligation to refrain from exercising, in whole or in part, the rights owned or to be acquired by them against the licensor or any entrepreneurs designated by the licensor (Note 17), this obligation could result in enhancing the influential position of the licensor in a product or technology market or could impede the licensee's incentive to engage in research and development, thereby impeding the development of new technologies by restricting the exercise of the licensee's rights, etc. It therefore is an unfair trade practice if it tends to impede fair competition. (Paragraph (13) of the General Designation)

However, as with the obligation to grant non-exclusive licenses for improved technology as discussed in (9) below, it does not constitute an unfair trade practice in principle if the licensees are, in effect, merely obliged to grant a non-exclusive license for improved technology developed by them.

Note 17: This obligation includes an obligation to license the licensor or any entrepreneur designated by the licensor to use the patents and other rights owned or to be acquired by licensees in whole or in part.

(vii) Restrictions on research and development activities

Restrictions by the licensor relating to free research and development activities on the part of licensees, such as a provision set forth by the licensor to prohibit licensees from independently or jointly with any third party conducting research and development activities concerning the licensed technology or any technology that competes with it, generally affects research and development competition and ultimately reduces future competition in the technology or product market. Such restrictions are recognized as having the tendency to impede fair competition (Note 18) and are in principle recognized as an unfair trade practice. (Paragraph (13) of the General Designation)

On the other hand, when the licensed technology is protected and controlled as knowhow, restricting licensees from jointly performing research and development activities with any third party to the extent necessary of preventing disclosure of the knowhow or its use for unauthorized purposes is generally not recognized as having the tendency of impeding fair competition and does not constitute an unfair trade practice.

Note 18: Generally, a prohibition on modifications to computer program works is seen as an exercise of rights under the Copyright Act. However, licensees are allowed to modify licensed software to use it more effectively under Article 20, paragraph (2), item (iii) and Article 47-2 of the Copyright Act. Restraining such conduct, therefore, is not recognizable as an exercise of rights.

(viii) Obligations to assign improved technology or to grant exclusive licenses for improved technology

- (a) If a licensor imposes on licensees an obligation to hand over to the licensor or any designated entrepreneurs the rights for improved technology developed by them or to grant the licensor an exclusive license for it (Note 19), this conduct enhances the position enjoyed by the licensor in the technology or product market and discourages licensees from working on research and development by obstructing them from using their improved technology. Normally it is not thought that there is any justifiable reason for instituting such restrictions. In principle, it constitutes an unfair trade practice to impose any such obligation (Note 20). (Paragraph (13) of the General Designation)
- (b) An obligation that forces licensees to co-own the rights for improved technology they invent with the licensor restricts the freedom of use or disposition of the results of the licensees' own improvements or applied research, although the degree to which the obligation discourages them from undertaking research and development activities is less than the restrictions stated in (a) above. It may also constitute an unfair trade practice if it has the tendency to impede fair competition. (Paragraph (13) of the General Designation)
- (c) However, in a case in which the improved technology created by a licensee cannot be used without the licensed technology, the obligation imposed on licensees to assign the rights for the improved technology in exchange for fair consideration could be recognized as essential to promote technology transactions. Moreover, it is not recognized as detrimental to the licensees' motivation for research and development. It is generally confirmed to have no tendency to impede fair competition.

Note 19: As used in the Guidelines, an "exclusive license" includes the exclusive license provided for in the Patent Act and a practice in which the right-holder grants a normal license having an exclusive nature and refrains from exercising its rights in the area covered by the license granted. If the right-holder reserves the right to use the licensed technology on its own, the license is treated as non-exclusive.

Note 20: This restriction does not correspond to the imposition of an obligation on licensees to grant the licensor a right to make applications for a patent or for other rights in the countries and areas where the licensees do not wish to make such an application.

(ix) Obligations to grant non-exclusive licenses for improved technology

- (a) When a licensor imposes on licensees an obligation to grant the licensor non-exclusive licenses for improved technology attained by licensees, it may not constitute an unfair trade practice in principle as long as the licensees may still freely use their own improved technology. This obligation has little impact on licensees' business activities and is not recognized as being likely to discourage the licensees from undertaking research and development.
- (b) However, if the obligation accompanies a limit on the parties that can be licensed to use the improved technology, for instance by imposing an obligation to grant no license to any competitor of the licensor or to any other licensee, it may reduce the motivation of licensees to undertake research and development and possibly enhances the position enjoyed by the licensor in the technology or product market. It therefore constitutes an unfair trade practice

if it has the tendency to impede fair competition (Note 21). (Paragraph (13) of the General Designation)

Note 21: In a case where the improved technology created by a licensee cannot be used without the technology owned by the licensor, it may in principle not constitute an unfair trade practice to impose an obligation to obtain from the licensor approval for granting a license to any other entrepreneur.

(x) Obligations to report obtained knowledge and experience

Imposing on licensees an obligation to notify the licensor of knowledge or experience they obtain in the process of using the licensed technology will enhance the incentive for the licensor to offer licenses and will not reduce the motivation of licensees to undertake research and development. It does not therefore constitute an unfair trade practice in principle. However, if imposing an obligation to report knowledge or experience owned by licensees effectively means forcing licensees to grant the licensor a license for their acquired knowhow, it will constitute an unfair trade practice if it has the tendency to impede fair competition according to the viewpoints described in (8) and (9) above. (Paragraph (13) of the General Designation)