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

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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 as “intellectual property systems”) may encourage firms to conduct research and development and serve as a driving force for creating new technologies and products based on the technologies. They can be seen as having pro-competitive effects. And enabling technology transactions, which lead to combinations of different technologies, increased efficiency in the use of technology, the formation of markets for technologies and their associated products and an increase of competing entities, also assists in promoting competition. In a free market economy, intellectual property systems motivate firms to realize 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 smoothly traded.

Under intellectual property systems, however, competition in technologies and products may suffer negative effects if any right holderrefuses to permit other firms to use its technology or grants other firms 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 refusal or restrictions (“restrictions in relation to the use of technology”) takes place and on what conduct specifically is involved in the restrictions.

Consequently, applying the Antimonopoly Act, it is important for competition policy to insulate competition in technologies and products from any negative effect caused by any restrictions deviating from the purposes of the intellectual property systems, with fully activating the effect of promoting competition.

Note 1: Under the Basic Law on Intellectual Property, 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 Paragraph 1, Article 2). 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 comprehensively to specify the principles for the application of the Antimonopoly Act to restrictions in relation to the use of technology.

(1) As used in the Guidelines, “technology” refers to any technology protected under the

Patent Act, the Utility Model Act, the Act Concerning Layout Design of Semiconductor Integrated Circuits, the Seeds and Seedling 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, 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: As used herein, the term "technology" covers technology protected as program works under the Copyright Act and as design in the form of an object 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 firms. 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 exclusive right by any specific law, 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 of the protection period.

(2) The restrictions in relation to the use of technology subject to the Guidelines include (i) any conducts of inhibiting any other entity from using the technology, (ii) any conducts of licensing other entities to use the technology to a limited scope and (iii) any conducts of imposing restrictions on activities conducted by other entities licensed to use the technology (Note 4).

The restrictions in relation to the use of technology may involve either the right holder to technology alone or other firms as well. The right holder may impose a restriction either directly on the entities wishing to use the technology or indirectly through a third party. This restriction may either be imposed in a form of restrictive provisions in an agreement or be imposed virtually.

The Guidelines apply to any conduct that effectively imposes a restriction in relation to the use of technology, irrespective of its manner or form.

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

(3) Whether the activities by firms are conducted inside or outside Japan, the viewpoints specified in the Guidelines will apply, provided that the competitive effect of the activities reaches the Japanese market.

3. Outline of the Guidelines

Part 2 of the Guidelines explains the basic principles according to which the Antimonopoly Act is applied to restrictions in relation to the use of technology. It is followed by Part 3, where the principles of the Antimonopoly Act is stated from the viewpoint of private monopolization or unreasonable restraint of trade, and Part 4, where it is stated from the viewpoint of unfair trade practices.

<Illustrative Examples> given in Parts 3 and 4 herein are sample cases of violations confirmed in past decisions. They are presented for the purpose of building an understanding of the descriptions herein. The <Reference Example> describes an allegation made 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 Laws

Section 21 of the Antimonopoly Act provides: “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 in relation to the use of technology which is essentially not considered to be the exercise of rights.

An activity by a right holder to technology to block other firms from using its technology or to limit the scope of the use of it by them may seem, on its face, to be an exercise of rights. The Antimonopoly Act applies even to this case if it cannot be recognized substantively as an exercise of a right. In other words, any business activity that may seem to be an exercise of a right cannot be “recognizable as the exercise of the right” under aforesaid Section 21, provided that it is found to deviate from or run counter to the purposes of the intellectual property system, which is namely to motivate firms to realize their creative efforts and make use of technology, in view of the purpose and manner of the conduct and the scale of its impact on competition. The Antimonopoly Act is applicable to this kind of conduct (Note 6).

At the time of determining whether or not any specific conduct is recognizable as an

exercise of the right, attention must be paid to the exhaustion of a right. After an entity owning a 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 entity trading 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 that the right-holder imposes restrictions on other entity that deals in the product that it has distributed at its own will and that a supplier, in general, imposes restrictions on the dealers that deals in its products.

Note 5: It is understood that the provision in Section 21 of the Antimonopoly Act applies to technology the exclusive use of which is authorized by any law other than that listed in the same section. In the case of technology protected as know-how, no law confers exclusive right 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 Section 21 of the Antimonopoly Act.

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

2. Principles on identifying a market

(1) In evaluating restrictions in relation 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 lessened in the market where the transactions take place. Whether to lessen 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.

Apart from examining the effect to lessen competition, at the time of examining the effect from the viewpoint of unfair trade practices, it is occasionally vital to assess whether or not the business activity constitutes an unfair means of competition or an infringement of the basis for free competition (See Part 4-1-(3)).

(2) 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 a market of 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 at the time of licensing a technology affects not only transaction of technology or any product incorporating the technology but transaction of others as well, such as those of other technology, parts and raw materials, the requisites to the product using the technology.

At the time of evaluating any restrictions in relation to the use of technology according to the Antimonopoly Act, it is imperative to identify the market where the technology or any product incorporating the technology is traded and to assess the impact of the restriction on competition in that market.

(3) The method of identifying the market of a general product or service is also used to identify 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 field of business to others. Considering these possibilities, the identified technology market may include some fields where the technology is not actually traded. In other cases, however, the market may be identified with the one technology provided that it is used by a large number of firms in a specific field of business and that it is extremely difficult to develop any detour or to switch to any technical substitute.

Restrictions in relation to the use of technology can affect competition in developing technologies. No market or trade, however, can be identified for business activities of developing technologies by themselves. Therefore the effect on competition should be evaluated by assessing the effect on competition in the trade of future technologies resulting from such activities or products incorporating said technology.

3. Method of analyzing the effect of lessening competition

Whether or not restrictions in relation to the use of technology lessens competition in a market is evaluated through a comprehensive consideration of the content of the restrictions, how it is imposed, the use of the technology in the business activity and its influence on it, whether or not the entities in relation to the restrictions are competitors (Note 7), their market positions (such as market share (Note 8) and rank), the overall competitive conditions (such as the number of competitors of the entities concerned, the degree of market concentration, the characteristics and the degree of differentiation of the products involved,, distribution channels and difficulties in market entry) of the markets, whether or not there are any justifiable 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 and have an influence on the same market their combined effect on 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 effect

on competition in each market to competition in other markets.

If other firms are granting licenses for an alternative technology it should also be examined to determine whether or not they are concurrently practicing similar activities.

Note 7: In evaluating this point, consideration will be given to whether (i) the entities are competitors before the license is granted, (ii) the entities become competitors if one entity grants another the license, (iii) the entities 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

(1) Activities between competitors

If restrictions in relation to the use of technology are imposed on activities 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 restriction imposed on activities among non-competitors. This type of conduct is thought to be relatively influential on competition.

(2) Influential technologies

Restrictions in relation 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, whether or not it is difficult to develop any detour or difficult to switch to any technical substitute and the position of the right holder of 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 negligible effect of lessening competition

In principle, restrictions in relation to the use of technology are deemed to have a minor effect on competition when the firms using the technology in the business activity have a share in the product market (hereinafter referred to as “product share”) of 20% or less in total. This is not applicable however to conducts of restricting sales prices, sales volume, market share, sales territories or sales customers for the product incorporating the technology (Note 9) or to the conduct of restricting research and development activities or

obliging firms to assign rights (or grant exclusive licenses) for improved technology.

The impact of a particular conduct on the technology market is also deemed to be insignificant if the product share is 20% or less in total. And where the product share is unavailable or the product share is not sufficient to justify examining the effect on the technology market, the effect on competition is confirmed to be minor provided that there are at least four firms holding rights to alternative technologies available with no outstanding obstacles to business activities. (The viewpoints shown in this section are not applicable, however, when restrictions should be examined from the viewpoint mentioned in Part 4-1-(3) found below.)

Note 9: Restrictions by the licensor against 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 use of technology. However, if multiple parties reciprocally impose such restrictions on one other, they are 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 in relation to the use of technology a question is raised as to whether Section 3 (prohibition of private monopolization or unreasonable restraint of trade) or Section 19 (prohibition of unfair trade practices) is applicable. An infringement of the provision in Section 3 occurs with any conduct that meets the behavioral criteria described below and that cause, contrary to the public interest, a substantial restraint of competition in any particular field of trade. Trade associations violate the provision in Section 8 if they substantially restrict competition in a particular field of trade. (The viewpoint of Section 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 light of the objects, partners, 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 achieving, maintaining and strengthening a state of market dominance (Note 10).

Note 10: With respect to the meaning of “substantially restraining competition in any particular field of trade” as stipulated in Paragraph 5, Section 2 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 firm or trade association can control the market by controlling the price, quality, quantity or other conditions at its own will and freely to a certain degree (Refer to Tokyo High Court ruling on the Toho-Subaru case on September 19, 1951 and Tokyo High Court ruling on the Toho-Shintoho case on December 7, 1953). It is understood that the expression refers to achieving, maintaining and strengthening the state of market dominance as depicted by these rulings. (FTC

Decision No.2 of 2004 on March 26, 2007)

1. Viewpoints from Private Monopolization

Restrictions in relation to the use of technology will be examined from the viewpoint of applying provision regarding private monopolization if it "excludes or controls the business activities of other firms" (Paragraph 5, Section 2 of the Antimonopoly Act).

Whether a restriction in relation to the use of technology is classified as "exclusion" or as "control" may not be uniformly determined according to the manner of the conduct. It should be judged specifically by examining purposes and effects in individual case.

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

(1) Inhibiting the use of technology

Restrictions by a right holder of a technology such as not to grant a license for use of the technology to a firm (including cases where the royalties requested are so expensive that the licensor's conducts are in effect equivalent to refusal to license; hereinafter the same shall apply) or to file a lawsuit to seek an injunction against any unlicensed firm 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 purposes of the intellectual property system, as mentioned below, it is not recognizable as an exercise of rights. Then it constitutes private monopolization if it substantially restrains competition in a particular field of trade.

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

<Illustrative Example>

○ Company X and nine other firms engaging in the manufacture of *pachinko* game machines and Association Y had patent and other rights relating to manufacturing of *pachinko* machines. It was difficult to manufacture any such machines without receiving licenses from them. The ten firms commissioned Association Y to manage these rights and made it difficult for any other entity to enter the market by refusing to grant licenses. This was found to be in violation of Section 3 of the Antimonopoly Act. (Fair Trade Commission 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 firms in their business activities it may correspond to the exclusion of business activities of other firms if any one of the firms 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 parties participate in a patent pool and accept licenses to use technologies that are essential to their business activities and some of the party in the pool purchase a pooled technology from the pool administrator to block other participants in the pool from using the technology in their business activities.

c. In a case in which a firm operating in a particular technology or product market collects all of the rights to technology that may be used by its actual or potential competitors and refuses to license them to prevent the competitors from using the technology, this activity may correspond to the exclusion of business activities of other firms. (Concentration of rights)

An example might be a situation in which the right holder of technology A and the right holder of technology B are competing with each other to make their technology the de fact 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 firm using technology B in the product market.

d. Under circumstances in which a product standard has been jointly developed by several parties, it may correspond to the exclusion of the business activities of firms when the right holder refuse to grant licenses so as to block any development or manufacturing of any product compliant with a standard, after pushed 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, to oblige other firms to receive a license to use the technology.

This will also apply to a case in which a firm holding rights to a technology refuses to grant licenses so as to prevent other firms 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, to create a situation in which no bidder can manufacture any product meeting the

specifications without receiving the license to use the technology.

(2) Limiting the scope of the use of technology

When a right holder to a technology grants 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 activities of specifying and enforcing a scope within which the use of technology is authorized (See Part 4-3 for specific details of such conducts) could be deemed restrictions of controlling the business activities of licensees. According to the principle stated in Part 2-1, if it is found to deviate from the purposes of the intellectual property system etc., it is not recognizable as an exercise of rights. Then it constitutes private monopolization if it substantially restrains competition in a particular field of trade.

(3) Imposing conditions on the use of technology

When a right holder to a technology sets a condition for granting a license for the technology to other firms, it may correspond to restriction of controlling the business activities of licensees or of excluding the business activities of other firms, depending on the details of the condition.

If it causes a substantial restraint of competition in a particular field of trade it will be deemed private monopolization.

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

<Reference Example>

○ Association X obtained an exclusive license for a patent and other rights concerning a plant growing method and equipment that could be used for 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 members, Association X stipulated in the normal licensing agreement that production volumes shall be set 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 volume. Association X was found to have enforced these

provisions, and the activity was recogniza as possibly violating the provision in Section 8 of the Antimonopoly Act. (Warning issued on February 17, 1994)

b. When a right holder of 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 at the time of granting a license to other firms, it corresponds in principle to the restriction of controlling business activities of licensees. Preventing licensees from adopting alternative technology corresponds in principle to the restriction of excluding business activities of other firms (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 limiting the development of alternative technology and suchlike, for instance, by setting extremely advantageous conditions only to those that refrain from developing the alternative technology.

c. When a 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 justifiable grounds at the time of granting a license to other firms, it may constitute the restriction of controlling the business activities of licensees or the restriction of excluding business activities of other firms.

2. Viewpoints from Unreasonable Restraint of Trade

Restrictions in relation to the use of technology will be examined from the viewpoint of applying provision regarding unreasonable restraint of trade if a firm "in concert with other firms, mutually restricts or conducts their business activities" (Paragraph 6, Section 2 of the Antimonopoly Act).

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

(1) 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 itself 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 the 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 for encouraging the effective use of technologies required for business activities and setting up a patent pool 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 set up a patent pool and jointly set forth licensing conditions (including the scope of use of technologies) for their rights to substitute technologies and substantially restrains competition in the field of trade associated with these technologies.

When those firms restrict with one another any improvement to the technology licensed to the pool or mutually limit 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 firms that compete with one another in a particular product market set up a patent pool for technologies required to supply their product and obtain licenses for these technologies from it, their conduct to jointly set the price, quantity or sales 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 firms competing with one another in a particular product market set up a patent pool as a sole body that can grants licenses to other firms its refusal to grant licenses to new entrants or certain existing firms without justifiable grounds constitutes a conduct of jointly hampering new entries or impeding the business activities of the existing firms. It is an unreasonable restraint of trade if this conduct substantially restrains competition in the field of trade of the product in question.

(2) Multiple licensing

Multiple licensing refers to a system for granting multiple firms licenses to use a technology. Under the multiple licensing scheme, restrictions on the scope of the use of technology, and selling price, sales volume, sales customers and suchlike 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 firms.

It is an unreasonable restraint of trade if it substantially restricts competition in the market associated with the product. 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 firms. Company X granted the license to six other firms. 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 firms to builders and the margin for builders should be fixed and that Company X should secure a 20% share of the sales volume with the remainder equally divided among Company X and the six companies. These and other conducts were found to be in violation of Section 3 of the Antimonopoly Act. (Fair Trade Commission Hearing Decision No. 2 of 1991 on September 10, 1993)

(3) 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 parties comparing to the number of the parties participating in a patent pool or in multiple licensing.

b. Even if the number of parties involved is limited, cross licensing may produce similar effects as those caused by the patent pool when it includes joint arrangements on the price, quantity, sales customers and others in a situation and where the participating parties collectively hold a high market share of a particular product market. For these reasons as in (1) above it constitutes unreasonable restraint of trade if it substantially restraints competition in the field of trade of the product in question.

c. It constitutes an unreasonable restraint of trade to set forth jointly the each party’s scope of the use of technology, which amount to the 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 Viewpoint

(1) Restrictions relating to the use of technology are studied 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 in relation to the use of technology constitute an unfair trade practice. For convenience, restrictions relating 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, (iv) imposing other restrictions.

(2) From the viewpoint of applying unfair trade practices, restrictions in relation to the use of technology will be examined if they may meet 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 by the following criteria in accordance with the method of analyzing the effect of lessening competition mentioned in Part 2-3.For other types of impeding fair competition, refer to (3) below.

(i) Whether or not a firm (including any entities with close relations with it; hereinafter the same shall apply) may deprive its competitors and others from trading opportunities or directly degrade the competing functions of the competitors and the others

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

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

In the examination on criteria (i) and (ii), it is not that they are deemed met only if a tangible effect of lessening competition is caused by the restriction.

(3) Apart from criteria (i) and (ii), whether or not the conduct constitutes an unfair means of competition or an infringement of the basis for free competition must in some cases be examined with regard to impeding fair competition. In this event, judgment should be made in overall consideration of the details and degree of influence on licensees’ business activities, the number of counterparts to the conduct and continuity or

repetitiveness of it, etc.

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

a. Whether or not the conduct constitutes an unfair means of competition is questioned, in a technology transaction, in relation to a conduct of inducing misunderstanding of the function or effect of the technology or the details of the rights to same, a conduct of spreading any defamatory information about the technologies of competitors and a conduct of interfering with competitors' business activities by filing a lawsuit for an injunction to prevent infringement of the right with an awareness that the right is invalid (Items 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 at the time of granting licenses to them in a situation in which the licensor enjoys a dominant bargaining position with respect to the licensees (Items 10 and 14 of the General Designation)..

With respect to the types of business activities discussed in 2 to 5 below, besides examining whether or not they tend to impede fair competition (tendency to lessen competition) mentioned in (2) above it is necessary, depending on individual cases, to examine whether or not the activities breach the basis of free competition may be examined.

Whether or not the licensor has a dominant bargaining position over licensees is examined through 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 overall state of competition of the technology or product market and the disproportion between the scale of business activities of each party.

(4) The following discussion focuses on whether or not individual restrictions in relation to the use of technology tend to impede fair competition (tendency to lessen competition) as mentioned in (2) above.

Applicable items of the unfair trade practices are clarified in the context of the activities described below. They do not suggest, however, that applicable items are limited to those shown but that they are presumed to be chiefly applied.

2. Inhibiting the Use of Technology

When a right holder to technology grants no license to use the technology to any other

firm or files a lawsuit for an injunction against any business activities to prevent the infringement of that right, such conduct is normally seen as an exercise of the right. According to the viewpoint explained in Part 2-1 above, however, the following activities are not recognizable as an exercise of the right but are examined whether or not they constitute unfair trade practices.

(1) In a case where a firm acquires the rights to a technology from the right holder, with the recognition that a competitor uses the licensed technology in its business activity and that it is difficult for the competitor to replace the technology with an alternative, and the firm refuses to grant a license for it in order to block the competitor from using the technology, this activity hinders the use of the technology for the purpose of interfering with the competitor's business activities. It is found to deviate from or run counter to the purposes of the intellectual property system. It is considered to constitute unfair trade practice if it degrades the competitive function of the competitor and tends to impede fair competition. (Items 2 and 15 of the General Designation)

For example, if any of the licensees of a technology used by several firms as a basis for their business activities in the product market obtains the rights from the right holder of the technology in order to block competitors (other licensees) from using the technology by refusing to license it to them, this activity may constitute unfair trade practices.

(2) When a right holder of a technology refuses to grant a license to stop other firms from using its technology after urging them to use its technology through deceptive 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 purposes of the intellectual property system. The conduct constitutes unfair trade practices if it degrades the competitive function of the other firms and tends to impede fair competition. (Items 2 and 15 of the General Designation)

A sample case that may constitute unfair trade practices is one in which one of the parties engaging in the joint formulation of standards vows to grant a license with very 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 parties recognizing that the standard has been set up and it is now difficult for the parties to shift to another technology.

(3) In a case where the technology provides a basis for business activities in a particular product market and a number of parties, accepting licenses for the technology, are

engaging in business activities, a conduct of discriminately refusing to license a particular entity without justifable grounds is found to deviate from or run counter to the purposes of the intellectual property system. If this conduct tends to impede fair competition by degrading the competitive function of the entity in the product market, it constitutes an unfair trade practice (Note 12). (Item 4 of the General Designation)

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 granting 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 2-1 above. Therefore, it should be examined whether those conducts can be recognized as exercise of rights in accordance from the principles explained in Part 2-1 above. If they are not recognizable as exercise of rights, they are examined from the viewpoint of unfair trade practice.

(1) Licensing rights in part

a. Function-specific licensing

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

b. Limiting the license period

In principle, limiting the period during which licensees can use the licensed technology will not constitute unfair trade practices.

c. Limiting the business field where the technology may be used

In principle, limiting the business field in which licensees may engage in business activities using the licensed technology, for example the scope of license to the manufacturing of a specific product, will not constitute unfair trade practices.

(2) Restrictions in relation to manufacturing

a. Limiting the territory in which manufacturing is allowed

In principle, similar to (1) above, limiting the territory in which licensees may use the technology to produce products will not constitute unfair trade practices.

b. Limiting the volume of products or the number of times of using the technology in manufacturing.

In principle, limiting the bottom of the volume of products licensees must produce using the technology will not constitute unfair trade practices provided the bottom does not function as obstacle for the licensees to use any other technology.

However, setting a ceiling on volume of products or number of times within which licensees can use the technology to produce 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 unfair trade practices if it tends to impede fair competition. (Item 13 of the General Designation)

(3) Restrictions in relation to export

a. In principle, prohibiting licensees from exporting the product incorporating the licensed technology will not constitute unfair trade practices.

b. Limiting areas to which licensees may export products incorporating the licensed technology will not constitute unfair trade practices.

c. The principle discussed in 4-(2)-a below applies to judgments made about any limitations on export volumes of the product, if it has the effect of impeding exported products from returning to the domestic market.

d. Obligations to export via any firm 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 as long as they have some impact on competition in the domestic market.

(4) Sub-licensing

In principle, limiting entities to which licensees may grant a sublicense will not constitute unfair trade practices.

4. Imposing restrictions in relation to the use of technology

When a right holder to a technology licenses other firms 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 secrets from being divulged or used for unintended purposes. Many such restrictions are considered justifiable to some extent in order to facilitate the effective use of technology or technology transactions. However, since they constrain the business activities of licensees they tend to lessen competition in some cases. Whether or not they have the tendency of impeding fair competition must be examined, in light of the question such as whether or not such restrictions are within the extent necessary to meet the aforesaid purposes.

(1) Restrictions on raw materials and parts

A licensor may impose limits on licensees as to the quality or suppliers of raw materials, parts 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 parts"). Such limits could be considered necessary to ensure the functions and effect of the technology, to maintain safety and to prevent the disclosure of secrets and hence are recognized as justifiable 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 parts 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 parts and suppliers of them. They have another effect of depriving those firms that supply alternative raw materials and parts of trading opportunities. They constitute an unfair trade practice if they exceed the necessary extent from the above viewpoint and may tend to impede fair competition. (Items 10, 11 and 13 of the General Designation)

(2) Restrictions on sales

In a case in which a licensor set a limit on the territory or volume in which licensees may sell products (including a copy of programs) using the licensed technology on customers or on the trademarks licensees can use, it may constitute formally restrictions on licensee's business activities.(For restrictions on prices, see the following section.)

a. The stance on limiting the scope of use of 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 unfair trade practices if the rights are recognized to have been

exhausted in Japan and in case of know-how licensing and tends to impede fair competition. (Item 13 of the General Designation)

b. Unlike the restrictions on the sales territory and volume mentioned in a. above, placing limitations on the counterparties of trade of products who may use a licensed technology is not recognized as imposing a limitation on the scope of use of the technology. It will constitute unfair trade practices if it tends to impede fair competition. Examples of such conducts include limiting counterparties (distributors) to those nominated by the licensor, limiting counterparties to those assigned to the licensees and prohibiting trade with specific parties. (Note 13) (Item 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 Seeds and Seedling 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 lessen competition, except in a case where the trademark is a significant means of competition and where licensees are prohibited from additionally using other trademarks.

(3) Restrictions on sale and resale prices

In a case in which a licensor places a restriction on licensees on the sale 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 lessens competition. Therefore it is as a rule recognized to constitute an unfair trade practice. (Item 13 of the General Designation)

(4) Restrictions on manufacturing and sale of competing products or on transactions with competitors

If any licensor imposes a restriction on licensees in relation to manufacturing or selling of any product that competes with the licensor’s products or to acquiring 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 from smoothly making technology transactions, with the ultimate 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. (Items 2, 11 and 13 of the General Designation)

Notwithstanding the above, it is thought that such restrictions within 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 expiration of the agreement.

(5) 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 efforts, the effect of restricting licensee's business activities is limited and it is unlikely to lessen competition. Therefore, it does not constitute unfair trade practices in principle.

(6) 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 expiration of the agreement dose not tend to impede fair competition and in principle does not constitute unfair trade practice.

(7) 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 stimulate competition by facilitating technology transactions and is unlikely to lessen competition directly.

However, it may fall under the category of unfair trade practice when it is found to tend to impede fair competition by continuing the rights that should be invalidated and restrict the use of the technology associated with the said rights. (Item 13 of the General Designation)

In principle, terminating the agreement 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 commence 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 entities.

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.

(1) Unilateral termination provisions

It is 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 activities. 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 moratorium. (Items 2 and 13 of the General Designation)

(2) Setting of royalties without relation to the use of technology

When a licensor sets up royalties based on a standard unrelated to the use of 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 activity constitutes unfair trade practices if it tends to impede fair competition. (Items 11 and 13 of the General Designation)

However, it will not constitute unfair trade practices provided that the licensed technology is used in part of the manufacturing process or is associated with any component and is reasonable as the method of calculating the royalties. For instance, calculating royalties using the manufacturing or sales quantity or value of the final product using licensed technology or components, or on the quantity of raw materials and components used is recognized as reasonable for the convenience of computation.

(3) Restrictions after extinction of rights

Imposing a restriction on the use of a technology or imposing an obligation to pay royalties even after rights to the technology have become extinct generally hampers the

free use of technology. It will constitute unfair trade practices if it tends to impede fair competition. (Item 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 installment or deferred payment of royalties.

(4) Bundle licensing

An obligation imposed by a licensor on licensees to obtain a bundled license covering a technology other than 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 parts 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 ultimately be excluded. It constitutes unfair trade practices if it tends to impede fair competition. (Items 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 effectively difficult for licensees to choose any technology other than that designated by the licensor.

Note 16: Bundle licensing as discussed in this section does not correspond to a case in which licensees are obliged, under a bundle licensing agreement for multiple patent and other rights, to pay royalties solely for those patent and other rights which they actually use from among those licensed.

<Illustrative Example>

○ Company X imposed on manufacturers and vendors 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 scheduling 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 Section 19 of the Antimonopoly Act (Item 10 of the General Designation). (Fair Trade Commission Recommendation Decision No. 21 of 1998 on December 14, 1998)

(5) Addition of functions to technology

Granting a license again for the use of a technology already licensed but with new

functions added is generally identical to a license for improved technology. Therefore adding new functions to a licensed technology is not immediately recognized as a restriction accompanying licensing.

However, let us presume a situation in which a particular technology provides a function which 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 presumed above, the new licensing has the effect of preventing the licensees from using other applied technologies and of depriving other firm offering the applied technologies of trading opportunities, given that licensee cannot help but being granted the new license. It constitutes unfair trade practice if it posses the tendency to impede fair competition. (Items 10 and 13 of the General Designation)

(6) Obligations of 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 firms designated by the licensor (Note 17), this obligation may have an adverse effect on competition in a market because it could result in the enhancement of an influential position of the licensor in a product or technology market or could further 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 is an unfair trade practice if it tends to impede fair competition. (Item 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 unfair trade practices generally if the licensees are in effective terms 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 firm designated by the licensor to use the patents and other rights owned or to be acquired by licensees in whole or in part.

(7) Restrictions on research and development activities

Restrictions 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 lessen future competition in the technology or product market. Such restrictions are recognized to have the tendency to impede fair competition (Note 18) and are in principle recognized as unfair trade practices. (Item 13 of the General Designation)

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

Note 18: Generally, a prohibition on modification to software programs 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 Item 3, Paragraph 2, Article 20 and Article 47-2 of the Copyright Act. Restraining such conduct, therefore, is not recognizable as an exercise of rights.

(8) Obligations to hand over 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 entities 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 hampering 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). (Item 13 of the General Designation)

b. An obligation that forces licensees to share the rights for improved technology they invent with the licensor restricts the freedom of use or disposition of the outcomes 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. (Item 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 hand over the rights for the improved technology in exchange for adequate compensation could be recognized essential to facilitate technology transactions. Moreover, it is not recognized as detrimental to licensees' motivation for research and development. It is generally confirmed to have no effect of impeding fair competition.

Note 19: As used in the Guidelines, an “exclusive license” includes the exclusive license stipulated in the Patent Act and a practice in which the right holder grants a normal license with 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.

Note20: 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.

(9) 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 in principle unfair trade practices 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 likely to discourage the licensees from undertaking research and development.

b. However, if the obligation accompanies a limit on the entities 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 constitutes an unfair trade practice if it has the tendency to impede fair competition. (Note 21) (Item 13 of the General Designation)

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

(10) 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 may therefore not constitute unfair trade practices. However, if imposing an obligation to report knowledge or experience owned by licensees means effectively forcing licensees to grant the licensor a license for their acquired know-how, 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. (Item 13 of the General Designation)