

IP Licensing Agreement and Antimonopoly Act in Japan

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Outline of the Antimonopoly Act in Japan

- The provisions of Japan's Antimonopoly Act originate from those of the equivalent laws in the United States.
 - ◆ Prohibition of private monopolization: Section 2 of the Sherman Act
 - ◆ Unreasonable restraint on trade: Section 1 of the Sherman Act
 - ◆ Unfair trade practices: Section 5 of the Fair Trade Commission (FTC) Act
- With regard to unfair trade practices, there is a list of illegal acts under the Act; any trade practice not included within this list shall not be deemed illegal.
- *Private monopolization*, unlike *abuse of a dominant position* in the US and EU, means excluding or controlling the business activities of other firms, thereby preventing effective competition.
This is applied only in rare cases.
- Japan is not as active as the US and EU in applying the Antimonopoly Act.

Revision to the Antimonopoly Act in 2005

- Acceleration of Issuance of Order
 - ◆ Under the old Act, the JFTC would hold hearings and then issue an order. This system was ineffective because hearings often took several years, during which competitors could be expelled from the market.
 - ◆ To solve this problem, the Act was revised in order to allow the JFTC to issue an order immediately without going through such hearings.
- Raising the rate for calculating the surcharge: from 6% to 10% of the sales amount
- Introducing the leniency scheme
 - ◆ Through this revision, a leniency scheme for surcharges has been introduced.
 - First applicant: Full reduction
 - Second applicant: 50% reduction
 - Third applicant: 30% reduction
 - ◆ While the Act does not provide for immunity from criminal accusation, the JFTC has made known that it will not accuse the first applicant.

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IP Licensing and the Antimonopoly Act

- Where the JFTC determines that a clause in an IP licensing agreement is in violation of the Antimonopoly Act, it may order every necessary measure in order to eliminate said violation: Cease and desist order
- Parties affected by an act of violation may seek an injunction against said violation and seek damages.
- The following guidelines released by the JFTC are considered as important references in IP practice:
 - ◆ Guidelines for the Use of Intellectual Property under the Antimonopoly Act (September 28, 2007)
[Old version: Guidelines on Patent and Know-How Licensing Agreements (July 30, 1999)]
 - ◆ Guidelines on Patent Pools (June 26, 2005)
 - ◆ Guidelines on Joint Research and Development under the Antimonopoly Act (June 29, 1993)

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Key Points of the Guidelines for the Use of Intellectual Property

1. Introduction of the Safe Harbor Rule

- ◆ The safe harbor rule shall apply when a firm has 20% or smaller share of the market for the product in question.
- ◆ In the case where a product share in a technology field cannot be calculated, the safe harbor rule shall apply when there are at least four firms holding rights to alternative technologies.
- ◆ The rule shall not apply to the following conducts: restricting sales prices, sales volume, market share, sales territories or sales customers for the product, restricting research and development activities, obliging firms to assign rights (or grant exclusive licenses) for improved technology.
- ◆ The safe harbor rule has been criticized inasmuch as it does not function as expected because it is not clear in which cases it applies.

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Key Points of the Guidelines for the Use of Intellectual Property

2. Inclusion of a List of Conducts of *Refusal to License*

- ◆ Where a firm participating in a patent pool refuses to grant a license to any new entrant without any reasonable grounds.
- ◆ Where a firm collects all of the rights to a technology and refuses to license them to prevent the competitors from using the technology, while not using the technology as its own
- ◆ Where a firm holding rights to a technology pushes for the technology's adoption as a standard through deceptive means, such as falsification of the licensing conditions applicable in the event of the technology's adoption as the standard, and then refuses to grant licenses so as to block any development or manufacturing of any product compliant with that product standard.
- ◆ Others

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Key Points of the Guidelines for the Use of Intellectual Property

3. Examples of Unfair Trade Practices

- ◆ Filing a lawsuit for an injunction to prevent infringement of the right with an awareness that the right is invalid
- ◆ Licensor requiring licensees to hand over to the licensor the rights for improved technology or to grant the licensor an exclusive license for such technology (grant back clause)

(The old guidelines read that a grant back clause shall not be illegal if the licensee is paid a reasonable consideration. This description has been deleted under the new guidelines.)

- ◆ Prohibiting licensees from acquiring a license for a competing technology from a competitor of the licensor
- ◆ Prohibiting licensees from manufacturing or selling products that compete with the licensor's products

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Key Points of the Guidelines for the Use of Intellectual Property

3. Examples of unfair trade practices

- ◆ *Non-Assertion of Patent Clause*

When a licensor imposes on licensees an obligation to refrain from exercising the patent rights owned by them against the licensor or any firms designated by the licensor,

this obligation may have an adverse effect on competition in a market because it could result in the enhancement of the licensor's influential position or 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.

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Key Points of the Guidelines for the Use of Intellectual Property

3. Examples of unfair trade practices

◆ *No-Challenge Clause*

● Old Guidelines (1999)

Imposing this obligation was deemed to constitute a unfair trade practice and be illegal (whereas the licensor was allowed to stipulate in the licensing agreement that the licensor may cancel the agreement when the licensee challenges the validity of the licensed patent rights)

● New Guidelines (2007)

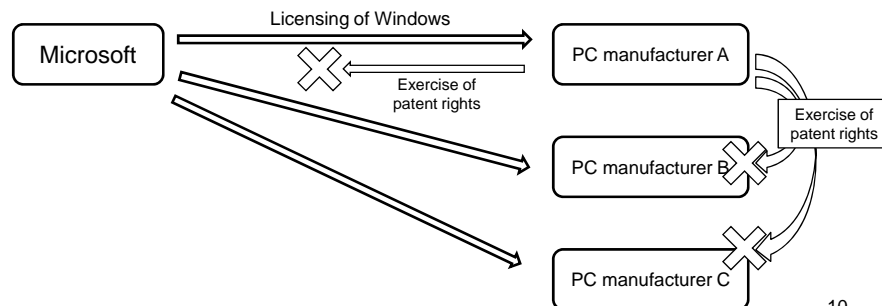
This clause is considered to be able to stimulate competition by facilitating technology transfer and is unlikely to lessen competition directly.

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Cases Currently Pending before JFTC

■ Microsoft Case

- ◆ The case wherein a NAP clause is disputed in the licensing agreement for Windows by Microsoft.
- ◆ The NAP clause in the Windows licensing agreement stipulated that each licensee (PC manufacturers) will not sue Microsoft and other licensees for patent infringement by Windows OS.



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Cases Currently Pending before JFTC

- JFTC's arguments in the Microsoft case
 - ◆ Japanese PC manufacturers such as Sony, Panasonic and Mitsubishi hold a number of patents for audio-visual technologies.
 - ◆ Because of the NAP clause, Microsoft can incorporate AV facilities into Windows without risk of being sued on the ground of patent infringement.
This enhances Microsoft's dominant position.
 - Windows is expanding its facilities including AV facilities such as codec (MPEG, etc.).
 - ◆ The NAP clause prevents Sony and other licensees that hold AV technologies from exercising the patent rights not only against Microsoft but also against other licensees.
Since Windows has a 95% share, the licensees are unable to exercise patent rights against almost all PC manufacturers.
This reduces the licensees' incentive to engage in research and development, thereby impeding the development of new technologies.

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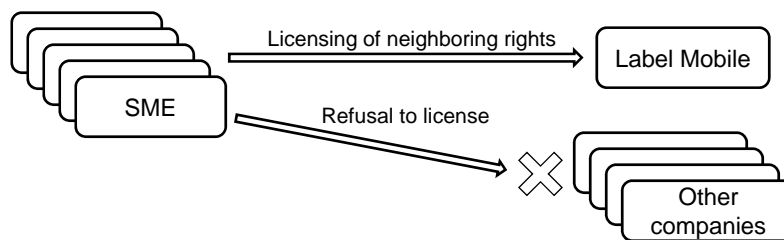
Cases Currently Pending before JFTC

- However:
 - ◆ The NAP clause has a reasonable purpose, namely preventing confusion that may arise from the exercise of the patent rights after the licensees' technologies are incorporated into Windows and have become widely used.
 - ◆ The NAP clause is included in the licensing agreements for many patent pools for the same purpose.
 - ◆ Microsoft pays royalties to MPEG LA, etc. under licensing agreements.
- Patent pools for information appliances or AV technologies are becoming increasingly important for Japanese firms.
Since most licensing agreements for patent pools contain an NAP clause, the JFTC's decision in this case will be important.

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Cases Currently Pending before JFTC

- SME, et al. Case
 - ◆ In Japan, internet service providers (ISPs) provide services for downloading ringtones for cell phones from their websites.
 - ◆ SME and four other companies have jointly established a new company, Label Mobile, in order to provide ringtone download services.
 - ◆ SME, et al. have licensed their neighboring rights to Label Mobile exclusively, while refusing to license the rights to other companies.
 - ◆ Their market share was about 50%.



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Cases Currently Pending before JFTC

- SME, et al. Case
 - ◆ The JFTC examiners commenced hearing procedures, alleging that SME, et al., without reasonable grounds, jointly refused to license neighboring rights to other companies, and that this constituted an unfair trade practice.
 - ◆ This case is similar to the Magill case in the EU, and the JFTC's decision in this case will be of great consequence.

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Thank you.

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