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To: Person in charge of Intellectual Property Guidelines  
Trade Practices Division  
Japan Fair Trade Commission

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**Opinions on the “Guidelines for the Use of Intellectual Property under the Antimonopoly Act” (Draft)<sup>i</sup>**

We would appreciate it if you could take into consideration our opinions stated below regarding the draft of the “Guidelines for the Use of Intellectual Property under the Antimonopoly Act,” for which the Japan Fair Trade Commission (JFTC) is currently soliciting comments from the public.

We would like to actively support the initiative for the formulation of the guidelines. We would be grateful if you could give us the opportunity to hear a detailed explanation and exchange opinions when necessary.

**I. Overall comments**

The JFTC has recently developed a draft of the “Guidelines for the Use of Intellectual Property under the Antimonopoly Act” (hereinafter referred to as the “Revision Draft”), which describes, in a cross-sectional manner, the basic principles for finding cases of “substantially restricting competition” and cases of “having the tendency to impede competition.” These principles are very helpful for firms in checking whether their business activities are prohibited under the Antimonopoly Act. However, on a case-by-case basis, we find some descriptions of the guidelines to be unclear in specifying what kind of case would or would not constitute violation of the Antimonopoly Act. For instance, Part 4-1-(2), states: “In the examination on criteria (i) and (ii), ... they are regarded as satisfied only if a certain risk of tending to impede free competition is found.” In this statement, the meaning of the phrase “a certain risk” is unclear. It would be more helpful if the Revision Draft would specify the prohibited activities and the permissible activities for each type of business activity discussed

therein, so that firms can determine whether their activities are closer to (or fall within) the category of prohibited or permissible activities.

Similarly, it would be desirable for the Revision Draft to indicate as many case examples as possible, and we hope that the case examples indicated in the existing guidelines will be maintained in the Revision Draft, unless they are particularly inappropriate. For instance, Part 3-(2)-(c) of the existing guidelines shows an example of a patent pool (relating to Product D), whereas the corresponding section of the Revision Draft, Part 3-2-(1), does not show any example. This change makes it seem as if that example has been deleted on purpose, and the Revision Draft might be construed to preclude such an example. If the examples contained in the existing guidelines are also applicable under the Revision Draft, we would request the Revision Draft to continue to indicate such examples, to avoid misunderstanding.

## **II. Know-how**

According to the principle of always distinguishing patents and know-how, the Revision Draft treats know-how as a kind of “technology” subject to the guidelines, and seems to pay less attention to the unique characteristics of the know-how (e.g. know-how needs to be kept secret, and the period of the right for know-how is not limited by years). We would request reconsideration of the following points.

- In Note 13 for Part 4-4-(7), we hope that the Revision Draft will clearly provide that a contest over whether or not the know-how indicated in the existing guidelines is in the public domain shall be regarded as a contest over the validity of the rights. Unlike the case of alleging invalidity of a patent, which should be conducted through administrative proceedings, there is no limitation to the method of contesting whether know-how is in the public domain. If a contest is brought to court, the secrets of the know-how might be disclosed in court proceedings, although some protective measures are available. Considering this, the need to restrict the act of contesting the validity of know-how may be higher than for patents.
- Part 4-5-(9)(b) addresses the case where limitation is imposed for potential licensees of the improved technology. If the improved technology is based on the licensed know-how, there may be no criterion for clearly distinguishing between the know-how and the improved technology. In such a case, if the licensee discloses the improved technology, the licensor would suffer damage in the same way as if the know-how was leaked or disclosed. On the other hand, Part 4-5-(7) provides that

restriction to the extent necessary for preventing disclosure of know-how does not constitute an unfair trade practice. We hope that Part 4-5-(9) will also contain this provision, stipulating as follows: “where the licensed technology is know-how and the improved technology is based on the know-how, imposing a limitation for the potential licensees of the improved technology to the extent necessary for keeping the secrets of the know-how may be usually recognized as having no tendency to impede fair competition if there is no effective way to prevent disclosure of know-how or its use for unauthorized purposes other than imposing such a limitation.”

### **III. Program works**

The Revision Draft has expanded the scope of intellectual property subject to the guidelines to include program works in the scope. As know-how discussed above, program works are also treated as a kind of “technology” subject to the guidelines. Unlike patents and know-how, program works are dealt with as *products* on the market. The report released on March 20, 2002, entitled “Views on Software Licensing Agreements, etc. under the Antimonopoly Act -An Interim of the Study Group on Software and Competition Policy-” (hereinafter referred to as the “Interim Report”)<sup>1</sup> contains the JFTC’s views focusing on how to deal with software licensing agreements under the Antimonopoly Act. We hope that the Revision Draft will clearly make a mention of the treatment of the Interim Report. We would also request reconsideration on the following points.

- Part I Introduction: 2 Scope of Application of the Guidelines (1), Note 2

Since program works are a kind of works protected under the Copyright Act, we would request an explanation on why the Revision Draft includes program works in the scope of technologies subject to the guidelines. We would also request an explanation on how to deal with the case where works other than program works which contain technical matters, such as technical instructions and manuals, are covered by the license.

- Part I Introduction: 2 Scope of Application of the Guidelines (2)

Under the Copyright Act, the program itself is the subject matter for protection, and the copyright therein involves the rights to make reproduction or derivative works from the program. In this context, we hope that the Revision Draft will specifically

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<sup>1</sup> <http://www.jftc.go.jp/e-page/pressreleases/2002/march/020320interim.pdf>

describe what would be the restrictions in relation to the use of technology in the case of program works.

- Part 2 Basic Principles on Application of the Antimonopoly Act: 2 Principles on identifying a market, (3)

Since program works may be supplied to the market as products, they fall within the categories of both “technology” and “products”. We are concerned that this could cause confusion throughout the Revision Draft, and therefore we consider that due consideration is required in this respect. For instance, a product in which technology (program work) is integrated could be construed to be a program work or a computer which operates by means of the program work (or computer in which the program work is installed). Thus, since some program works may be regarded as “technology” while others are regarded as “products”, the market to which program works belong may be identified in various ways (program market or computer market), and this might affect the application of the Antimonopoly Act. For this reason, we hope that the Revision Draft will explain in detail how to identify the market for program works by giving relevant examples. In the Interim Report, page 4 (Note 4), the term “software technology market” is defined, with the explanation on the four characteristics to be considered in identifying the product and technology markets pertaining to software. We hope that the Revision Draft will show whether the same rules will apply.

Part 4-4-(2) “Restrictions on sales” contains the phrase “sell products (including a copy of programs) using the licensed technology.” This might be misconstrued as meaning the sale based on the license for copying. Therefore, we hope that the part in parentheses will be deleted, and a detailed explanation will be given in the main text of this section.

- Clarifying the treatment under the Copyright Act

The Interim Report describes the treatment of software under the Copyright Act. In line with this, we hope that the Revision Draft will clearly provide for the original author’s rights in the case, for instance, where the improved technology (Part 4-5-(8)) falls within the scope of derivative works.

#### **IV. Specific Issues**

1. Part 2 Basic Principles on Application of the Antimonopoly Act: 2 Principles on identifying a market, (1)

This section explains the principles for evaluating restrictions in relation to the use of technology in accordance with the Antimonopoly Act. We consider that the Revision Draft will be more handy as a reference if it indicates the outline of the principles applicable to “private monopolization,” “unreasonable restraint of trade,” and “unfair trade practices” (the principles detailed in Part 2-3 and thereafter) in the form of a table or diagram.

2. Part 2 Basic Principles on Application of the Antimonopoly Act: 2 Principles on identifying a market, (3)

The factors mentioned in Part 2-3 as the matters to be taken into consideration in analyzing the effect of lessening competition, such as the market share and rank, would vary depending on how to identify the market. Although the Revision Draft states that the market is, in principle, identified from the viewpoint of substantiality to consumers, it seems that the market is, in reality, rather identified based on the definition of the product. The Revision Draft also states that the effect of lessening competition may also be analyzed focusing on the technology market. However, in this case too, if the technology market is specified by the technology that is widely applicable, the share of the technology used only in a limited field would be small in that market, and the effect of lessening competition in relation to such technology would be found to be negligible. Therefore, we are concerned that the analysis on the effect of lessening competition will vary depending on how to identify the market. We hope that the Revision Draft will give more specific examples regarding the market identification.

3. Part 2 Basic Principles on Application of the Antimonopoly Act: 5 Cases where restrictions are deemed to have negligible effect of lessening competition

We hope that the Revision Draft will specify the grounds for the indicators presented as the principles in this section (having a product share of 20% or less in total; the existence of at least four firms holding rights to alternative technologies available).

4. Part 3 Viewpoints from Private Monopolization and Unreasonable Restraint of Trade: 1. Viewpoints from Private Monopolization, (1) Inhibiting the use of technology, (b)

We would request consideration on the original right holder’s responsibility in the case (b), or more specifically, the case where the original right holder has assigned his patent right to a third party, while knowing the existence of the licensees of the patent, thereby helping the assignee’s attempt to refuse to license the technology to

others, preventing them from using it. We also request this issue to be considered from the perspective of unreasonable restraint of trade.

5. Part 3 Viewpoints from Private Monopolization and Unreasonable Restraint of Trade: 1. Viewpoints from Private Monopolization, (1) Inhibiting the use of technology

The section (d) states “...when the right holder refuses to grant licenses so as to block any development or manufacturing of any product compliant with a standard...” In the “Guidelines on Standardization and Patent Pool Arrangements” published on June 29, 2005, Part 2-3 includes the following statement: “refusal to grant a license of the patent without reasonable grounds (including the cases of requesting an excessive royalty which may be deemed to be a refusal)...” We hope that the Revision Draft will also clearly indicate the same statement.

The same applies to the statement in Part 4 Viewpoints from Unfair Trade Practices, 2 The act of inhibiting the Use of Technology, (2), “(a right holder of a technology) refuses to grant a license to stop other firms from using its technology...”

Furthermore, Part 3-1-(1)(d) includes the following statement: “...through deceptive means, such as falsification of the licensing conditions applicable in the event the technology is incorporated into the standard...” Where firms jointly engaged in the process of developing a product standard have agreed to disclose their rights relating to the technology indispensable to the development of the standard, and if one of the firms, despite such an agreement, intentionally conceals its right, and claims high royalties for the concealed right from other firms after the standard has been established and other firms have no other option but to obtain a license for the right in order to use the standard, such an act would make it difficult or impossible for other firms to carry out the business activities that they had initially planned (and force them to give up the development or manufacture of any product compliant with the standard), and therefore it should be deemed to constitute exclusion of business activities of other firms. Therefore, we hope that the Revision Draft will indicate, as an example of a “deceptive means,” the case where the right holder intentionally conceals his right relating to the technology indispensable to the development of a standard despite the agreement that all rights relating to that technology shall be disclosed.

The same applies to the statement in Part 4 Viewpoints from Unfair Trade Practices, 2 The act of inhibiting the Use of Technology, (2), “...deceptive means, such as falsification of licensing conditions...”

## 6. Cross licensing

Part 3-2-(2)(c) states as follows: “The reciprocal imposition of restrictions on the scope of the use of technology or on business activities using the technology constitutes an unreasonable restraint of trade if it substantially restrains competition in the field of trade relating to the technology or product.” The main clause of Part 4-3 includes the following statement: “a case in which multiple parties owning rights to different technologies set out the scope of use of one another’s technology in their cross licensing agreement. Since this activity prevents these parties from using their own technology beyond the limited scope, it does not serve the purposes of the intellectual property system, which is to facilitate the use of technology. In addition, it lessens competition among the parties. Hence, it is generally not recognized as an exercise of rights.” The purpose of a cross licensing agreement is for each party to grant a license to the other party, rather than restrict the use of its technology by the other party. The aforementioned statements in the Revision Draft are understandable in the case where either party intends to restrict the use of its technology by the other party by way of cross licensing. However, if a cross licensing agreement does not restrict each party from using the other party’s technology but it is only intended to mutually grant licenses, the agreement may not immediately constitute an unreasonable restraint of trade or unfair trade practice even if the licenses relate to different technologies. We hope that the Revision Draft will clearly state this point.

We have the same opinion regarding the statement in Part 4-3-(1) (a), “(in a case in which multiple parties engaging in business activities using certain technologies) jointly limit the scope of their business activities through cross licensing..., this activity is not recognized as an exercise of rights as mentioned above.”

## 7. Part 4 Viewpoints from Unfair Trade Practices: 4. Imposing restrictions in relation to the use of technology, (2) Restrictions on sales, (b)

In the existing guidelines, Part 4-5-(3)(d) explains that where a licensor requires a licensee to use a specific trademark, it may constitute an illegal act (General Designation, Item 10 (Tie-in sales) or Item 13 (Dealing on restrictive terms)). The Revision Draft has changed this policy and provides that such an act shall not constitute an unfair trade practice. Due to the significant difference in descriptions between the existing guidelines and the Revision Draft, the Revision Draft might be construed to have relaxed or revised the criteria for judging unfair trade practice. If the basic viewpoints under the existing guidelines remain applicable, we hope that the Revision Draft will adopt the descriptions of the existing guidelines with minimum change, or if

the Revision Draft maintains its descriptions, we hope that it will clearly explain that there has been no change in the “basic viewpoints” from the existing guidelines, while giving specific examples of the exceptional case “where the trademark is a significant means of competition and where licensees are prohibited from additionally using their own trademarks.”

8. Part 4 Viewpoints from Unfair Trade Practices: 5 Other Restrictions, (2) Setting up royalties without relation to the use of technology

This section states that calculating royalties using the sales value of the final product using licensed technology or components may be recognized as reasonable for the convenience of computation. We hope that the Revision Draft will clearly mention that this statement only means that there is room for finding it reasonable to calculate royalties based on the contribution of the licensed process or components to the final product, and that it does not mean to permit calculating royalties based on the price of the final product without taking into consideration the contribution to the final product with regard to the process or components with a low contribution.

9. Reference table

“Limitation on areas to which licensees may export products incorporating the licensed technology” is categorized as a restriction that may constitute an unfair trade practice. This seems to be an error because Part 4-3-(3)(b) provides that such an act will not constitute an unfair trade practice. We presume that this is meant to refer to “limitation on export volumes.” If so, it would overlap with the entry in another place in the same table. Therefore, to avoid confusion, we recommend it to be deleted from the table.

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