

# A COMPARISON OF INTERNATIONAL INTELLECTUAL PROPERTY LICENSING GUIDELINES IN THE UNITED STATES AND JAPAN

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## I. INTRODUCTION

The purpose of this paper is to examine the substantive and procedural differences between the United States and Japan regarding their enforcement of restrictive provisions in international licensing agreements. The paper analyzes the regimes governing licensing transactions between domestic and foreign parties.

Both countries have recently reformed their guidelines governing international licensing agreements and their restrictive provisions. The Japanese guidelines were promulgated by its Fair Trade Commission, whereas the Justice Department produced the United States guidelines. Each set was written to provide insight into the enforcement policies of their respective countries and to assist the licensing parties in avoiding illegal restrictive provisions in their agreements. However, the two guidelines take different approaches in determining which license provisions and limitations will be challenged as unlawful and which types of procedures will be applied. This paper focuses on these procedural distinctions as well as the effects such distinctions will have upon the licensing parties.

In order to better understand the current policies and enforcement techniques employed in each country, a brief history is provided as to how the two sets of present guidelines were derived. The paper also analyzes the differences between the recently revised and original guidelines. The historical section and comparative analysis should assist in understanding any new effects that the two countries' present guidelines will create.

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## THE UNITED STATES DEPARTMENT OF JUSTICE LICENSING GUIDELINES

### A. Past and Present Licensing Standards

The United States proscribes activity that tends to interfere in or reduce the competitive nature of its markets. Thus, licensing agreements that have anticompetitive effects, decreasing a market's maximum efficiency and productivity, are outlawed by the United States antitrust laws. Several antitrust laws are applicable to licensing agreements, including: (1) section 1 of the Sherman Act,<sup>1</sup> which forbids contracts or conspiracies in restraint of trade, (2) section 2 of the Sherman Act,<sup>2</sup> which prohibits monopolization, including attempts and conspiracies, of trade or commerce, and (3) the sections that create and define the powers of the Federal Trade Commission.<sup>3</sup>

A debate has existed in the past as to whether the exploitation of patents, by license or otherwise, is excluded from the United States antitrust laws.<sup>4</sup> One argument, advocated by the Department of Justice (DOJ), declared that since a patent grant gives patent owners the exclusive right to market and exploit their inventions, and the goal of antitrust laws is to promote competition, the two are irreconcilable. Thus, patents and patent licenses should be an exception to competitive antitrust policies.<sup>5</sup> However, "the argument of inherent irreconcilability . . . is analytically incorrect; it misunderstands both the effect of the patent grant on competition and the purpose of the antitrust laws."<sup>6</sup> Another argument stressed that, as part of its goal to encourage investment in research and

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1. 15 U.S.C. § 1 (1890).

2. 15 U.S.C. § 2 (1890).

3. 15 U.S.C. §§ 41 et seq. (1914). The Federal Trade Commission was designed to promote export trade and prevent unfair methods of competition.

4. Although the following discussion pertains only to patents, know-how licensing agreements are similarly open to antitrust scrutiny. See A. Lipsky, *Current Antitrust Division Views on Patent Licensing Practices* 1, Remarks before the American Bar Association Antitrust Section National Institute on Critical Issues in International Antitrust and Unfair Competition Law (November 5, 1981) (outlines Department of Justice's approach to the application of antitrust law in patent and know-how licensing agreements, although time restraints force the authors to discuss patent questions only).

5. See R. Andewelt, *Basic Principles to Apply at the Patent-Antitrust Interface* 3-4, Remarks before the Houston Patent Law Association (December 3, 1981) [hereinafter *Basic Principles*] (available from the Department of Justice). This view created hostility within the DOJ toward restrictive provisions in patent licenses.

6. *Id.* Andewelt notes that the exclusive patent rights many times foster significant competitive activity. For example, inventors (or their companies) must often invest heavily in research and development to arrive at a final product. Yet the willingness to invest will be proportional to the reward that the inventors feel they will reap. The existence of exclusive rights in an invention, through a patent grant, may increase the eventual reward and hence induce development of otherwise unproduced inventions. Accordingly, patent grants do not conflict with competitive enterprise. *Id.*

development, Congress intended to make the exploitation of patents immune from the antitrust laws.<sup>7</sup> However, the courts were unwilling to accept this argument without clear guidance from the legislature.<sup>8</sup> Finally, others have argued that section 261 of the Patent Laws expressly excludes patents from antitrust examination.<sup>9</sup> It was fair to conclude then that patent (and know-how) licensing agreements were susceptible to United States antitrust laws.

### 1. The Nine No-No's

With the susceptibility of patent and know-how rights to anti-trust scrutiny established, the DOJ compiled and promulgated the list of "nine no-no's." These were nine specific restrictive licensing provisions determined to be *per se* illegal and as having an "adverse effect upon competition."<sup>10</sup> The nine no-no's were first set out in 1970<sup>11</sup> in an attempt to codify previous relevant case law. According to Bruce Wilson, then Deputy Assistant Attorney General of the DOJ Antitrust Division, these provisions were intended to be viewed with two basic goals in mind: first, to encourage competition in the American economy and, second, to promote technological progress.<sup>12</sup>

With the nine no-no's, the DOJ determined that the following restrictive provisions in licensing agreements were unlawful:

1. Requiring a licensee to purchase unpatented materials from the licensor (tie-ins),<sup>13</sup>
2. Requiring a licensee to assign to the patentee (licensor) any patent that may be issued to the licensee after execution of the licensing agreement (grantbacks),<sup>14</sup>
3. Restricting a purchaser of a patented product in the resale

7. *Id.*

8. *Id.*; see also, e.g., *Silver v. New York Stock Exchange*, 373 U.S. 341, 357 (1963); *United States v. Borden Co.*, 308 U.S. 188, 198-99 (1939).

9. *Basic Principles*, *supra* note 4, at 9. 35 U.S.C. § 261 (1952) states that "[t]he applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an *exclusive right* under his application for patent, or patents, to the whole or any specified part of the United States." *Id.* at ¶ 2 (emphasis added). This contention, however, is inapplicable to patent licenses according to one court. *Moraine Products v. ICI American, Inc.*, 538 F.2d 134, 137 (7th Cir. 1976), *cert. denied*, 429 U.S. 941 (1976).

10. B. Wilson, *Department of Justice Luncheon Speech Law on Licensing Practices: Myth or Reality? Or Straight Talk from "Alice in Wonderland"* 9, Remarks before the American Patent Law Association (January 21, 1975) (available from the DOJ).

11. *Id.* at 2.

12. *Id.* at 8.

13. See, e.g., *International Salt Co. v. United States*, 332 U.S. 392, 396 (1947) (Court nearly held tie-ins as *always* violative of the antitrust laws).

14. See, e.g., *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 648 (1947).

- of that product,<sup>15</sup>
4. Restricting a licensee's freedom to deal in products or services not within the scope of the patent (tie-outs),
  5. Agreeing (patentee) with licensee that patentee will not, without the licensee's consent, grant further licenses,<sup>16</sup>
  6. Requiring mandatory package licensing (DOJ viewed this as unlawfully *extending* patent rights),<sup>17</sup>
  7. Insisting, as a *condition* of the license, that the licensee pay royalties in an amount not reasonably related to the licensee's sales of products covered by the patent,<sup>18</sup>
  8. Restricting the licensee's sale of products made by the use of the licensor's patented process,<sup>19</sup> and
  9. Requiring a licensee to adhere to any specified or minimum price regarding its sales of the licensed products (price fixing).<sup>20</sup>

Aside from these nine rules, the Department declared that it would analyze all other restrictive provisions by the rule of reason.<sup>21</sup>

## 2. Abandonment of the Nine No-No's

As noted above, during the nine no-no's era the DOJ was hostile to intellectual property protection because it was seen as anticompetitive and inherently in conflict with the goal of antitrust law.<sup>22</sup> This was a misperception; intellectual property protection is not necessarily anticompetitive, nor does it necessarily conflict with antitrust policy.<sup>23</sup>

15. See, e.g., *United States v. Arnold, Schwinn, Inc.*, 388 U.S. 365, 375-81 (1967); *In re Yarn Processing Patent Validity Litigation*, 541 F.2d 1127, 1135-37 (5th Cir. 1976), *cert. denied*, *Lex Tex Ltd., Inc. v. Universal Textured Yarns, Inc.*, 433 U.S. 910 (1977). Resale restrictions are most often encountered in cases involving territorial allocations. 1 *Patent Law and Practice*, H. EINHORN, *PATENT LICENSING TRANSACTIONS* § 7.02[1][d] (1990).

16. See, e.g., *United States v. Besser Mfg. Co.*, 96 F. Supp. 304, 311 (E.D. Mich. 1951), *aff'd*, 343 U.S. 444 (1951); *United States v. Krasnov*, 143 F. Supp. 184, 198 (E.D. Pa. 1956), *aff'd per curiam*, 355 U.S. 5 (1957).

17. See, e.g., *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769, 775-76 (3d Cir. 1959), *cert. denied*, 361 U.S. 902 (1959); *Hazeltine Research, Inc. v. Zenith Radio Corp.*, 239 F. Supp. 51, 77-78 (N.D. Ill. 1965), *rev'd*, 338 F.2d 25 (7th Cir. 1967), *aff'd in part, rev'd in part*, 395 U.S. 100 (1969).

18. See, e.g., *Automatic Radio Mfg. Co., Inc. v. Hazeltine Research, Inc.*, 339 U.S. 827, 830-31 (1950).

19. See, e.g., *Barber-Colman Co. v. National Tool Co.*, 136 F.2d 339, 343-44 (6th Cir. 1943).

20. See, e.g., *United States v. General Electric Co.*, 272 U.S. 476 (1926); *United States v. New Wrinkle, Inc.*, 342 U.S. 371, 377-78 (1952).

21. *Wilson*, *supra* note 10, at 10; see *infra* section II.B.1 (discussion of the rule of reason analysis).

22. See *supra* note 5 and accompanying text.

23. For a thorough discussion of why this is so see R. Andewelt, *The Antitrust Division's Perspective on Intellectual Property Protection and Licensing-The Past, The*

Analogous considerations caused the DOJ to change its perspective about intellectual property *licensing agreements* and to realize that such agreements could have significant beneficial effects on competition.<sup>24</sup> First, focusing exclusively on the restrictive provision's effect on the *licensee*, as the per se approach does, is incorrect.<sup>25</sup> Restricting the licensee does not necessarily impede the competitive process; indeed, competition may be promoted. Second, a restrictive provision must be viewed on the *balance* of its anticompetitive effects; merely impairing one aspect of competition is not decisive.<sup>26</sup> By deeming certain restrictive licensing provisions per se illegal, the nine no-no's provided no avenue to observe the countervailing competitive effects of these provisions. Thus, in its per se approach, the DOJ limited itself to a narrow analysis of restrictive provisions. By realizing these misperceptions, the Department gained a new perspective on licensing agreements, which ultimately led to the repudiation of the nine no-no's.

The Supreme Court provided further impetus to abandon the nine no-no's. In *United States v. Arnold, Schwinn & Co.*,<sup>27</sup> the Court was faced with a licensing agreement that contained a territorial restraint on the distribution of Schwinn's bicycles. After examining the restriction, the Court held that "where a manufacturer *sells* products to his distributor subject to territorial restriction upon resale, a per se violation . . . results."<sup>28</sup> *Schwinn*, however, created a "continuing controversy and confusion, both in the scholarly journals and in the federal courts."<sup>29</sup> The consensus of scholarly opinion was critical, and several courts limited *Schwinn's* reach.<sup>30</sup> The Court subsequently overruled this per se approach and held that "departure from the rule-of-reason standard must be based on demonstrable economic effect rather than . . . upon formalistic line

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*Present and The Future* 8-11, Remarks before the American Bar Association Patent, Trademark & Copyright Section (July 16, 1985) [hereinafter *Antitrust Division's Perspective*] (available from DOJ).

24. *Id.* at 11.

25. *Id.* at 13. For example, vertical restrictions may *promote* intrabrand competition in that the manufacturer can increase its distribution efficiency on a product. (A vertical restraint is one that affects competition between the licensee and other licensees that are not parties to the contested agreement, or the licensor and other licensors.) Moreover, such restrictions may induce retailers to invest capital and labor into the distribution and promotion of publicly unknown products as well as service and repair. *Continental T.V., Inc. v. GTE Sylvania, Inc.* 433 U.S. 36, 54-55 (1977); *see also*, Preston, *Restrictive Distribution Arrangements: Economic Analysis and Public Policy Standards*, 30 *LAW & CONTEMP. PROBS.* 506, 511 (1965) (identifies ways in which competition is promoted in vertical restrictions).

26. *Antitrust Division's Perspectives*, *supra* note 23, at 13.

27. 388 U.S. 365 (1967).

28. *Id.* at 379 (emphasis in original).

29. *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 47 (1977).

30. *Id.* at 47-48, 48 nn.13-14 (citing articles and cases).

drawing."<sup>31</sup> The holding in *Continental T.V.* thus provided another reason for the DOJ to abandon the nine no-no's.<sup>32</sup>

### 3. The New DOJ Guidelines

On June 8, 1988, the DOJ promulgated a new set of licensing guidelines (New DOJ Guidelines).<sup>33</sup> The language of the new guidelines reflected the changed perspective among Department personnel.<sup>34</sup> The per se approach to the legality of restrictive licensing provisions had now been replaced by the antitrust rule of reason standard.<sup>35</sup>

The intent of the New DOJ Antitrust Guidelines was "to advise the business community, the legal profession, and interested members of the public of the general legal and economic analysis undertaken by the [DOJ] in making prosecutorial decisions under the antitrust laws regarding *international* business conduct."<sup>36</sup> Moreover, the DOJ claims it will apply the guidelines with flexibility and reasonableness, depending on the facts and circumstances.<sup>37</sup> The Department also welcomes input from the public as to all matters that potentially address the guidelines in an appropriate or ben-

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31. *Id.* at 58. The Court further determined that "per se rules of illegality are appropriate only when they relate to conduct that is manifestly anticompetitive." *Id.* at 49-50.

32. The restriction in *Schwinn*, involving distributors of bicycles, was vertical. Three of the nine no-no's involve classically vertical restraints. See *supra* text accompanying notes 10-21 (discussion on no-no's 3, 4, 9). Thus, the Supreme Court was essentially declaring that these three no-no's were invalid.

In *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122 (D.C. Cir. 1981), the circuit court overruled the district court's finding of an antitrust violation. In so doing, the court upheld the legality of a provision granting an exclusive right to sell an unpatented product made by a patented process and restricting all other licensees from such sales. *Id.* at 1135. This decision also contravenes one of the nine no-no's, i.e., it is per se illegal to restrict a licensee's sales of products using a patented process. See *supra* text accompanying note 19 (discussion on no-no 8).

33. Department of Justice Antitrust Guidelines for International Operations [hereinafter New DOJ Guidelines], 53 Fed. Reg. 21,584-21,614 (1988).

34. "The licensing of intellectual property benefits consumers by expanding access to technology and bringing it to the marketplace in the quickest and most efficient manner. Licensing permits the owner of technology to, in effect, combine the owner's assets with the manufacturing and distribution assets of others." *Id.* at 21,593.

35. Although it took the DOJ until 1988 to draft new guidelines, the DOJ's current enforcement policy with respect to international licensing guidelines was enunciated in a speech given in 1981 by the Deputy Assistant Attorney General of the Antitrust Division. Lipsky, *supra* note 4. For more information along these lines see Griffin, *The Demise of the Nine No-No's and Other Significant Changes in U.S. Antitrust Policies Concerning Transnational Technology Licensing*, 15 SWISS REV. INT'L ANTITRUST L. 39 (1982).

36. *Id.* at 21,584 (emphasis added). The DOJ further states that the guidelines "are intended only to provide *general guidance* as to how the Department analyzes certain commonly occurring issues affecting its own enforcement decisions." *Id.* (emphasis added).

37. *Id.*

official manner.<sup>38</sup>

DOJ antitrust enforcement efforts focus upon anticompetitive activity that "affects U.S. consumer welfare."<sup>39</sup> The effect must be direct, substantial, and reasonably foreseeable to justify enforcement.<sup>40</sup> However, the guidelines state that in order for antitrust enforcement to be effective, it must reach some conduct that occurs outside the United States.<sup>41</sup> Activity with only a remote effect on such welfare will not be addressed.<sup>42</sup>

## B. Differences Between the New and Old Guidelines

The nine no-no's took a strict approach towards licensing agreements. If a restrictive provision in the agreement fell under one of the nine rules, it was determined by the DOJ to be per se unlawful. On the other hand, any provision not covered by one of the nine rules was analyzed under the rule of reason. As noted previously, this wooden approach came under extensive fire from scholars as well as judges. Moreover, this approach arose from flawed reasoning that was eventually corrected in subsequent DOJ thinking.<sup>43</sup>

With the adoption of the 1988 guidelines,<sup>44</sup> the DOJ's new approach is to analyze all international licensing agreements and their restrictive provisions (except sham licenses<sup>45</sup>) by expanding the rule of reason analysis.<sup>46</sup> This new approach parallels the traditional rule of reason analysis undertaken by courts in antitrust cases. Thus, by adopting a far more flexible and reasonable view of licensing restrictions, the DOJ is better able to effectively determine their total competitive effects before deciding to challenge agreements it sees as unlawful.

This change to the rule of reason analysis is quite significant. In many instances, the Department will find completely lawful, restrictive provisions in international licensing agreements that it would previously have challenged as per se illegal. Moreover, the rule of

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38. *Id.*

39. *Id.* (Part I. Introduction).

40. *Id.*

41. *Id.*

42. *Id.*

43. The DOJ was hostile to intellectual property licensing because it was seen as anticompetitive and counter to the policy of the United States antitrust laws. *See supra* section II.A.2 (discussion on the abandonment of the nine no-no's).

44. New DOJ Guidelines, *supra* note 33.

45. The New DOJ Guidelines regards a license as a sham "if the parties demonstrably are not interested in conveying and receiving intellectual property rights, but rather are using the license as a guise to cover an effort to restrict output and/or raise price in some other market." *Id.* at 21,593, n.98.

46. The DOJ analyzes the competitive effects of licensing agreements under the rule of reason because of "their generally procompetitive nature." *Id.*

reason brings DOJ enforcement decisions more into line with general court trends.

### 1. Substantive Differences: The Rule of Reason

Summarily, rule of reason analysis considers licensing restrictions unlawful only if (1) their purpose is collusive or seeks to dampen competition *and* (2) the risk of anticompetitive effects is not outweighed by beneficial competitive aspects.<sup>47</sup> Under this analysis, the Department will consider the cumulative effects of *all* the restrictions in the license.<sup>48</sup> For example, in its joint venture section, the New DOJ Guidelines state that the rule of reason analysis comprises four steps.<sup>49</sup> First, the DOJ must determine whether the restriction would have any anticompetitive effects in the market that encompasses the licensed technology. Second, the DOJ must decide if the restraint would have anticompetitive effects in any other market(s) in which the licensing parties compete. Third, the DOJ analyzes the competitive effects of any nonprice vertical restraints that are imposed by the license. Finally, the DOJ accumulates all the anticompetitive risks and weighs them against any beneficial competitive effects due to the license. If on balance the license has no anticompetitive effects, or if such effects are present, but do not outweigh the beneficial competitive results, then the DOJ will not challenge the legality of the license.<sup>50</sup>

Additionally, the New DOJ Guidelines note that licensing agreements may contain, depending on the relationship between the parties, either horizontal restraints, vertical restraints, or both.<sup>51</sup> In each case, the DOJ will attempt "to determine whether the license restriction would create or facilitate the unilateral or concerted exercise of market power."<sup>52</sup> In order to make this determination, the

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47. *Id.*

48. The DOJ does not normally inspect a particular restriction to determine if it furthers its competitive goals, or whether a less restrictive alternative exists that achieves the same effect. *Id.*

49. New DOJ Guidelines, *supra* note 33, section I.B.3.

50. *Id.* The DOJ's consideration in international licensing agreements is generally limited to its effects on U.S. commerce. *Id.* at 21,609.

51. *Id.* at 21,593-594.

*Horizontal Restraints:* This type of restriction affects competition between the licensor and the licensee in any relevant technological market. *Id.* at 21,594. As an example, the license might restrict the price and/or output decisions of the parties for technology that the parties market in competition with one another. *Id.* at 21,594 n.99; *see also* Andewelt, *Analysis of Patent Pools Under the Antitrust Laws*, 53 ANTITRUST L.J. 611 (1984).

*Vertical Restraints:* These restrictions affect competition between the licensee and licensees who are not parties to the license, or the licensor (intellectual property owner) and other licensors. New DOJ Guidelines, *supra* note 33, at 21,594; *see also supra* note 25.

52. New DOJ Guidelines, *supra* note 33, at 21,594.

DOJ's analysis is guided by two principles: (1) efforts by the licensor to appropriate the full inherent value of its technology are *not* proscribed by the antitrust laws<sup>53</sup> and (2) licensors are not required to *create* competition.<sup>54</sup> With these principles in mind, the DOJ will apply its rule of reason analysis.

Yet, before applying the rule of reason, the DOJ must first determine whether the underlying transfer of technology is a sham,<sup>55</sup> or bears no relationship to the restrictions in the license.<sup>56</sup> If the DOJ finds the license to be a sham, then the restrictions accompanying the license may be *per se* unlawful and, if appropriate, the parties may be prosecuted criminally.<sup>57</sup> If the DOJ determines the latter as the effect of the license, it may also be *per se* unlawful.<sup>58</sup> If neither of these effects is found, however, the DOJ continues with its rule of reason analysis.

Accordingly, the DOJ next views the effect of the questioned restrictions, deeming them to be either horizontal or vertical. Upon this determination, the DOJ performs a separate analysis, depending on which type of restriction is present. If a restraint is found to be horizontal, the examination parallels the DOJ's scrutiny of joint ventures.<sup>59</sup> Consequently, the DOJ will apply the rule of reason analysis. Thus, it must first identify technology that is an economic and competitive substitute for the technology being licensed and those markets that are affected by the license.<sup>60</sup> After defining the technology and/or markets, the DOJ must "determine whether the complete elimination of competition between the licensee and licensor in that market by virtue of their [license] would be anticompetitive."<sup>61</sup> Yet, even if this determination shows the license to be anticompetitive, it is not necessarily unlawful. The DOJ must still "examine the precise nature and extent of the elimination of price and output decision-making that would result from the license restriction."<sup>62</sup> If these results are also found to be anticompetitive, the DOJ will assess the competitive benefits of the restriction and determine whether these outweigh the anticompetitive effects. Such a determination prevents the DOJ from attacking the restriction; however, an imbalance favoring anticompetitive effects results in a

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53. *Id.*; see also *supra* note 6.

54. New DOJ Guidelines, *supra* note 34, at 21,594.

55. See *supra* note 45.

56. New DOJ Guidelines, *supra* note 33, at 21,609.

57. *Id.* at 21,593 n.98.

58. *Id.* at 21,593.

59. *Id.* at 21,594. For a discussion of the DOJ's analysis of joint ventures see text at *supra* note 49.

60. *Id.*

61. *Id.*

62. *Id.*

DOJ challenge.<sup>63</sup>

Vertical restraints, on the other hand, are accorded enormous deference. The DOJ states that such restrictions will be challenged "only in exceptional circumstances."<sup>64</sup> Still, the DOJ will examine vertical restraints. In so doing, it will apply the rule of reason analysis to determine the anticompetitive effects, if any.<sup>65</sup> Vertical restrictions are deemed anticompetitive only if they would facilitate collusion in the sale or licensing of competing technologies, or exclude such technologies from the market by tying up so much of the potential manufacturing capacity that no competing technologies could enter the market.<sup>66</sup> Even if, "in the rare case," the restraint raises a significant anticompetitive risk, the DOJ will still consider the countervailing competitive benefits.<sup>67</sup> It will then determine whether they outweigh the anticompetitive effects before challenging the legality of the license.<sup>68</sup>

Obviously, the rule of reason approach taken by the DOJ differs greatly from the *per se* method used during the nine no-no's era. Rule of reason analysis takes an objective view of the relevant markets, competing technologies, licensing and competing parties, and restrictive provisions themselves. Moreover, the restraints are normally viewed and examined cumulatively. Finally, the DOJ's rule of reason analysis views horizontal and vertical restrictions separately, undertaking a detailed examination of the anticompetitive as well as beneficial competitive effects, weighing them against one another. The DOJ has apparently eliminated its previous hostility to international intellectual property licensing agreements and now seems to view such agreements with an open-minded reasonableness, only challenging restraints that *truly* militate against the goals of the antitrust laws.

## 2. Procedural Differences

The present procedural approach differs little from that taken by the DOJ in the past. The DOJ continues to allow for a "business review,"<sup>69</sup> which was first adopted during the reign of the nine no-

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63. As noted previously, in this analysis the DOJ normally examines all license restrictions cumulatively, rather than isolating a single restraint. *Id.*

64. New DOJ Guidelines, *supra* note 33, at 21,594. "For example, it is unlikely that vertical restraints in a license for *technology that has no economic substitutes would ever be challenged* by the Department." *Id.* (emphasis added).

65. New DOJ Guidelines, *supra* note 33, section I.B.4. (Vertical Nonprice Distribution Restraints).

66. *Id.* at 21,609.

67. *Id.*

68. *Id.*

69. Department of Justice Antitrust Division business review procedure, 28 C.F.R. § 50.6 (1990). Although this procedure was officially enacted during the nine no-no's, the Antitrust Division of the DOJ had, for several decades prior to this regulation,

no's.<sup>70</sup> Furthermore, and most significantly, if the DOJ decides to challenge a party's license, it must still face the party in court.<sup>71</sup> Therein, the DOJ must prove any monopolistic effects, unreasonable restraints of trade, or unfair competitive aspects of international licensing agreements in order to successfully challenge and eliminate restrictive provisions that it views as illegal.

### III. THE JAPANESE LICENSING GUIDELINES

#### A. Past and Present Licensing Standards

On March 31, 1947 the Japanese enacted, and on July 20 put into force, the Law Relating to Prohibition of Private Monopoly and Methods of Preserving Fair Trade (Antimonopoly Act).<sup>72</sup> Patterned after United States antitrust laws, the Antimonopoly Act was designed to promote "free and fair competition" by prohibiting private monopolization, unreasonable restraint of trade, and unfair trade practices.<sup>73</sup> Although originally stricter than the antitrust laws of the United States, the act was amended several times to soften its effect.<sup>74</sup>

The Antimonopoly Act established a government agency called the [Japanese] Fair Trade Commission (JFTC) "to attain the

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"been willing in certain circumstances to review proposed business conduct and state its enforcement intentions." *Id.*

70. Significantly, the New DOJ Guidelines state that they "are not intended to substitute for the advice of experienced private antitrust counsel or for formal guidance under the Department's Business Review procedure." New DOJ Guidelines, *supra* note 33, at 21,585; *see also infra* section IV. (comparison of the American and Japanese procedural measures regarding enforcement of their respective licensing guidelines).

71. "[A]lthough the [DOJ] believes that the analysis stated in these Guidelines is economically and legally correct and consistent with the trend in the courts, these Guidelines are not intended to be a restatement of the law. In addition, readers should also separately evaluate the risk of private litigation by competitors, consumers, and suppliers, as well as the risk of enforcement by state prosecutors under state and federal antitrust laws." New DOJ Guidelines, *supra* note 33, at 21,585.

72. *Shiteki dokusen no kinshi oyobi kosei torihiki no kakuho ni kansuru horitsu* (Law Relating to Prohibition of Private Monopoly and Methods of Preserving Fair Trade) [hereinafter Antimonopoly Act] (Act No. 54 of April 14, 1947), in 2 EHS No. 2270-2279. There are several sources that contain detailed general discussions of the act. *See GUIDE TO LEGISLATION ON RESTRICTIVE BUSINESS PRACTICES*, OECD Vol. 3; Ariga and Rieke, *The Antimonopoly Law of Japan and Its Enforcement*, 39 WASH. L. REV. 437 (1964); Kazushige Imamura, *Dokusen Kinshi Ho* (Antimonopoly Law), 52 HORITSU-GAKU ZENSHU (Complete Collection on the Law) (1961).

73. Antimonopoly Act, *supra* note 72, § 1.

74. Ariga, *Regulation of International Licensing Agreements under the Japanese Antimonopoly Law* [hereinafter Ariga, *Regulation of International Licensing Agreements*], in PATENT AND KNOW-HOW LICENSING IN JAPAN AND THE UNITED STATES 278, 279 (T. Doi and W. Shattuck eds. 1977). For a detailed discussion of these amendments see Kanazawa, *Regulation of Corporate Enterprise: the Law of Unfair Competition and the Control of Monopoly Power*, in LAW IN JAPAN 484-490 (A. T. von Mehren ed. 1963).

purpose" of the act.<sup>75</sup> The JFTC is administratively attached to the prime minister's office, which, regarding the JFTC, has only the power to appoint the chairman and commissioners and control the budget.<sup>76</sup> In the administration of its duties, however, the JFTC maintains complete independence.<sup>77</sup> Some of its most important responsibilities are as follows: (1) upon complaint from the public or on its own initiative, investigates suspected violations of the Antimonopoly Act,<sup>78</sup> hands down decisions on such investigations through a formal hearing or recommendation procedure<sup>79</sup> and, if the decision is appealed, litigates,<sup>80</sup> (2) determines unfair trade practices<sup>81</sup> and (3) issues recommendations to persons who have violated the Antimonopoly Act "to take the appropriate measures."<sup>82</sup>

The Antimonopoly Act prohibits several forms of anticompetitive activity. These are private monopolization,<sup>83</sup> unreasonable restraints of trade,<sup>84</sup> and unfair trade practices.<sup>85</sup> However, when the JFTC promulgated its first set of licensing guidelines in 1968 (1968 Guidelines), it was concerned especially with unfair trade practices and hence limited the guidelines' scope to such.<sup>86</sup>

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75. Antimonopoly Act, *supra* note 72, § 27(1). The JFTC is responsible for ensuring that unlawful restrictive clauses are removed from licensing agreements. 3 L. ECKSTROM, LICENSING IN FOREIGN AND DOMESTIC OPERATIONS § 31.01[3] (3rd ed. 1990).

76. Antimonopoly Act, *supra* note 72, §§ 27(2), 29; Ariga, *Regulation of International Licensing Agreements*, *supra* note 74, at 280. Despite seeming limited, budget manipulation can be the best and most effective way to control an administrative agency.

77. Antimonopoly Act, *supra* note 72, § 28.

78. *Id.*, §§ 45-46.

79. *Id.*, §§ 47-61. This is referred to as the quasi-judicial power of the JFTC. See The Antimonopoly Act in Foreign Trade, 1 Economic Reg. Foreign Trade (CCH) ¶ 37-160 (1988). A quasi-judicial proceeding may be instigated when any person, suspecting a violation of the act, notifies the JFTC, or when the JFTC has some evidence of a violation. Antimonopoly Act, *supra* note 72, §§ 45, 45(2). At this point the JFTC may either open a hearing, make a recommendation (wherein the perpetrator is recommended to cease-and-desist from its unlawful conduct), or hand down a consent decision (wherein the respondent to the proceeding admits the facts and suggests a lawful solution that is accepted by the JFTC). *Id.*, §§ 46-70(2). Disobedience of a JFTC decision results in punishment by fine or penal servitude. *Id.*, §§ 90(iii), 92.

80. Antimonopoly Act, *supra* note 72, §§ 77-78, 80-88. If the respondent to a JFTC proceeding believes its decision incorrect, the respondent may file a suit in the Tokyo High Court against the JFTC. *Id.*, §§ 77, 86. See *infra* section IV.A.5.

81. Antimonopoly Act, *supra* note 72, § 2(9), 71-72.

82. *Id.*, §§ 45, 48; see also Fact Sheets about Filing System for International Agreements under the Antimonopoly Act [hereinafter Fact Sheets] § 3 (International Transaction Division, Executive Bureau, Fair Trade Commission, February 15, 1989) (creating a clearance system for international licensing agreements); *infra* section IV.B.2. For the full text of the Fact Sheets, see Appendix 2.

83. Antimonopoly Act, *supra* note 72, § 2(5) (definition of private monopoly).

84. *Id.*, § 2(6) (definition of unreasonable restraint of trade).

85. *Id.*, § 2(9) (definition of unfair trade practices).

86. Antimonopoly Act Guidelines for International Licensing Contracts [hereinaf-

The 1968 Guidelines liberalized regulations governing the introduction of foreign technology and were the result of significant developments in the Japanese economy.<sup>87</sup> Prior to 1968, the Japanese had restricted the importation of foreign technology to what it deemed necessary.<sup>88</sup> In 1964, however, the Japanese joined the International Monetary Fund and the Organization of Economic Cooperation and Development, incurring certain obligations under these entities' respective treaties.<sup>89</sup> In response to these obligations, the JFTC liberalized its restrictions on foreign technology introduction.<sup>90</sup> Moreover, the JFTC eliminated its previous mandatory screening process in favor of a procedure that subjected international licensing agreement restrictions only to "post scrutiny under Section 6 of the Antimonopoly Act."<sup>91</sup>

The 1968 Guidelines were written as a declaration of the JFTC's policy on international licensing agreements. This policy resulted from an in-depth examination of patent rights under the Antimonopoly Act.<sup>92</sup> It also reflected a need for more liberal rules to cover Japan's desire for additional foreign technology.

The 1968 Guidelines prohibited, as a per se violation, nine restrictive provisions that often appear in licensing agreements.<sup>93</sup> (Due to their length, the JFTC rules are reprinted in Appendix 1.) On the other hand, the Guidelines stated that although the nine prohibited restrictions were the only ones listed, the JFTC was not precluded from finding other provisions unlawful.<sup>94</sup> The 1968 Guidelines also classed five restrictive provisions as the exercise of the licensing parties' rights. These restrictions were thus per se legal.<sup>95</sup>

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ter 1968 Guidelines] (Fair Trade Commission, May 24, 1968). The full text is provided in Appendix 1.

87. For a discussion of the events leading up to the development of the 1968 Guidelines, focusing on matters involving patent rights, see Ariga, *Regulation of International Licensing Agreements*, *supra* note 74, at 284-92.

88. *Id.* at 289.

89. *Id.* at 289.

90. *Id.*; On the Announcement of "Antimonopoly Act Guidelines for International Licensing Agreements" [hereinafter Announcement] § I (Fair Trade Commission, May 24, 1968) ("regulations for the introduction of technology are *liberalized*.") (emphasis added). The full text of the Announcement appears in Appendix 1.

91. Announcement, *supra* note 90, § I. Section 6 of the Antimonopoly Act is entitled: "Prohibition of particular international agreements or contracts, filing requirement."

92. Uesugi, *Transfer of Technology and Joint Ventures in Japan*, in ANTITRUST, TECHNOLOGY TRANSFERS, AND JOINT VENTURES IN INTERNATIONAL TRADE 347, 357-58 (B. Hawk ed. 1982). "The Guideline was drafted after careful consultation with the Patent Office, legal scholars, and analysis of JFTC decisions as well as American case law." *Id.*

93. 1968 Guidelines, *supra* note 86, § I.

94. Announcement, *supra* note 90, § II item 1.

95. 1968 Guidelines, *supra* note 86, § II.

More recently, however, criticism arose regarding the insufficiency of the 1968 Guideline's liberalized approach to the introduction of foreign technology.<sup>96</sup> In response, the JFTC introduced a new set of guidelines (New JFTC Guidelines), creating apparently more liberal rules governing restrictions in international licensing agreements.<sup>97</sup> In these guidelines, the JFTC explicitly desires promotion of technology transfer, and to accomplish this task it clarifies the "examining standards."<sup>98</sup> The JFTC's clarification involves an extensive restructuring of the 1968 Guidelines. In fact, the New JFTC Guidelines are so substantially different and more detailed than the previous ones that JFTC analysis and enforcement should reflect considerable change. (The New JFTC Guidelines are reprinted in full in Appendix 2.)

## B. Differences Between the 1968 and New Guidelines

The JFTC presented its new guidelines for licensing agreements on February 15, 1989. In so doing, it updated and changed the previous guidelines both substantively and procedurally. Some of these changes show significant impact upon international licensing agreements in Japan; others affect such agreements very little if at all. Thus, in some instances, the New JFTC Guidelines will provide new answers to old questions, while in others the 1968 Guidelines will continue to dictate the outcome. This section of the paper briefly outlines the differences, highlighting those that may most affect the JFTC's enforcement techniques.

### 1. Substantive Changes<sup>99</sup>

The JFTC has changed application of the rules regarding the licensing agreement guidelines in two ways: (1) it has created three "tiers" of rules, whereas there were formerly only two, and (2) it

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96. See McAbee, *Fair Trade Guidelines for Technology Transfer*, E. Asian Executive Rep., October 1989, at 20. "The changes . . . reflect both the JFTC's enforcement experience in recent years and its response to several persistent complaints by foreign licensors about its screening of inbound contracts." (paraphrasing Akimori Uesugi, director of JFTC's International Affairs Division). *Id.*

97. Guidelines for the Regulation of Unfair Trade Practices with respect to Patent and Know-How Licensing Agreements [hereinafter New JFTC Guidelines] (Executive Bureau, Fair Trade Commission, February 15, 1989) (tentative translation). These guidelines are printed in full in Appendix 2.

98. *Id.*, Preamble § 3 ¶ 3.

99. This paper merely outlines the substantive differences between the two sets of guidelines for purposes of examining JFTC enforcement procedures. For a detailed discussion of the substantive differences between the 1968 Guidelines and the New Guidelines see Doi, *The Finding of Restrictive Trade Practices In Domestic and International Patent and Know-how Licensing Agreements* (pts. 1-4), PATENTS & LICENSING 10 (April, 1989), PATENTS & LICENSING 10 (June, 1989), PATENTS & LICENSING 10 (August, 1989), PATENTS & LICENSING 11 (October, 1989).

has bifurcated the rules, one set covering patents and the other know-how.

a. The Three Tiers: Is the JFTC Softening its Approach?

The JFTC's three tiers are defined as follows:

1. "Restrictions which are considered, in principle, *not* to fall under unfair trade practices" (fifteen total),<sup>100</sup>

2. "Restrictions which *may* fall under unfair trade practices" (twelve total),<sup>101</sup> and

3. "Restrictions which are *highly likely* to fall under unfair trade practices" (six total).<sup>102</sup>

The 1968 Guidelines, by contrast, had adopted a two tiered approach. These tiers were:

1. "Acts [that] shall be regarded as the exercise of *rights* . . ." (five total)<sup>103</sup> and

2. "Restrictions which are *liable* to come under unfair business practices" (nine total).<sup>104</sup>

The 1968 Guidelines thus regarded nine restrictions as *likely* to be unfair trade practices, and hence illegal,<sup>105</sup> and five restrictions as legal.

The three tiered system employed by the New JFTC Guidelines appears softer than that used in the 1968 Guidelines, with the JFTC relaxing its former per se analysis of restrictive provisions in licensing agreements. There are several reasons leading to this conclusion. First, the new system closely parallels the "rule of reason" analysis adopted by the new DOJ guidelines.<sup>106</sup> The JFTC states that it will determine whether restrictions classed as type 2 in the New JFTC Guidelines constitute unfair trade practices after examining all relevant factors as a whole.<sup>107</sup> This is reminiscent of the language used in the DOJ's present guidelines, wherein potentially illegal restrictions are analyzed by a rule of reason. It therefore ap-

100. New JFTC Guidelines, *supra* note 97, Preamble ¶ 3 (emphasis added).

101. *Id.* (emphasis added). As to these restrictions, determination of whether they constitute unfair trade practices "will be made . . . after the position of licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc.[.] are examined as a whole." *Id.*

102. *Id.* (emphasis added). "[S]uch restrictions are considered to constitute unfair trade practices unless specific justifiable reasons could be presented." *Id.*

103. 1968 Guidelines, *supra* note 86, § III (emphasis added).

104. *Id.*, § I (emphasis added).

105. However, the 1968 Guidelines stated that these nine illegal restrictions were not exclusive and that "any other restrictions not mentioned [therein] should not be considered as not falling under the Antimonopoly Act." Announcement, *supra* note 90, § II Item 1.

106. See *supra* section II.B.1.

107. See *supra* note 101.

pears that the JFTC will analyze type 2 (New JFTC Guidelines) restrictive provisions by the less strict rule of reason approach.

Second, eight of the nine "likely" violative restrictions in the 1968 Guidelines have been downgraded to *possible* violations in the New JFTC Guidelines.<sup>108</sup> The Commission has thus determined that nearly all of the restrictive provisions that it formerly viewed as per se illegal are now only potential violations, to be analyzed under the rule of reason. Moreover, the five former *non*-violations have been retained as such under the New JFTC Guidelines.<sup>109</sup>

Finally, according to the JFTC itself, cancellations of restrictive provisions in international licensing agreements are on the decline.<sup>110</sup> It will be interesting to see whether the New JFTC Guidelines, with their relaxation of the previous rules, will result in even fewer cancellation recommendations and thus heightened protection to foreign licensors.<sup>111</sup>

On the other hand, despite relaxing its view toward international licensing agreements, the JFTC, in adopting the new guidelines, has not completely limited its former per se approach. Most significantly, the Japanese legal system has failed to alleviate the aspect that contributes most heavily to the JFTC's per se procedural enforcement, i.e., the limited jurisdictional reach of the Japanese courts.<sup>112</sup> Additionally, the JFTC has retained certain other procedural and substantive elements that contribute to the per se flavor of the JFTC enforcement technique.<sup>113</sup>

b. Two Sets of Guidelines: (1) Patent and (2) Know-how<sup>114</sup>

The JFTC has bifurcated its new guidelines into two sets of rules: part one pertains to patent licensing agreements, while part two covers know-how licenses. The earlier 1968 Guidelines had

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108. Only rule six, of the likely violations in the 1968 Guidelines, has remained such. (It is now rule one of the highly likely violations in the New JFTC Guidelines) See Doi (pts. 3-4), *supra* note 99, at 10-16 (August, 1989), at 11-16 (October, 1989).

109. *Id.*

110. See *infra* section IV.B.4. The JFTC has released statistics on such agreements through 1987. New JFTC Guidelines, *supra* note 97, Table 2: Statistics on JFTC Enforcement of Section 6(1) [of the Antimonopoly Act] as to Int'l Licensing Agreements. This table appears in Appendix 2.

111. As stated in note 110, *supra*, the table included with the New Guidelines provides statistics only through 1987, prior to the adoption of the New JFTC Guidelines. Therefore, the actual effects of the JFTC's new rules, enacted in 1989, have yet to be determined.

112. See *infra* section IV.A.5. Although the Japanese courts' jurisdictional shortcomings are not attributable to the JFTC, they contribute substantially to the per se flavor of JFTC enforcement with respect to international licensing agreements.

113. See *generally, infra* section IV.A.

114. Discussion of the differences between the patent and know-how rules goes beyond the scope of this paper. For an analysis of these differences, see Doi, *supra* note 100.

been written for patent licensing agreements, with the JFTC simply applying the rules therein "mutatis mutandis" to know-how licensing situations.<sup>115</sup> The drafters of the New JFTC Guidelines realized, however, that patents and unpatented know-how present different legal problems and thus required two separate sets of rules.<sup>116</sup> Despite considerable similarity, the two sets of rules differ in several places, reflecting the legal distinctions between these two forms of intellectual property.<sup>117</sup>

## 2. Procedural Changes

### a. The Clearance System

The New JFTC Guidelines establish a "Clearance System" that allows foreign licensors and Japanese licensees<sup>118</sup> to obtain "confirmation by the JFTC that no provisions contained in the international licensing agreements . . . constitute unfair trade practices . . ." <sup>119</sup> A JFTC clearance ensures the foreign licensor (and the Japanese licensee) that it will not be "subject to legal measures so far as unfair trade practices are concerned."<sup>120</sup>

On the other hand, the commission may withdraw this clearance once it has been issued if and when the JFTC "deems it necessary and appropriate under the changed circumstances."<sup>121</sup> Thus, the JFTC has apparently provided a system through which the foreign licensor can determine the legality of its licensing agreement

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115. 1968 Guidelines, *supra* note 86, § 2.

116. *See* Doi (pt. 1), *supra* note 99, at 11 (April, 1989). The New Guidelines also provide for "hybrid" licensing agreements, wherein the parties license both patents and know-how. In such cases, the New JFTC Guidelines specify that the appropriate rules will be applied depending on the type of technology, patent or know-how, to which the restrictive provision relates. New JFTC Guidelines, *supra* note 97, Preamble ¶ 7.

117. *See* Doi, *supra* note 99.

118. New JFTC Guidelines, *supra* note 97, Preamble ¶ 5.

119. Fact Sheets, *supra* note 82, § 3(1). According to Akimori Uesugi, director of the JFTC's International Affairs Division, the JFTC had provided hearings, when requested, to foreign licensors' representatives during a license screening for about four years before the promulgation of the New JFTC Guidelines. Mr. Uesugi stated that JFTC objections to license restrictions are rebuttable and not final. A foreign licensor could thus, at least theoretically, justify its license restriction, effectively removing the JFTC objection. However, most foreign licensors were unaware that they could obtain such a hearing (the 1968 Guidelines contains no such provision), and accordingly few requested one. McAbee, *supra* note 96, at 20; *see also* Nasu, *Japan FTC's Doors Are Open*, 18 LES NOUVELLES 73, 74 (1983) (former Director of International Affairs, JFTC Economic Bureau, states that the "JFTC accepts consultation requests . . . from foreign as well as Japanese enterprises").

120. Fact Sheets, *supra* note 82, § 3(2). Upon determination of the agreement's legality, the JFTC will notify, by letter, the party requesting the clearance. *Id.*

121. *Id.* In many instances, clearance withdrawal serves an important purpose. Licensing agreements can span many years, and changing circumstances may result in once legal restrictive provisions becoming unfair trade practices, necessitating revocation of a prior clearance by the JFTC. *But see infra* section IV.B.2. (clearance requests soften the effect of JFTC enforcement).

during *negotiation*, yet has still retained the power to declare a license illegal and unenforceable at *any* time, given a change in circumstances surrounding the license.<sup>122</sup>

#### b. Software Licensing Agreements

The JFTC did not provide any provisions for computer software;<sup>123</sup> the New Guidelines are thus not applicable to software licensing agreements, even though software may be viewed as know-how.<sup>124</sup>

#### c. International and Domestic Licensing Agreements

The New Guidelines state that the rules contained therein "are applicable without any discrimination to those patent and know-how licensing agreements *among* Japanese entrepreneurs, as well as those between Japanese entrepreneur and foreign entrepreneur."<sup>125</sup> The earlier 1968 Guidelines applied only to international licensing agreements.<sup>126</sup> Yet by extending the New Guidelines to both international and domestic licensing agreements, the Commission has eliminated some of the protective nature of the 1968 Guidelines. The new, evenhanded approach thus makes the New JFTC Guidelines appear less discriminating against foreign licensors.<sup>127</sup>

#### d. Reciprocal and Multi Party Licensing Agreements

The New JFTC Guidelines are not only applicable to one-way licensing agreements between supplier and recipient, but may also be applied to cross licensing, patent pool, and multiple licensing

122. Despite the JFTC's power of clearance withdrawal, this new system may eliminate many of the draconian effects that the 1968 Guidelines had upon foreign licensors. See *infra* section IV.B.2.

123. However, there are ways to protect software in Japanese licensing agreements. See Greguras, *Software Licensing in Japan: Checklist for U.S. Licensors*, E. ASIAN EXECUTIVE REP., February, 1989, at 17 (article outlining available protection for end-use software licensing agreements between U.S. licensors and Japanese licensees).

124. Doi (pt. 2), *supra* note 114, at 10 (April, 1989); see also McAbee, *supra* note 96, at 20-21 (the JFTC is "not yet in a position to draft guidelines" for computer software licensing agreements (quoting Akimori Uesugi, director of the JFTC's International Affairs Division)).

125. New JFTC Guidelines, *supra* note 97, Preamble ¶ 4 (emphasis added).

126. This is evidenced in the title of the 1968 Guidelines, *supra* note 86: Antimonopoly Act Guidelines for *International* Licensing Agreements.

127. The limitation to *international* licensing agreements in the 1968 Guidelines created an uneven situation. Licensing agreements between foreign licensors and Japanese licensees were subject to the JFTC proceedings, while licensing agreements between two Japanese parties were not. As is explained later in this paper, the JFTC licensing guidelines can inflict substantial ill effects on *licensors*. Therefore, Japanese licensors were immune to these ill effects, while foreign licensors were not. The result was obvious unfairness and uneven favoritism to Japanese licensors. For a discussion of the discriminatory effects of the New JFTC Guidelines see *infra* section IV.A.

agreements.<sup>128</sup> Furthermore, the new guidelines may be applied to licensing agreements among more than three parties.<sup>129</sup>

#### e. Unreasonable Restraint of Trade

The New JFTC Guidelines specify that certain licensing agreements may act not only as unfair trade practices,<sup>130</sup> but as unreasonable restraints of trade as well.<sup>131</sup> In such cases, the new guidelines state that § 3 of the Antimonopoly Act, which prohibits private monopolization and unfair restraints of trade, as well as other sections of the act, may apply.<sup>132</sup>

### IV. COMPARISON OF THE UNITED STATES AND JAPANESE LICENSING GUIDELINES

As discussed above, both countries have significantly reformed their respective guidelines, evidencing markedly different approaches. The JFTC has retained several of the enforcement techniques that lent a per se quality to the 1968 Guidelines, while relaxing others. The DOJ, on the other hand, has completely shifted position, explicitly adopting rule of reason analysis to replace its previous reliance on per se rules. This section compares both sets of guidelines, primarily focusing on the JFTC guidelines' continuing per se qualities as opposed to the DOJ's shift to rule of reason analysis. Also discussed are ways in which the JFTC has recognized and softened the more prohibitive approach of the 1968 Guidelines.

#### A. Differences between the Enforcement Techniques: JFTC Per Se Qualities versus DOJ Rule of Reason

##### 1. The JFTC Filing Requirement

To ensure that suspect international licensing agreements are reviewed for illegal restrictive provisions, the Antimonopoly Act contains a filing requirement.<sup>133</sup> This requirement compels Japanese licensees to file with the JFTC a notification and copy of the suspect agreement within *thirty days* of its signing.<sup>134</sup> Although not

128. New JFTC Guidelines, *supra* note 97, Preamble ¶ 6.

129. *Id.*

130. The New JFTC Guidelines and the 1968 Guidelines only apply to restrictive provisions in licensing agreements that act as unfair trade practices. *Id.*; 1968 Guidelines, *supra* note 86, Preamble ¶ 6.

131. New JFTC Guidelines, *supra* note 97, Preamble ¶ 6.

132. *Id.*

133. Antimonopoly Act, *supra* note 72, § 6(2). The filing requirement has been in effect since the Antimonopoly Act was adopted, and the Japanese government has not changed it in the New JFTC Guidelines.

134. *Id.*, § 6(2). International licensing agreements involving technology transfer are also subject to a prior notification requirement. Foreign Exchange and Foreign

all international licensing agreements must be filed, the JFTC does require filing for all technology licensing agreements (including patent, utility right, know-how, trademark, and copyright).<sup>135</sup> Failure to file an agreement results in a fine of not more than two million yen.<sup>136</sup> Once filed, the agreement is reviewed by the JFTC for possible violations of its licensing rules and the antitrust laws.

Regarding international licensing agreements, the filing requirement contributes heavily to the per se quality of the JFTC's enforcement technique. Under the rule of reason, if an examiner determines that a restrictive provision has anticompetitive aspects, he must then see if the provision has any beneficial competitive effects. Accordingly, the examiner must balance these countervailing forces and, if the beneficial effects outweigh the detrimental, the legality of the restrictive provision will be upheld.<sup>137</sup> However, the JFTC is hard pressed to effectively conduct such a balancing test, as the present filing requirement compels submission of the agreement within thirty days of its signing. These time constraints limit the Commission's ability to identify any latent beneficial competi-

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Trade Control Law [hereinafter FEFTC Law], Law No. 228 of 1949, Arts. 29, 30; Cabinet Order Concerning Direct Domestic Investments, No. 261, Ch. III (October 11, 1980) (implements the provisions of the FEFTC Law, *supra*). (Excepted from this requirement, however, are instances wherein the technology is developed independently by a Japanese branch of a foreign firm.) The FEFTC Law requires that notifications be submitted to the Foreign Affairs Bureau of the Bank of Japan, acting as an agent of the government. The Bank then distributes the notification to the Ministry of Finance and to ministries, specified by the applicant, that are responsible for the particular technology involved in the agreement. Notification commences a thirty day waiting period in which the parties may not conclude the agreement and during which the Japanese government may determine that the agreement is objectionable. If found to threaten national security or sound management of relevant domestic industries, the government may recommend revision or cancellation of the objectionable subject matter. Failure to accept such measures results in an order by the ministries to comply. Recently, however, the government has relaxed the notification requirement. Cabinet Decision Concerning Policy Applications on Inward Direct Investments (December 26, 1980) (Cabinet liberalized inward direct investments due to Organization of Economic Cooperation and Development). This has resulted in only a two week waiting period for most agreements and, in some cases, no waiting period at all. See Cunard, *How to Protect Technology That's Transferred to Japan; Trademarks, Trade Secrets and Licensing*, E. Asian Executive Rep., January 15, 1990, at 14.

135. JFTC Regulation No. 3 of 1982, announced on July 23, 1982. The JFTC also requires filing upon execution of international licensing agreements involving certain other subject matter. See Uesugi, *supra* note 92, at 362.

Prior to 1982, all agreements that may have contained matters constituting unreasonable restraints of trade or unfair trade practices, with only two exceptions, had to be filed with the JFTC. Antimonopoly Act, *supra* note 72, § 6(2). (The two exceptions were: (1) single transactions (excluding those in which performance will span more than one year) and (2) transactions that merely create an agency in business matters. Uesugi, *supra* note 92, at 361-62, 362 n.45.) Such matters were to be prescribed by the JFTC through regulation. *Id.* On July 23, 1982, however, the Antimonopoly Act was amended and consequently, the JFTC changed the scope of its filing obligation.

136. Antimonopoly Act, *supra* note 72, § 91-2.

137. See *supra* section II.B.1.

tive effects of a restrictive provision; arguably, the agreement must be in operation for some time before evidence of these effects will arise.<sup>138</sup>

In contrast, the DOJ has no such requirement. Thus, licensing parties may execute international agreements with no initial administrative oversight. The parties may draft their agreement with an eye toward the New DOJ Guidelines, including any restrictive provisions that they feel will pass judicial muster.<sup>139</sup> If in the future the DOJ or some other entity<sup>140</sup> suspects that a restriction in the agreement may be illegal, any latent beneficial competitive effects flowing from the restriction should be manifest. The DOJ can therefore effectively apply the rule of reason balancing test and accurately determine whether or not to attack a restrictive provision. Furthermore, if the DOJ does decide to challenge the provision, a court may determine, after examining the provision itself, that it is not illegal. Thus, in the United States, parties are not only afforded a more accurate rule of reason analysis, but are also provided with a second tier of review that can correct erroneous DOJ decisions.<sup>141</sup>

## 2. The Lack of Examples in the New JFTC Guidelines

The lack of examples in the New JFTC Guidelines, although not necessarily lending a *per se* quality to JFTC enforcement, further hinders the shaping of lawful agreements. The New DOJ Guidelines provide three detailed examples of licensing agreements with restrictive provisions.<sup>142</sup> In each example, the DOJ provides a brief factual pattern and goes on to apply its rule of reason analysis.

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138. In the same vein, the JFTC states that it will determine the legality of "may be" violations "after the position of the licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc.[.] are examined as a whole." New JFTC Guidelines, *supra* note 97, Preamble § 3, ¶ 9. The limitation in this analysis is patent, especially when considered in conjunction with the previous discussion of the rule of reason balancing test and its requirement that *future* effects be weighed. As in the rule of reason test, the JFTC will be unable to determine, due to the filing requirement, exactly what future effects the restriction will have upon the position of the licensor and licensee, or the conditions of the market.

139. Although not intended to be a restatement of the law, the New DOJ Guidelines were formulated to be "consistent with the trend in the courts" and to provide licensing parties with "general guidance as to how the Department analyzes certain commonly occurring issues affecting its own enforcement decisions." New DOJ Guidelines, *supra* note 33, at 21,584-21,585.

140. Private concerns, including competitors and consumers, may also challenge international licensing agreements in American courts. Thus, parties to such agreements are provided with further impetus to execute their restrictive provisions within the lawful parameters set out by the judiciary and the DOJ. Moreover, state prosecutors may attack such provisions as illegal under federal or state law.

141. Essentially, this "second tier of review" comprises appellate courts as well as trial courts. The second tier therefore actually consists of two potential error correcting sub-tiers.

142. New DOJ Guidelines, *supra* note 33, at 21,608-21,613.

The analysis is extensive, and the restrictions presented are varied.<sup>143</sup> Licensing parties are thus provided with detailed, concrete examples to guide them. Furthermore, the parties are able to examine prior case law in order to better avoid challenges to restriction provisions.

The JFTC, in contrast, provides no such examples, but instead simply provides general guidelines. Therefore, licensing parties may have little or no idea as to how the JFTC will react to their restrictive provisions.<sup>144</sup>

### 3. The "Highly Likely" and "May Be" Violations in the JFTC Guidelines

By designating certain restrictive provisions as "highly likely" or "may be" illegal, the JFTC appears to be stacking the deck against the validity of such provisions even before it has had an opportunity to analyze them. In the 1968 Guidelines, the JFTC named nine licensing restrictions as "likely" violations of the Antimonopoly Act. The JFTC has since relaxed its attitude toward eight of the nine, now terming them "may be" violations. However, despite appearing softer than "likely", the use of the phrase "may be" displays a negative predisposition by the JFTC toward these restrictions. Deeming other restraints as "highly likely" violations evinces an even greater inclination to rule against them.<sup>145</sup> In sum, such bias contributes further per se qualities to JFTC enforcement techniques.<sup>146</sup>

143. The first example covers vertical restraints in a patent license. *Id.* at 21,608-21,610. This example further discusses exclusive licenses, restriction on use of competing technologies, and royalties based on total sales.

The second example concerns exclusive patent cross-licenses with grantbacks. *Id.* at 21,610-21,612. Also discussed in this example are conveyance of rights to future improvements by the licensor and exclusivity.

Finally, the DOJ presents an example of a know-how technology transfer agreement involving an exclusive territorial restraint. *Id.* at 21,612-21,613. Also mentioned in this example are foreign territorial restrictions on licensees.

144. As noted previously, the only hint in the guidelines regarding JFTC application of rule of reason analysis is a statement concerning the "may be" violative restraints. The new guidelines note that the JFTC will first determine "the position of licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc.[.] . . . as a whole" before pronouncing such violations lawful or unlawful. New JFTC Guidelines, *supra* note 97, Preamble § 3, ¶ 9. However, according to Toshikazu Nasu-JFTC Director of International Affairs, Economic Bureau-in 1984, at least, the JFTC "[did] not apply the guidelines . . . mechanically (i.e., it [did] not adopt per se rules of legality). Rather, . . . it follow[ed] the 'rule of reason' approach." Nasu, *supra* note 119, at 73 (emphasis in original).

145. In the following section, the United States case law is analyzed in order to compare its viewpoint regarding each of the six rules, for both patent and know-how licenses, to the nearly per se approach taken by the JFTC in its new guidelines.

146. See *infra* section IV.A.5. (outlines the Japanese jurisdictional shortcomings). This section, when coupled with the above discussion, quite clearly illustrates how the JFTC enforcement technique lends per se qualities to the New JFTC Guidelines.

The DOJ, on the other hand, presents no such prior impediments to the legality of restrictive provisions. It analyzes all restrictive provisions in licensing agreements under the rule of reason.<sup>147</sup>

#### 4. Substantive Analysis: The "Highly Likely" Illegal Restrictive Provisions in the United States Courts

The New JFTC Guidelines contain six rules, both in the patent and know-how sections, defining certain restrictive licensing provisions as "highly likely" to violate the Antimonopoly Act.<sup>148</sup> For the most part these provisions do not obtain similar treatment in the United States; most of the highly likely unlawful provisions of the JFTC would not be found per se illegal when challenged in U. S. courts.<sup>149</sup> This section contrasts the respective treatment of such provisions in both patent and know-how licensing agreements.<sup>150</sup>

##### a. Patent License Agreements Restricting Resale Prices of Patented Goods

The doctrine of "exhaustion of monopoly" states that sale by a licensee of a *patented* article exhausts the licensor's rights concerning purchasers; the product may be resold anywhere in the United States, despite any territorial restraint contained in the license agreement.<sup>151</sup> Courts have accordingly held that a patent grant provides no right in licensors to control resale *pricing*.<sup>152</sup> Hence,

147. The only exception occurs when a license is a sham, in which case the DOJ may regard it as per se unlawful. See *supra* notes 55-58 and accompanying text.

148. These rules are set out below.

149. Although a large body of law exists regarding these provisions and the United States antitrust laws, the decisions on analogous restraints at times lack consistency. As for patent related provisions, "the absence of a clear and general theory for resolving the problem of what practices should be viewed as appropriate exercises of the patent owner's statutory patent rights []" is, in part, attributable to the inconsistency. 4 D. CHISUM, PATENTS § 19.04, at 91 (35th release 1990).

150. This section contains only a cursory analysis of the United States case law. For a more detailed statement, see 1 L. ECKSTROM, LICENSING IN FOREIGN AND DOMESTIC OPERATIONS, ch.8 (3rd ed. 1990); 1 Patent Law and Practice H. EINHORN, PATENT LICENSING TRANSACTIONS, ch.7 (31st release 1990); 4 CHISUM, *supra* note 149, § 19.04.

151. This doctrine was first enunciated in *Adams v. Burke*, 84 U.S. 453, 456-57 (1873) (attempts by the licensor to restrict a patented product's disposition after the first sale exceeds the scope of the patent monopoly). Mitigating this doctrine, however, is a Supreme Court case, which held a purchaser who bought a product with notice of a territorial restriction on the licensee liable for infringement along with the licensee. *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, 181-82 (1938). Moreover, parties have attempted to circumvent the doctrine by retaining title to the product until it reaches the consumer. *United States v. General Electric Co.*, 272 U.S. 476, 489-91 (1926). Courts, in later decisions, however, have limited *General Electric* to its precise facts.

152. See, e.g., *United States v. Univis Lens Co.*, 316 U.S. 241, 249-50 (1942); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 458 (1940); *United States v. Ciba-Geigy Corp.*, 508 F. Supp. 1118, 1146-47 (D. N.J. 1976).

the exhaustion doctrine may bar licensors from including resale pricing restraints in their agreements.

On the other hand, resale restrictions are vertical in nature; thus, courts may apply the Supreme Court's *nonprice* territorial resale restriction cases.<sup>153</sup> While not involving patented products, the last of these cases, *Continental T.V., Inc. v. GTE Sylvania, Inc.*, held that rule of reason analysis was appropriate for nonprice resale restraints due to their potential beneficial effects.

While it appears that the exhaustion doctrine might require courts to strike down resale *price* restrictions in patent licensing agreements,<sup>154</sup> due to the relatively recent *Continental T.V.* decision, courts might analyze such restrictions by the rule of reason. Therefore, licensing parties will likely receive on balance a more in-depth review of resale restrictions in the United States courts than at the hands of the JFTC, where a nearly per se approach will be taken.

### Restrictions on the Sale Price

The Supreme Court has treated sales price restraints on several occasions. Initially, in *United States v. General Electric Co.*, the Court held that a licensor was permitted to set the price at which its licensee may sell the patented product.<sup>155</sup> However, the Court has subsequently whittled away the *General Electric* rule, to the point that it currently carries little weight.<sup>156</sup> Yet sales price restrictions may provide beneficial competitive effects. Courts have thus maintained some flexibility in enforcing price restraints, and any attempt to establish blanket per se illegality has failed.<sup>157</sup>

It appears, albeit not concretely, that courts in the United States would normally rule patent pricing restraints in licensing agreements per se illegal. Licensing parties should therefore exercise care when including such provisions in their agreements due to

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153. The territorial nonprice resale restriction cases form a trilogy. First, in *White Motor Co. v. United States*, 372 U.S. 253, 263 (1963), the Court held that such restraints are subject to rule of reason analysis. Next, in *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365, 372-73 (1967) (discussed in this article, *supra* at 7-8), the Court reversed direction and held that such restrictions were per se unlawful. Owing to vast criticism of this decision, the Court once again reversed itself, ten years later, in *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 57-59 (1976) (also discussed in this article, *supra* at section II.A.2).

154. 1 ECKSTROM, *supra* note 150, § 8.03[2].

155. *United States v. General Electric Co.*, 272 U.S. 476, 489-91 (1926).

156. See *United States v. New Wrinkle, Inc.*, 342 U.S. 371, 378 (1952) (patentees join in agreement to maintain prices on their several products; held per se illegal); *United States v. United States Gypsum Co.*, 333 U.S. 364 (1948); *United States v. Line Material Co.*, 333 U.S. 287, 314-15 (1948) (price fixing provisions were prohibited in patent licensing agreements involving more than one patentee).

157. See *United States v. Huck Mfg. Co.*, 382 U.S. 197 (1965) (equally divided court declined to overrule *General Electric*).

the cautionary approach taken by lower courts in upholding these provisions based on *General Electric*.<sup>158</sup> Nonetheless, while the JFTC always takes an almost per se view toward such restraints, the United States courts may be more lenient and apply a rule of reason-type analysis.

### Licensee Prohibited from Handling Competing Goods or from Employing Competing Technology after Expiration of the License

United States courts have consistently held that post-expiration restrictions are per se a patent misuse.<sup>159</sup> In the licensing sphere, any attempt by the licensor to expand its patent monopoly beyond the term of its patent is misuse of the patent right. Although patent misuse does not necessarily constitute an antitrust violation, the Supreme Court has held post expiration *royalty* provisions unlawful per se.<sup>160</sup> By analogy, if a licensing agreement includes a provision restricting post expiration use of competing technology, a court might consider it per se illegal. Thus, regarding post expiration restrictions, the United States and JFTC approaches are consistent.

### Restricting the Use of Licensed Technology despite Expiration of the Patent Right, or Making Royalties Obligatory after Expiration of the Patent Right

As noted above, the Supreme Court has held post expiration royalties illegal per se.<sup>161</sup> The approaches toward post expiration royalties in the United States and Japan are therefore in accord, although the JFTC will likely strike such provisions during its review of the agreement.

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158. 1 ECKSTROM, *supra* note 150, § 8.03[5][a].

159. *See, e.g.*, National Lockwasher Co. v. George K. Garrett Co., 137 F.2d 255 (3d Cir. 1943); 4 CHISUM, *supra* note 149, § 19.04[3][b] n.11 (cases cited therein).

160. *See* Brulotte v. Thys Co., 379 U.S. 29, 32 (1964) (Court held that use of a *royalty* agreement "that extends beyond the expiration date of the patent is unlawful *per se*"); declared such royalty provisions as a patent misuse); Scott Paper Co. v. Marcalus Co., 326 U.S. 249, 256 (1945) ("any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws.").

161. Brulotte, 379 U.S. 29, at 32. Post expiration misuse has no effect on the license until the last patent in the license expires. Thus, the royalties are uncollectible only after the last patent expires. *Id.* at 33-34. Modrey v. American Gage & Machine Co., 478 F.2d 470, 474-75 (2d Cir. 1973).

### Restricting Research and Development by the Licensee (Whether that Be by the Licensee Alone or in Conjunction with other Companies or Firms)

In *International Nickel Co. v. Ford Motor Co.*, the court stated that provisions "which tend to stifle research are antagonistic to the underlying policies of the patent laws."<sup>162</sup> Thus, such restrictions qualify as a patent misuse,<sup>163</sup> and when expressly included in licensing agreements, will likely violate United States antitrust laws. As such, the position of the American courts seems consistent with that of the JFTC.

On the other hand, due to the paucity of case law, these provisions are seldom expressly included in licensing agreements. In fact, such restrictions are more often implicitly contained in grantback clauses.<sup>164</sup>

### Grantbacks (Either Assigning any Improvements of the Licensed Invention or Granting an Exclusive License on such)

The Supreme Court has upheld the legality of grant back restrictions, with *Transparent-Wrap Machine Corp. v. Stockes & Smith Co.* being the last such case to debate the issue.<sup>165</sup> Since that time, federal courts have simply applied the rule, although a very few cases have found some grantbacks to be illegal.<sup>166</sup> Generally, however, United States courts are considerably more lenient regarding grantback clauses than the JFTC, with its near per se approach.

#### b. Know-How License Agreements

Little case law exists on know-how (trade secrets) licensing and antitrust violations; however, one author has stated that the general principles are similar to patent cases, encouraging reasoning by analogy.<sup>167</sup> Another author has set forth a general rule: "Restrictions placed on licenses in trade secrets licensing agreements are

162. *International Nickel Co. v. Ford Motor Co.*, 166 F. Supp. 551, 565 (S.D. N.Y. 1958).

163. See *Well Surveys, Inc. v. McCullough Tool Co.*, 199 F. Supp. 374, 392, 398 (N.D. Okl. 1961), *aff'd*, 343 F.2d 381 (10th Cir. 1965), *cert. denied*, 383 U.S. 933 (1966) (agreement including covenant that precluded licensee from engaging "intentionally" in research and development held patent misuse); *cf.* *Old Dominion Box Co. v. Continental Can Co.*, 273 F. Supp. 550, 572 (S.D. N.Y. 1967), *aff'd*, 393 F.2d 321 (2d Cir. 1968) (no showing that provisions in the agreement "resulted in the stifling of any research. Thus, the contentions . . . as to illegality and unenforceability of those provisions have to be based upon the provisions per se.").

164. See 2 NORDHAUS, PATENT-ANTITRUST LAW § 80 (3d ed. 1990).

165. *Transparent-Wrap Machine Corp. v. Stockes & Smith Co.*, 329 U.S. 637, 644 (1947).

166. See, e.g., *United States v. Associated Patents, Inc.*, 134 F. Supp. 74, 82 (E.D. Mich. 1955), *aff'd*, *Mac Investment Co. v. United States*, 350 U.S. 960 (1956).

167. 1 EINHORN, *supra* note 150, § 7.02[2].

generally valid if they are ancillary to the main transaction and if they are not either *per se* violations of antitrust law or inherently anticompetitive."<sup>168</sup>

### Restricting Resale Prices on Know-How

Regarding resale restrictions, ownership of a trade secret process for manufacturing a product does not entitle the licensor to fix the resale price of the product once the licensor has sold it.<sup>169</sup> The Supreme Court has generally upheld this rule.<sup>170</sup> Thus, for such restrictions, the courts of the United States and the JFTC take consistent positions.

### Price Restrictions in Know-How Licenses

There are no court cases concerning price restrictions. However, commentators have pointed to several related decisions involving patented machines,<sup>171</sup> and have concluded that courts would probably hold such restrictions illegal in trade secret licenses, notwithstanding the dictum in *Dr. Miles Medical Co. v. John D. Park & Sons Co.*<sup>172</sup> Thus, the JFTC and the American courts would probably agree on this issue as well.

### Post Expirations Tie-Outs

Regarding post expiration tie-outs (forbidding the licensee to handle competing goods after expiration of the license), there is no case law directly on point. There is, however, some case law involving tie-outs *during* the license term. These cases have held that such restrictions are *not per se* violations of the antitrust laws.<sup>173</sup>

A Supreme Court case, *Aronson v. Quick Point Pencil Co.*,<sup>174</sup> also provides assistance in determining whether *post expiration* tie-outs regarding know-how are illegal. In *Aronson*, the Court held that if the licensee agreed to such an arrangement, the licensor could continue to collect royalties even after the licensed technology

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168. 1 ECKSTROM, *supra* note 150, § 8.06[1] (emphasis in original).

169. *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 381-82, 404 (1911).

170. *See, e.g.*, *United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707, 721 (1944); *United States v. A. Schrader's Sons, Inc.*, 252 U.S. 85, 99 (1920).

171. *See, e.g.*, *Barber-Colman Co. v. National Tool Co.*, 136 F.2d 339 (6th Cir. 1943); W. HOLMES, *INTELLECTUAL PROPERTY AND ANTITRUST LAW*, at p. 25-27 n.30 (Supp. 1986).

172. Holmes, *supra* note 171, at 25-27; *Dr. Miles*, 220 U.S. 373 at 402 (dictum: price restrictions might be valid regarding restraints on the licensed trade secret process).

173. *See, e.g.*, *Foundry Services, Inc. v. Beneflux Corp.*, 206 F.2d 214, 215-16 (2d Cir. 1953); *Parev Products Co. v. I. Rokeach & Sons, Inc.*, 124 F.2d 147, 150 (2d Cir. 1941).

174. 440 U.S. 257 (1979).

had become known and entered the public domain.<sup>175</sup> By analogy, courts might not hold post expiration tie-outs per se illegal. Therefore, despite the lack of specific case law, American courts would probably treat such know-how restrictions less strictly than the JFTC.

**Restricting the Use of Licensed Technology even though it Has  
Become Publicly Known for Which Reasons the  
Licensee Is Not Responsible, or Forcing the  
Licensee to Pay Royalties on  
Know-How after it Has become Publicly Known**

As noted directly above, the Supreme Court has recently held that such restrictions are not per se illegal.<sup>176</sup> Thus, the United States and the JFTC' views are inconsistent, with the American courts taking a more lenient position.

**Restricting Research and Development by the Licensee**

By analogizing the judicial determination that research and development restrictions constitute a patent misuse, it seems clear that such restrictions should also be illegal when included in a know-how licensing agreement. Thus, it seems that the JFTC and United States courts would treat these restrictions in a similar manner.

**Grantbacks**

Courts in the United States analyze such restrictions under a reasonableness standard, not a per se rule.<sup>177</sup> Consequently, the JFTC's per se approach is substantially stricter than that of the United States courts.

**5. Japanese Jurisdictional Shortcomings: Contributing the Most Substantial Per Se Quality to the New JFTC Guidelines**

The Japanese legal system's jurisdictional shortcomings present the most significant, perplexing, and complicated issues to foreign companies regarding the per se qualities of the JFTC

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175. *Id.* at 266. Because the leverage of a patent monopoly was not involved, the Court distinguished *Brulotte*, 379 U.S. 29 (1964).

176. Aronson, 440 U.S. 257.

177. *See, e.g.*, *Binks Mfg. Co. v. Ransburg Electro-Coating Corp.*, 281 F.2d 252, 259 (7th Cir. 1960), *cert. granted*, 364 U.S. 926 (1960), *cert. dismissed*, 366 U.S. 211 (1961) (upholding a grantback clause in a patent and know-how license covering patented and unpatented future improvements); *Zajicek v. Koolvent Metal Awning Corp. of America*, 283 F.2d 127, 131-32 (9th Cir. 1960), *cert. denied*, 365 U.S. 859 (1961) (upholding a grantback clause on a patent license including patented and unpatented improvements); *Robintech, Inc. v. Chemidus Wavin, Ltd.*, 450 F. Supp. 817, 821 (D.D.C. 1978), *aff'd*, 628 F.2d 142 (D.C. Cir. 1980) (upholding grantback clause in a license involving patented and unpatented future improvements).

enforcement technique. This section attempts to summarize these issues by highlighting the most important ones.<sup>178</sup>

The limited reach of Japanese jurisdiction over foreign parties adds substantially to the per se flavor of JFTC enforcement concerning international licensing agreements. This limited jurisdiction may also result in unfair and disparate treatment of foreign licensors, in favor of Japanese licensees. Moreover, due to jurisdictional limitations and the stature of the JFTC, Japanese courts have had little say in the enforcement of such agreements.<sup>179</sup>

In contrast, the courts of the United States are thoroughly and continually involved in the enforcement of restrictive provisions in licensing agreements. Additionally, because there are few jurisdictional limitations, domestic as well as foreign licensing parties (whether they be licensor or licensee) have ample access to American courts.

Initially, it is important to understand the methods by which the JFTC enforces its guidelines. The JFTC has a quasi-judicial power that allows it to determine the legality of restrictive provisions in all licensing agreements.<sup>180</sup> There are several ways the JFTC exercises this power. First, if there is some evidence of a violation of the Antimonopoly Act, the JFTC may institute an investigation.<sup>181</sup> If the investigation produces sufficient evidence to support it, the JFTC will initiate a hearing, with either the JFTC or

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178. Several articles and sources have touched upon this issue. However, all were written prior to the adoption of the New JFTC Guidelines. See, e.g., The Antimonopoly Act in Foreign Trade, 1 Economic Reg. Foreign Trade (CCH) ¶ 37-000-37-800 (1988); Haley, *International Aspects of Japanese Antitrust Law*, E. ASIAN EXECUTIVE REP., August 1980, at 3; Uesugi, *supra* note 92, at 366-69; but see *infra* section IV.B. (summarizes the new, beneficial effects that the New JFTC Guidelines and the JFTC's more relaxed pre-agreement guidance procedures will have upon the enforcement technique).

179. As the administrative wing of the Japanese government in charge of licenses and their antitrust aspects, the JFTC carries considerable stature within the government as well as in the courts. This stature may impel courts to defer to JFTC judgment regarding licensing agreements and their antitrust impacts when, and if, licensing parties challenge the JFTC.

180. See *supra* note 79. Up until the adoption of the New JFTC Guidelines, the JFTC only applied its guidelines to international licensing agreements; agreements amongst domestic parties were exempted. The unfairness in this was manifest: *Domestic* licensing agreements could include restrictive provisions that would be unlawful in *international* agreements, but because the JFTC presumed that the foreign licensor was the dominant party to the international agreement, the JFTC would more aggressively police such licenses. Fortunately, the JFTC recognized this disparity, and has accordingly made its new guidelines applicable to both international and domestic licensing agreements. See *supra* section III.B.2.c.

181. International technology transfer agreements involving intellectual property are subject to the JFTC filing requirement. See *supra* section IV.A.1. Thus, the JFTC will receive a copy of all such agreements, creating a self-alerting mechanism for Antimonopoly Act violations.

an administrative law judge presiding.<sup>182</sup> Second, the JFTC may simply recommend that the perpetrator of the illegal provision cease and desist.<sup>183</sup> A party may either accept or challenge this recommendation. If it accepts, the JFTC will hand down an official decision without instituting a hearing.<sup>184</sup> Rejection of a recommendation, however, will result in a hearing. Third, the JFTC may render a consent decision wherein the respondent to the proceeding will admit the facts and propose a voluntary measure to cancel or alter the illegal provision.<sup>185</sup> Acceptance of such a proposal by the JFTC constitutes a consent decision.<sup>186</sup>

Regardless of the procedure chosen by the JFTC, filing of the licensing agreement commences the process. Although either the foreign licensor or the Japanese licensee may file the agreement, the Japanese party usually does so.<sup>187</sup> Indeed, the Japanese party has the obligation to file and, if it does not, the JFTC can levy a fine.<sup>188</sup> On the other hand, the foreign party is under no obligation to file and is not subject to fines even if the Japanese party does not file.<sup>189</sup> Thus, the Japanese party will likely initiate contact with the JFTC and will accordingly be the party with whom the commission corresponds.<sup>190</sup>

Due to the initial contact between the JFTC and the Japanese party brought about by the filing requirement, the commission will likely instigate any proceeding challenging suspicious restrictive provisions against the Japanese party. If this procedure happens to be a recommendation, the Japanese party will therefore be in a position to accept or reject such.<sup>191</sup> Similarly, the Japanese party will act as respondent, or communicate its consent, if the JFTC initiates a hearing. The foreign party will likely not be in a position to join

182. Antimonopoly Act, *supra* note 72, §§ 49-53(2)(2), 54-70(2).

183. *Id.*, § 48.

184. Acceptance of a recommendation is presumed to be a waiver of a hearing. *Id.*, § 48(4).

185. *Id.*, § 53(3).

186. Disobedience of any one of the above three decisions results in a fine to, or imprisonment of, the respondent. *Id.*, §§ 90(iii), 92.

187. Fact Sheets, *supra* note 82, § 1 ¶ 3 ("Under section 6 of the Antimonopoly Act, either party can file such international agreements. *Normally, the Japanese entrepreneur who is one party to international agreements will file a copy of such agreements with the [JFTC] . . .*" (emphasis added)); Nasu, *supra* note 119, at 73 ("The Antimonopoly Act . . . requires Japanese enterprises to file . . . patent and technology licenses [ ] with the [JFTC] . . .").

188. Nasu, *supra* note 119, at 73.

189. *Id.*

190. It is even feasible that the foreign party would be unaware of JFTC requirements and proceedings. In such a case, even with the informal contacts that are now available between foreign parties and the JFTC, the party would have no idea of the beneficial contact that it could initiate. See *infra* section IV.B.2.

191. Due to its simplicity and efficiency, the JFTC will probably use the recommendation proceeding.

the proceeding; indeed, this party may not even be aware of the proceeding.

A foreign licensor may also be *legally* unable to join the JFTC proceeding, despite a desire to do so. To make a foreign party a respondent to a JFTC hearing, or the receiver of a recommendation, and thus in a position to challenge a JFTC decision in court, the Commission must find that it has personal jurisdiction over the party.<sup>192</sup> Herein lies a problem: Japanese rules on personal jurisdiction regarding foreign entities "need to be overhauled in order to cope with the international economic situation now facing Japan."<sup>193</sup> Due to this problem, the JFTC may be unable to issue a recommendation decision or complaint to a foreign party, forcing the foreign party into spectator status while the JFTC proceeds against the Japanese licensee.<sup>194</sup> Furthermore, in order to establish personal jurisdiction and initiate a proceeding against a foreign licensor, the JFTC must legally be able to serve documents on the licensor.<sup>195</sup> However, the Antimonopoly Act does not provide for service to a foreign country.<sup>196</sup> If the foreign licensor has no place of business or agent upon whom documents can be legally served, the JFTC will have no jurisdiction. The JFTC is thus likely to name only the Japanese party in order to avoid these pitfalls.<sup>197</sup>

How do these procedures and problems act to the detriment of

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192. See Uesugi, *supra* note 92, at 367; The Antimonopoly Act in Foreign Trade, *supra* note 79, ¶ 37-650.

193. Uesugi, *supra* note 92, at 368.

194. Two older cases could potentially have settled, or at least provided some insight into this issue. One case involved a 1964 joint venture agreement between Caterpillar Tractor Company and Mitsubishi Heavy Industries. The other concerned Komatsu and Bucyrus-Erie, Inc., involving a similar 1962 agreement. The JFTC challenged each agreement's restrictive provisions as violative of the Antimonopoly Act and constituting unfair trade practices. However, in the Caterpillar-Mitsubishi case, the two parties assented to modification of the agreement and thus, avoided formal JFTC action. The Bucyrus-Erie case, on the other hand, was not settled so easily. The parties could not agree, and the JFTC initiated a formal hearing. Therein, Bucyrus-Erie (an American company) challenged the JFTC's jurisdiction, even though the JFTC had attempted to make it a party. The JFTC consequently terminated the proceeding. See Komatsu Ltd. and two others, JFTC Decision to Terminate Hearing Procedure, October 26, 1981. Thus, once again, the JFTC did not reach the issue of personal jurisdiction. See Haley, *supra* note 178, at 3-4; The Antimonopoly Act in Foreign Trade, *supra* note 79, ¶ 37-400; Uesugi, *supra* note 92, at 368.

195. This requirement covers both hearings (complaints) and recommendations (document containing the recommendation). Antimonopoly Act, *supra* note 72, §§ 48, 50.

196. See Antimonopoly Act, *supra* note 72, § 69(2). Section 69(2) incorporates several provisions of the Japanese Civil Procedure Code regarding service of process, but omits the provision on foreign service. The Antimonopoly Act in Foreign Trade, *supra* note 79, ¶ 37-400. Thus, it is reasonable to assume that, in drafting the Antimonopoly Act, the Japanese did not intend extraterritorial service.

197. Even if the JFTC could legally serve the foreign party, it may have other jurisdictional problems. See The Antimonopoly Act in Foreign Trade, *supra* note 79, § 37-300-20 (the "territorial principle" and the *Shipping Case*).

the foreign licensor and possibly to the benefit of the Japanese licensee? First, it must be assumed that the JFTC has neither made the foreign licensor a respondent, nor issued it a recommendation.<sup>198</sup> If it is further assumed that the Japanese licensee is attempting to subvert the restrictive provisions by having the JFTC strike them, the deleterious and opposing beneficial effects are manifest. The Japanese party will, pursuant to the filing requirement, submit the agreement to the JFTC. The JFTC will then strike any restriction it finds violative of the New JFTC Guidelines.<sup>199</sup> The JFTC may do this by any one of the three procedural mechanisms, but the result will be the same: The Japanese party will either accept a JFTC recommendation, issue a factual consent, or participate and quickly cave in at a hearing. Thus, the Japanese party can effectively remove any unwanted provisions.

Assuming the foreign licensor is not the respondent or did not receive the recommendation, how is the foreign licensor injured? It may lose the benefits of provisions for which, presumably, it lawfully and fairly negotiated with the Japanese licensee without an opportunity to argue its case. Still, if the provisions *were* violative of Japanese antitrust law, the licensor, regardless of its success at negotiation, would have to abide by the law. But suppose the JFTC incorrectly determined that the provisions were unlawful; the foreign licensor has no recourse in the Japanese courts. It will have to abide by an erroneous JFTC administrative decision because, neither being the respondent nor having received the recommendation, it has no right of appeal to the Japanese courts. This result is based on a 1975 Japanese Supreme Court case, wherein the Court held that a party who was not a respondent in a JFTC hearing (or for that matter, did not receive the recommendation) did not have standing to challenge the JFTC's decision.<sup>200</sup>

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198. This could be due to jurisdictional limitations, JFTC preference, or ignorance by the foreign party.

199. A Japanese licensee could potentially put the JFTC on notice of the unwanted restrictive provisions. Yet, even without such notification, the JFTC is still likely to detect any suspect provision.

200. *Novo Indus. A/S v. FTC*, Supreme Court, Nov. 28, 1975, 22 *Shinketsushu* 260. In *Novo*, the Japanese licensee filed the agreement with the JFTC two years *after* completion. The JFTC, upon review, found three provisions unlawful and violative of the Antimonopoly Act. It issued a recommendation to the Japanese licensee, which the licensee accepted. In the meantime, however, the parties had terminated the agreement, leaving intact two provisions that were to bind the parties after expiration of the agreement. Subsequently, the JFTC issued its recommendation *decision*. Included in the three provisions that the JFTC found illegal, and thus unenforceable, were the two post-termination provisions. Thus, the foreign licensor lost the benefit of these two provisions.

*Novo*, the foreign licensor, filed suit in the Tokyo High Court, requesting that the court overturn the JFTC decision, even though *Novo* was not a respondent, and even though the JFTC's cancellation decision was addressed to the Japanese licensee. Under Japanese law, in order to sustain a suit in such a case against a Japanese administrative

The respondent is bound by a JFTC decision but cannot use the decision as a defense in a breach of contract suit brought by the non-respondent licensing party. This brings to light another potentially harmful effect to non-respondent foreign licensors. Suppose, for example, the Japanese licensee agrees to a JFTC recommendation decision that cancels restrictive provisions, as did the Japanese licensee in *Novo Indus. A/S v. FTC*. However, unlike *Novo*, assume the parties have not terminated the agreement. This would mean that the foreign licensor loses the advantage of some restrictive provisions for which it negotiated with the Japanese party, while the licensing agreement remains in effect.<sup>201</sup> In contrast, owing to the cancellation of provisions that would restrict its free trade, the Japanese licensee receives a benefit. Moreover, given the decision in the *Novo* case, the foreign party could not seek to challenge the JFTC decision in the Japanese courts.<sup>202</sup> Suppose further that both parties desire continuation of the agreement, notwithstanding the JFTC recommendation removing the alleged restrictive provisions.<sup>203</sup> In such a case, what options would the foreign licensor have? It could accept the JFTC cancellation/alteration; it could seek to terminate the agreement; or, as noted by the Court in *Novo*, it could sue the Japanese licensee under a breach of contract claim. Yet the foreign licensor wants the agreement to continue. Thus, the only option effectively open to the foreign party is to accept the JFTC recommendation (or hearing) decision and lose the benefit of its alleged restrictive provisions, with no recourse to the Japanese courts.<sup>204</sup>

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agency, the challenger must have standing. That is, the challenger must have a legal interest in the action challenged. The Supreme Court's holding rested on the theory that the respondent's (Japanese licensee) voluntary acceptance of the JFTC recommendation decision was *binding solely on the respondent*. *Novo*, not being the respondent, thus had no legal interest and consequently no standing to sue. In order to bolster this decision, the Court also held that the Japanese licensee could not use this decision as a breach of contract defense if such a suit was initiated by *Novo*. For a more detailed discussion of this case see *The Antimonopoly Act in Foreign Trade*, *supra* note 79, ¶ 37-650-70.

201. The JFTC used to assume that the foreign licensor was the dominant licensing party. Thus, it was presumed that the licensor had coerced, not negotiated, the Japanese licensee into accepting deleterious restraints because of the licensee's tremendous desire for the agreement. This assumption, of course, is not always valid today.

202. The Japanese licensee accepted the recommendation.

203. Assume the agreement continues to be lucrative to both parties.

204. If, on the one hand, the foreign licensor had been unable to challenge the JFTC's cancellation of restrictive provisions in court, and the licensor then brought a breach of contract claim against the licensee, a Japanese court could not easily ignore the JFTC decision because the JFTC is the expert agency in such matters. Indeed, the court would be obliged to accord tremendous weight to a JFTC decision such as this that turns on the same issue. See *The Antimonopoly Act in Foreign Trade*, *supra* note 79, ¶ 37-670. This conclusion remains accurate, notwithstanding the holding in *Novo* that the respondent could not use a JFTC decision as a defense in a breach of contract suit against it. On the other hand, if the foreign party is given standing to sue and thus

The Japanese jurisdictional limitation presents the greatest impact that JFTC enforcement technique has upon international licensing agreements.<sup>205</sup> The limitation amounts to a complete absence of due process for the foreign party in the Japanese system.<sup>206</sup> In effect, if a foreign licensor is unable to challenge a JFTC decision in the Japanese courts, this decision represents the final word on Japanese antitrust law regarding restrictive provisions in licensing agreements. In this way, Japanese licensees may effectively remove unwanted restrictions through JFTC action.<sup>207</sup>

In the American system, jurisdictional reach ensures a quite different result. In fact, if the DOJ determines that provisions in an international licensing agreement are illegal, it must challenge the foreign party and its provisions *in court*. Furthermore, when viewing Japanese jurisdictional limitations in conjunction with both the New JFTC Guidelines' prejudice toward certain provisions and their lack of examples, the JFTC's purported rule of reason review is manifestly contradicted. Licensing parties will be unsure of the JFTC's treatment regarding borderline lawful provisions and may submit a license only to have these provisions stricken. Not being a respondent to the JFTC's decision, the foreign party cannot challenge this decision. On the other hand, in the United States, parties should be more willing to take their chances on borderline lawful provisions, knowing that a DOJ challenge must be mounted in court. Thus, despite relaxation of the impact of the 1968 Guidelines, the JFTC's enforcement technique has retained much of its former *per se* flavor through Japanese jurisdictional limitations.

#### B. Similarities in the Enforcement Techniques: Relaxation of the JFTC's Former *Per Se* Qualities

While many of the *per se* qualities of the 1968 Guidelines have been retained in the drafting of the New JFTC Guidelines, the ac-

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challenge the JFTC decision, a reviewing court could potentially overturn the JFTC decision. Such a ruling would buttress the foreign party's breach of contract claim.

205. Judicial review of administrative agency decisions is not only frequently available in the United States, but is also seen as an imperative limitation on abuse of agency discretion.

206. In the American administrative agency system, federal and state constitutional due process concepts often require judicial review of both agency rulemaking and adjudicatory decisions.

207. The Japanese party is wielding a two edged sword. First, the foreign party will lose the benefit of certain restrictions (as long as the restriction is proscribed by the New JFTC Guidelines). Conversely, the Japanese party will have restrictions removed that it did not like and were economically harmful to it. Second, the foreign party has obviously entered into the agreement because it desires the relationship with the Japanese licensee, and vice versa. Thus, although some of the provisions for which the foreign party negotiated and the Japanese party accepted will be stricken, the foreign party will may still desire continuation of the agreement and will accordingly abdicate to the JFTC decision.

tual effect may not be so drastic. In fact, it appears that some aspects of the new guidelines will significantly relax the per se nature of the 1968 Guidelines and the technique with which the JFTC enforced them.<sup>208</sup>

### 1. Application of the New JFTC Guidelines to both International and Domestic Licenses

The 1968 Guidelines applied only to international agreements. This reflected the feeling by the JFTC that international agreements were problematic in certain respects, whereas domestic agreements were not. It also showed a JFTC belief that the foreign licensor would be the dominant party in an international licensing arrangement. Accordingly, due to both limited bargaining power vis-a-vis the foreign licensor and the desire to license the technology, the JFTC thought that Japanese licensees could not effectively negotiate with the dominant foreign licensor. In the JFTC's view, a foreign licensor could thus subject a Japanese licensee to unwanted, deleterious restrictions at whim. However, the New JFTC Guidelines are applicable to both international and domestic licenses.<sup>209</sup> The JFTC has therefore adopted a similar approach to that taken by the DOJ and eliminated one of the per se and discriminatory qualities present in the 1968 Guidelines.<sup>210</sup>

### 2. Availability of The Clearance System and Consultation Requests

Since adopting its new guidelines, the JFTC has explicitly made provision for an official "Clearance System."<sup>211</sup> The Clearance System is optional for the licensing parties and is designed to aid them in lawfully shaping their agreement. The Clearance System can assist the parties in discovering any unlawful restrictive provisions that they may have included in their agreement before committing themselves to the provisions. Such a review can substantially prevent both Japanese and foreign licensing parties from illegally contracting at the early stages. However, a JFTC clearance is not permanent. If, in the future, the JFTC determines that previously cleared restrictive provisions have become illegal under the Japanese antitrust laws, the commission can revoke its prior clear-

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208. Two of these new aspects parallel features present in the DOJ system and its new guidelines: (1) application of the guidelines to both international and domestic agreements and (2) availability of prior clearance for licenses.

209. New JFTC Guidelines, *supra* note 97, Preamble ¶ 4; *see also supra* section III.B.2.c. (discusses this as one of the procedural changes made in the New JFTC Guidelines).

210. The DOJ's former per se approach applied equally to international and domestic licensing agreements. The DOJ continues this in its new guidelines.

211. *See supra* section III.B.2.a.

ance and have the provisions stricken.<sup>212</sup>

The JFTC also accepts consultation requests from both foreign and Japanese licensing parties at all stages of the licensing negotiations.<sup>213</sup> Both parties usually attend consultations; however, the JFTC will, upon identifying potential problems with the agreement, first question the Japanese party "about background, intention and justification."<sup>214</sup> When a decision is made, the JFTC will convey it to the Japanese party, who in turn should contact its foreign counterpart.<sup>215</sup>

The DOJ business review procedure is similar to the JFTC Clearance System.<sup>216</sup> In order to obtain a business review, a party must submit a request in writing to the DOJ Antitrust Division.<sup>217</sup> Upon reviewing the agreement, the DOJ may either state its "present enforcement intentions with respect to the proposed business conduct, decline to pass on the request, or take such other position or action as it considers appropriate."<sup>218</sup> Thus, like a JFTC clearance, the DOJ is merely representing its present enforcement intentions; it reserves the right to challenge the agreement in the future.<sup>219</sup>

As regards procedures to determine present and future enforcement intentions, the DOJ and JFTC now appear quite similar. With respect to the JFTC, although unofficially available in the past, the explicit adoption of a clearance system in the New JFTC Guidelines adds fairness to the procedure set forth in the 1968 Guidelines. Both foreign and Japanese parties may obtain prior review of their agreement from the JFTC. Moreover, JFTC consultations, despite being communicated through the Japanese party, afford foreign parties another method by which to shape their licensing agreements before completion to avoid JFTC challenges. As to the DOJ, even though it has no procedure commensurate with JFTC consultation requests, its flexible business review is similar to the JFTC's clearance request, which provides licensing parties

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212. Fact Sheets, *supra* note 82, § 3(2).

213. Nasu, *supra* note 119, at 74. Nasu states that "discussions with representatives of foreign enterprises are no longer a special event for the JFTC and are held on a routine basis." *Id.*

214. *Id.* The JFTC will conduct this inquiry with the Japanese party either over the telephone, or through a visit to the JFTC. *Id.* If the latter method is chosen, the foreign party is welcome to attend the discussions. *Id.*

215. *Id.* "Although foreign parties learn of the JFTC's advice initially through their Japanese counterparts, this should not cause hardship on the foreign parties because they can check the information with the JFTC whenever necessary." *Id.*

216. Department of Justice Antitrust Division business review procedure, 28 C.F.R. § 50.6 (1977). This procedure has unofficially been in effect since before the era of the nine no-no's. See *supra* note 69.

217. 28 C.F.R. § 50.6, ¶ 1.

218. *Id.*, § 50.6, ¶ 8.

219. *Id.*, § 50.6, ¶ 9.

an opportunity to have their agreements reviewed for illegal restrictive provisions before effecting them.

### 3. Relaxation of Eight of the Nine Previously Deemed "Likely" Illegal Provisions to "May Be" Unlawful

In the 1968 Guidelines, the JFTC set out nine restrictive licensing provisions that were, in its opinion, likely to constitute unfair trade practices and thus violate the Antimonopoly Act.<sup>220</sup> The New JFTC Guidelines have changed this. The JFTC now deems eight of these same nine provisions as "restrictions which may fall under unfair trade practices."<sup>221</sup> It therefore appears that, while still reserving the right to challenge these provisions, the JFTC has relaxed its opinion regarding their unlawfulness. The question still remains as to whether the JFTC will actually relax its practical viewpoint concerning these eight restrictions, as it begins reviewing agreements with one or more of these restrictions in place.

### 4. Reduction in the Frequency of JFTC Invalidations of Restrictive Provisions

In its new guidelines, the JFTC has tabulated its decisions concerning restrictive provisions that it has reviewed from 1975 to 1987.<sup>222</sup> According to this data, the JFTC has in recent years significantly reduced the frequency with which it has stricken such provisions from licensing agreements as constituting unfair trade practices.<sup>223</sup> These statistics provide practical evidence of a growing relaxation in the JFTC's enforcement program. In addition, the decreasing frequency of cancellations shows that the results of the JFTC's enforcement techniques, outlined above, may not be adversely affecting the foreign parties as much as may appear at first blush. On the other hand, the table only contains statistics through 1987. Thus, the effect that the New JFTC Guidelines will have upon JFTC enforcement is not yet fully known.

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220. See *supra* section III.B.1.a.

221. New JFTC Guidelines, *supra* note 97, at Part 1, § 2. However, the JFTC has deemed one of the restrictions as "highly likely to fall under unfair trade practices". *Id.* at Part 1, § 3(1) (restricting resale prices).

222. New JFTC Guidelines, *supra* note 97, Table 2. See Appendix 2.

223. The JFTC lists the percentage of restrictive provisions in international licensing agreements that it has found to constitute unfair trade practices for each year covered by the table. In perhaps the most telling statistic, the JFTC calculates the percentage of restrictions that it found to be illegal from 1975 through 1980 and places this number next to the same calculation for the years 1981 through 1987. For the former period, the JFTC determined that 15.7% of the licensing restrictions that it reviewed constituted unfair trade practices. However, in the latter period, the JFTC had found only 7.3% of the reviewed restrictions illegal. Thus, it appears that the JFTC has relaxed, in the past few years, its attitude toward restrictive provisions in international licensing agreements. See Appendix 2.

## V. CONCLUSION

The enforcement techniques of the DOJ and the JFTC for restrictive provisions in international licensing agreements differ significantly, with the JFTC viewing such provisions more strictly. Despite adopting new guidelines that purport to analyze restraints under the rule of reason, the JFTC has retained several of the enforcement techniques that lent a *per se* quality to its former guidelines. Furthermore, the JFTC continues to manifest a negative predisposition toward the substance of many restrictions. On the other hand, the JFTC has relaxed its previous strict approach, both in the New JFTC Guidelines, substantively and procedurally, and by reducing the frequency with which it cancels restrictive provisions.

In contrast, the DOJ has significantly changed its viewpoint on restrictive provisions. The DOJ, in its new guidelines, provides three detailed examples to aid licensing parties in avoiding antitrust violations when drafting restrictions for their licensing agreements. Moreover, whereas the DOJ formerly regarded nine specific provisions as *per se* illegal, it now purports to analyze *all* restrictive provisions under the rule of reason. The new guidelines thus better align the DOJ with the courts of the United States and their enforcement of the antitrust laws.

While both countries have made changes, it appears that the DOJ has more significantly relaxed its attitude toward the legality of restrictive licensing provisions. However, the JFTC, while not altering its view as drastically as the DOJ, has also softened its approach to such provisions in international licenses. How far both countries will go in implementing the new changes has yet to be fully determined.

APPENDIX 1  
ON THE ANNOUNCEMENT OF "ANTI-  
MONOPOLY ACT GUIDELINES FOR  
INTERNATIONAL LICENSING  
AGREEMENTS"

(Translated by the Staff Office of the Fair Trade Commission)

May 24, 1968

I. As liberalization measures for introduction of foreign technology are to be put into effect, the Fair Trade Commission prepared "Antimonopoly Act Guidelines for International Licensing Agreements" as attached herewith and decided to make it public.

In reference to international licensing agreements, sub-section 1 of Section 6 of the Act concerning Prohibition of Private Monopoly and Maintenance of Fair Trade (Antimonopoly Act) prohibits an entrepreneur from entering into an international agreement which contains such matters as constituting unreasonable restraint of trade or unfair business practices. The Guidelines concerned with restrictions which are liable to come under unfair business practices.

The Antimonopoly Act provides for post notification of international agreements (subsection 2 of Section 6) and measures for elimination of illegal agreements (Section 7). However, there have been almost no agreements filed with the Commission which have been found to violate the Antimonopoly Act due to the fact that undue restrictions originally contained in the agreements had been so far modified or removed in the process of screening under the Foreign Investment Law. Moreover, after the regulations for the introduction of the technology are liberalized, the screening process will no longer be undertaken with respect to restrictions and restrictions will be subject only to post scrutiny under Section 6 of the Antimonopoly Act.

It is the intention of the Commission, on the basis of the Guidelines, to more closely scrutinize undue restrictions and strive to eliminate them. The Commission expects that each contracting party will give due consideration to the Guidelines in advance and will not enter into such an agreement which will violate the provisions of the Antimonopoly Act. If there is any doubt as to the application of the Antimonopoly Act concerning the provisions of an agreement, the Commission is ready to respond when it is consulted.

II. Concerning the Guidelines

Item 1: This item enumerates restrictions which are liable to come under unfair business practices in international licensing agreements on patent rights or utility model rights. However, this

item enumerates only certain outstanding restrictions; therefore, any other restrictions not mentioned herein should not be considered as not falling under the Antimonopoly Act.

Item 2: Restrictions in international know-how licensing agreements will be treated in the same manner as those in international licensing agreements on patent rights or utility model rights.

Item 3: Section 23 of the Antimonopoly Act exempts the acts which are regarded as an exercise of rights under the Patent Act, etc. This item serves to clarify that the restrictive practices herein enumerated shall be regarded as exercise of such rights.

### ANTIMONOPOLY ACT GUIDELINES FOR INTERNATIONAL LICENSING AGREEMENTS

(Translated by the Staff Office of the Fair Trade Commission)

May 24, 1968

I. Among the restrictions which are liable to come under unfair business practices in international licensing agreements on patent rights or utility model rights (hereinafter referred to as patent rights, etc.) the following stand out:

(1) To restrict the area to which the licensee may export the goods covered by patent rights, etc. (hereinafter referred to as patented goods). However, cases coming under a, b, or c listed below are excluded.

- a. In case the licensor has patent rights, etc. which have been registered in the area to which the licensee's export is restricted (hereinafter referred to as the restricted area);
- b. In case the licensor is selling patented goods in the restricted area in his normal business;
- c. In case the licensor has granted to a third party an exclusive license to sell in the restricted area.

(2) To restrict the licensee's export prices or quantities of patented goods, or to make it obligatory for the licensee to export patented goods through the licensor or a person designated by the licensor. However, such cases are excluded where the licensor grants licensee to export to the area coming under either of the preceding a, b, or c and the said restrictions or obligations imposed are of reasonable scope.

(3) To restrict the licensee from manufacturing, using or selling goods, or employing technologies which are in competition with the licensed subject. However, such cases are excluded where the licensor grants an exclusive license and imposes no restriction on goods already being manufactured, used or sold, or technology already being utilized by the licensee.

(4) To make it obligatory for the licensee to purchase raw

materials, parts, etc. from the licensor or a person designated by licensor.

(5) To make it obligatory for the licensee to sell patented goods through the licensor or a person designated by the licensor.

(6) To restrict the resale prices of patented goods in Japan.

(7) To make it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained regarding the licensed technology, or to assign the right with respect to an improved or applied invention by the licensee to the licensor or to grant the licensor a license thereon. However, such cases are excluded where the licensor bears similar obligations and the obligations of both parties are equally balanced in substance.

(8) To charge royalties on goods which do not utilize licensed technology.

(9) To restrict the quality of raw materials, parts, etc. or of patented goods. However, such cases are excluded where such restrictions are necessary to maintain the creditability of the registered trademark or to insure the effectiveness of the licensed technology.

II. The aforementioned guidelines shall apply to international know-how licensing agreements.

III. In international licensing agreements on patent rights, etc., the following acts shall be regarded as the exercise of rights under the Patent Act or the Utility Model Act:

(1) To grant license to manufacture, use, sell, etc. separately;

(2) To grant license for a limited period within the life of patent rights, etc. or for a limited area within the whole area covered by patent rights, etc.;

(3) To restrict the manufacture of patented goods to a limited field of technology or to restrict the sale thereof to a limited field of sales;

(4) To restrict the use of patented processes to a limited field of technology;

(5) To restrict the amount of output or the amount of sales of patented goods or to restrict the frequency of the use of patented processes.

**APPENDIX 2**  
**GUIDELINES FOR THE REGULATION OF**  
**UNFAIR TRADE PRACTICES WITH**  
**RESPECT TO PATENT AND**  
**KNOW-HOW LICENSING AGREEMENTS**

(This is a tentative translation of the Japanese text of the Guidelines, therefore, the Japanese text should be referred if interpretation of each provisions is in question.)

February 15, 1989

Executive Bureau, Fair Trade Commission

**PREAMBLE:**

1. The Fair Trade Commission (FTC), on May 24, 1968, had announced the Guidelines for International Technology Introduction Agreements and had specified outstanding restrictions among those which are liable to come under unfair trade practices in international technology licensing agreements on patent or know-how.

The FTC relied on these guidelines when it reviewed international contracts or agreements filed under Paragraph 2 of Section 6 of the Antimonopoly Act.

2. In view of recent trends of increasing significance, as well as the number of international technology licensing agreements (those agreements between Japanese entrepreneurs and foreign entrepreneurs) and of technology licensing agreements among Japanese entrepreneurs, the FTC had formulated the Guidelines for the regulation of Unfair Trade Practices with respect to Patent and Know-How Licensing Agreements.

3. The legal framework to protect intellectual property rights such as a patent has a procompetitive effect of stimulating research and development among entrepreneurs, and could work as a promoter to introduce a new market or new technology.

Also, technology transactions could have a procompetitive effect when, as a result of technology transactions, new business entities can enter a market, when the number of competing entities increases, or when the technology can be utilized more efficiently.

Therefore, transfer of technology should be promoted, and it is expected that transfer of technology could be promoted through clarification of examining standards by way of guidelines.

On the other hand, if certain types of restrictive conditions are imposed in technology licensing agreements, they might cause an anticompetitive effect.

In view of the nature of such restrictions, it is as a matter of course that impacts on competition should be evaluated individu-

ally as to each case when it is examined whether restrictions contained in technology licensing agreements constitute unfair trade practices.

However, impacts on competition may vary depending on types of restrictive conditions.

Therefore, after taking our enforcement experience into consideration as well, the following three types of outstanding restrictions contained in patent and know-how licensing agreements which occupy a large part of technology licensing agreements are identified as much as possible in these guidelines.

(a) Such restrictions which are considered, in principle, not to fall under unfair trade practices.

(b) Such restrictions which may fall under trade practices.

(c) Such restrictions which are highly likely to fall under unfair trade practices.

As to restrictions which are described as "may fall under unfair trade practices," such determination will be made, in addition to the requirements stipulated in each paragraph, after the position of licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc. are examined as a whole.

On the other hand, as to restrictions that are described as "highly likely to fall under unfair trade practices," such restrictions are considered to constitute unfair trade practices unless specific justifiable reasons could be presented.

4. Examining standards stipulated in these guidelines are applicable without any discrimination to those patent and know-how licensing agreements among Japanese entrepreneurs as well as those between Japanese entrepreneurs and foreign entrepreneurs.

However, so far as restrictive conditions contained in patent and know-how licensing agreements between Japanese entrepreneurs and foreign entrepreneurs are concerned, examining standards in these guidelines are applicable insofar as restrictive conditions can influence competition within a Japanese market.

5. As stated above, impacts on competitions within a Japanese market should be evaluated individually as to each case when it is examined whether restrictions contained in technology licensing agreements constitute unfair trade practices.

Thus, clearance requests from contracting parties are expected to increase. Therefore, at the same time with the announcement of these guidelines, a clearance system on patent and know-how licensing agreements is established, and any clearance requests filed by foreign entrepreneurs, as well as by Japanese entrepreneurs, will be responded to in a proper way.

6. Examining standards in these guidelines could be applicable

to reciprocal licensing agreements or licensing agreements among more than three parties such as cross-licensing agreements, patent pool, multiple licensing agreement, etc.

Because these guidelines are to clarify examining standards for unfair trade practices as to patent and know-how licensing agreements, it is a matter of course that Section 3 of the Antimonopoly Act (Prohibition of Private Monopolization or Unreasonable Restraints of Trade) and other Sections could also be applicable to such cases where technology licensing agreements are used as a means to effect unreasonable restraint of trade. Thus, as to reciprocal licensing agreements or licensing agreements among more than three parties, aspects other than unfair trade practices need to be examined.

7. A licensing agreement which licenses both patent and know-how could be regarded as a patent licensing agreement and a know-how licensing agreement. Therefore, as to restrictive conditions contained in such hybrid licensing agreements, examining standards in each Part will be applied depending on which technology restrictive conditions are related to.

#### PART 1: PATENT LICENSING AGREEMENTS

##### 1. RESTRICTIONS WHICH ARE CONSIDERED, IN PRINCIPLE, NOT TO FALL UNDER UNFAIR TRADE PRACTICES

Among restrictions contained in licensing agreements on patent or utility model rights (hereinafter referred to as "patent licensing agreements,") which are considered, in principle, not to fall under unfair trade practices (This is defined as those practices designated as unfair trade practices in the FTC Notification No. 15 of 1982. This Notification is referred to as "General Designation" hereinafter.) since they are thought to be within a proper exercise of patent rights or utility model rights, or to have only a negligible effect on competition, the following are outstanding.

Hereinafter, when referred to as "patent," "patent rights," "patented goods (Goods covered by patent rights are referred to as "patented goods." Goods produced by employing patented process are also included. Hereinafter the same)," they also include "utility model," "utility model rights," "goods covered by the utility model rights" respectively.

- (1) Separately granting a license to manufacture, use, sell, etc.
- (2) Granting a license for a limited period within the life of patent rights.
- (3) Granting a license for a limited area within the whole area covered by patent rights.
- (4) Restricting exploitation of patent rights to a specified field of technology.

(5) Requiring minimum production or minimum sales volume of patented goods, or minimum use of patented process.

(6) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed patent, or to grant the licensor nonexclusive license with respect to an improved or applied invention, etc. by the licensee, insofar as the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance.

(7) Making it obligatory for the licensee to maintain certain standards of quality for patented goods, raw materials, components, etc., insofar as such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed patent (This condition applies when the licensor guarantees the licensee specifically of the effectiveness of licensed patent.), or for maintaining the goodwill of trademark, etc. (This condition applies only when the licensor grants a license on trademark, etc. to the licensee. Hereinafter the same)

(8) Making it obligatory for the licensee to procure raw materials components etc. from the licensor or a person designated by the licensor, insofar as restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed patent, or to maintain the goodwill of trademark, etc; Provided that such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed patent, or for maintaining the goodwill of trademark, etc.

(9) Restricting the area of the licensee to export patented goods into an area falling within one of the following paragraphs.

- a) The licensor has registered his patent rights on patented goods in the area.
- b) The licensor has been conducting a continuous marketing activity on patented goods in the area.
- c) The licensor assigns the area as an exclusive sales territory to a third party.

(10) Restricting the licensee's export price or export volume of patented goods, or making it obligatory for the licensee to export through the licensor or a person designated by the licensor, insofar as the licensor allows the licensee to export to the area falling within one of the paragraphs a), b) or c) mentioned in (9) above; Provided that such restriction or obligation is confined to a reasonable extent.

(11) Making it obligatory for the licensee to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, insofar as a licensed patent is used for producing finished product or a licensed patent relates to its components, or making it obligatory for the licensee to use con-

sumption of raw materials or components, etc., which are necessary for producing patented goods, as a basis for royalty in order to facilitate its calculation.

(12) Making it obligatory for the licensee to accept licensing of more than two patents as a package, insofar as such restriction is necessary for guaranteeing the effectiveness of licensed patents.

(13) Providing that royalty continues to be charged after the expiration of patent rights, insofar as it constitutes installment payment or extended payment of royalty.

(14) Providing that the licensor can terminate licensing agreements if the licensee challenges the validity of licensed patent.

(15) Making it obligatory for the licensee to use his best efforts to exploit licensed patents.

## 2. RESTRICTIONS WHICH MAY FALL UNDER UNFAIR TRADE PRACTICES.

Among restrictions which may fall under unfair trade practices in patent licensing agreements, the following stand out.

The determination whether restrictions fall under unfair trade practices will be made, in addition to the requirements stipulated in each paragraph, after the positions of licensor and licensee in the relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc. are examined as a whole.

(1) Making it obligatory for the licensee not to handle substitutable goods or similar goods which are in competition with patented goods (hereinafter referred to as "competing goods,") or not to employ substitutable technology or similar technology which is in competition with licensed patent (hereinafter referred to as "competing technology") during the term of the licensing agreements.

- This restriction could fall under unfair trade practices in such cases where competing companies are deprived of important customers or the chance of business with them, or the licensee is deprived of freedom to select his goods or technologies, thus it could result in the reduction of competition in a relevant market (possibly falling under Articles 11 or 13 of the General Designation).

(2) Making it obligatory for the licensee to sell patented goods through the licensor or a person designated by the licensor, or not to sell to a person designated by the licensor.

- This restriction could fall under unfair trade practices in such cases where the licensee is deprived of an important means of competition, namely freedom to select a sales outlet, and thus it could result in the reduction of competition in a patented goods market (possibly falling under Article 13 of the General Designation).

(3) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regard-

ing a licensed patent, or to grant the a licensor non-exclusive license with respect to an improved or applied invention, etc. by the licensee.

However, such cases are excluded where the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance.

- This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee, by such reasons as the licensor does not bear similar obligations, or the obligations of both parties are not well balanced in substance (possibly falling under Clause 3 of Article 14 of the General Designation).

(4) Making it obligatory for the licensee to use a trademark, etc. designated by the licensor for patented goods.

- This restriction could fall under unfair trade practices in such cases where business activities of the licensee is unjustly restricted by the licensor by depriving the licensee's freedom to select trademark, etc. which is one means of competition, thus could result in the reduction of competition in a relevant market (possibly falling under Article 13 of the General Designation).

This restriction could also fall under unfair trade practices in such cases where the licensee is forced to continue the use of a trademark, etc. after the expiration of patent rights because of his continued use of the trademark, etc. during the term of licensing agreements, thus it could result in setting transaction terms that are in a way unduly disadvantageous to the licensee. (possibly falling under Clause 3 of Article 14 of the General Designation).

(5) Restricting quality of patented goods, raw materials, components, etc.

However, obligation for the licensee to maintain certain standards of quality for patented goods, raw materials, components, etc. are excluded where such obligation is confined to a necessary extent for guaranteeing the effectiveness of a licensed patent, or for maintaining the goodwill of a trademark, etc.

- This restriction could fall under unfair trade practices in such cases where it could result in the reduction of competition in a market of raw materials, components, etc. or in a market of patented goods, because quality of patented goods or quality of raw materials, components, etc., which should be freely decided by the licensee, is unduly restricted (possibly falling under Article 13 of the General Designation).

(6) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor.

However, such cases are excluded where restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of a licensed patent, or to maintain the goodwill of a trademark, etc., and such obligation is confined to a necessary extent for guaranteeing the effectiveness of a licensed patent, or for maintaining the goodwill of a trademark, etc.

- This restriction could fall under unfair trade practices in such cases where the licensee is deprived of freedom to select his sources of raw materials, components, etc. and thus it is deemed as an unfair means from the viewpoint of efficient competition, or where it could result in the reduction of competition in a market of raw materials, components, etc. (possibly falling under Article 10 of the General Designation).

(7) Restricting the area of the licensee to export patented goods.

However, such cases are excluded where a restricted area falls into one of the following paragraphs.

- a) The licensor has registered his patent rights on patented goods in the area.
- b) The licensor has been conducting a continuous marketing activity on patented goods in the area.
- c) The licensor assigns the area as an exclusive sales territory to a third party.

- This restriction could fall under unfair trade practices in such cases where freedom of the licensee to export patented goods to the area not covered by patent rights is restricted, and thus it could result in the reduction of competition in an export market (possibly falling under Article 13 of the General Designation).

(8) Restricting the licensee's export price or volume of patented goods or making it obligatory for the licensee to export through the licensor or a person designated by the licensor.

However, such cases are excluded where the licensor allows the licensee to export to the areas falling within one of the paragraphs a), b) or c) mentioned in (7) above, and such restriction of obligation is confined to a reasonable extent.

- This restriction could fall under unfair trade practices in such cases where freedom of the licensee to export patented goods to the area not covered by patent rights is restricted, and thus it could result in the reduction of competition in an export market (possibly falling under Article 13 of the General Designation).

(9) Making it obligatory for the licensee to pay royalty based on products or service other than patented goods.

However, such cases are excluded where the licensor makes it obligatory for the licensee to use production or sales volume or price of finished product as a basis for royalty in order to facilitate

its calculation, insofar as a licensed patent is used for producing a finished product or a licensed patent relates to its components, or the licensor makes it obligatory for the licensee to use consumption of raw materials or components, etc., which are necessary for producing patented goods, as a basis for royalty in order to facilitate its calculation.

- This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(10) Making it obligatory for the licensee to accept licensing of more than two patents as a package.

However, such cases are excluded where such transaction is confined to a necessary extent for guaranteeing the effectiveness of licensed patent.

- This restriction could fall under unfair trade practices in such cases where the licensee is deprived of freedom to select his technology, and thus it is deemed as an unfair means from the viewpoint of efficient competition, or it could result in the reduction of competition in a technology market (possibly falling under Article 10 of the General Designation).

This restriction could also fall under unfair trade practices in such cases where the licensee is forced to pay extra royalties or the duration of royalty payments is extended, thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(11) Imposing unilateral conditions for the termination of licensing agreements, disadvantageous to the licensee such as terminating licensing agreements unilaterally or terminating them immediately without affording an appropriate notice by reasons other than unenforceability of licensing agreements due to insolvency, etc.

- This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(12) Making it obligatory for the licensee not to challenge the validity of licensed patent.

- This restriction could fall under unfair trade practices in such cases where patent rights continue to exist for technology which otherwise could not obtain any patent rights, and use of technology by other businesses is eliminated, thus it could result in the reduction of competition in a relevant market (possibly falling under Clause 3 of Article 13 of the General Designation).

This restriction could also fall under unfair trade practices in such cases where the licensee may have to continue to pay royalty for technology which otherwise could be used without any royalty, thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

**3. RESTRICTIONS WHICH ARE HIGHLY LIKELY TO FALL UNDER UNFAIR TRADE PRACTICES.**

Among restrictions in patent licensing agreements which are considered to constitute unfair trade practices unless specific justifiable reasons can be presented, the following stand out.

**(1) Restricting resale prices of patented goods in Japan.**

- The licensor, under this restriction, restricts freedom of pricing which forms a basis of competition for wholesalers and retailers, therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

**(2) Restricting sales price of patented goods by the licensee in Japan.**

- This restriction, by restricting freedom of pricing of the licensee, will lead to a significant limitation of competitive ability of the licensee, and could result in the reduction of price competition in a patented goods market.

Further, thus restriction cannot be justifiable by such reasons as securing royalty. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

**(3) Making it obligatory for the licensee not to handle competing goods, or not to employ competing technology after the expiration or termination of licensing agreements.**

- After the expiration or termination of licensing agreements, this restriction could have no such justification as securing royalty for the licensor based on sales by the licensee. Therefore, it is highly likely to impede fair competition (possibly falling under Articles 11 or 13 of the General Designation).

**(4) Restricting use of licensed technology in spite of the expiration of patent rights, or making it obligatory for the licensee to pay royalties for use after the expiration of a patent right.**

- Anyone should be able to use licensed technology freely after the expiration of patent rights, and the licensor has no authority to limit the use of technology concerned, or to compel payment of royalties for use after the expiration of patent rights. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation).

**(5) Restricting research and development activities by the li-**

censee himself or joint research and development with a third party regarding licensed the patent or its competing technology.

- Under this restriction, the licensor restricts freedom of research and development activities of the licensee which are an important means of competition, and limits business activities of the licensee in a product or technology market also in the future, thus it could have an important and long-term impact on these markets. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

(6) Making it obligatory for the licensee to assign the licensor the right on an improved or applied invention by the licensee, or to grant the licensor exclusive license (such case where licensee grants a license exclusively for the licensor by agreeing not to exploit the invention by himself in the territory is included) with respect to an improved or applied invention, etc. by the licensee.

- This restriction could result in undue enhancement or maintenance of the dominant position of the licensor in a relevant market. This restriction could further impede incentive for research and development of the licensee, and thus it could impede development of new technology by restricting freedom of the licensee to use knowledge, experience and modification, or to grant a license to a third party. Thus it could result in the reduction of competition in a product or technology market (possibly falling under Article 13 of the General Designation).

When the licensor does not bear similar obligations, or when obligations of both parties are not well balanced in substance, this restriction could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

## PART 2: KNOW-HOW LICENSING AGREEMENTS

### 1. RESTRICTIONS WHICH ARE CONSIDERED, IN PRINCIPLE, NOT TO FALL UNDER UNFAIR TRADE PRACTICES.

Among restrictions contained in licensing agreements on know-how (only that technological know-how related to industrial use is covered. Non-secret know-how is excluded. Hereinafter those are referred to as "know-how" and "know-how licensing agreements") which are considered, in principle, not to fall under unfair trade practices, since they are thought to have only a negligible effect on competition, the following are outstanding.

(1) Granting a license for a limited period.

(2) Restricting exploitation of licensed know-how to a specified field of technology.

(3) Requiring minimum production or minimum sales volume of goods manufactured exploiting licensed know-how (Hereinafter

referred to as "licensed goods"), or minimum use of licensed know-how.

(4) Making it obligatory for the licensee not to handle substitutable goods or similar goods which are in competition with licensed goods (Hereinafter referred to as "competing goods"), or not to employ substitutable technology or similar technology (Hereinafter referred to as "competing technology") for a short period after the expiration or termination of licensing agreements, insofar as it is difficult to prevent unauthorized exploitation of licensed know-how by such restrictions as use ban after the expiration or termination of licensing agreements; provided that such obligation is confined to a necessary extent for preventing unauthorized exploitation of licensed know-how.

(5) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed know-how, or to grant the licensor non-exclusive license with respect to an improved or applied invention by the licensee, insofar as the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance.

(6) Making it obligatory for the licensee to maintain certain standards of quality for licensed goods, raw materials, components, etc. insofar as such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how (This condition applies when the licensor guarantees the licensee specifically the effectiveness of licensed know-how), or for maintaining the goodwill of trademark, etc.

(7) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor, insofar as restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed know-how, or to maintain the goodwill of trademark, etc., or such obligation is vital for protection of the secrecy of licensed know-how; provided that such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how, or for maintaining the goodwill of trademark, etc., or for protecting the secrecy of licensed know-how.

(8) Restricting the area of the licensee to export licensed goods into an area falling within one of the following paragraphs.

a) The licensor has registered his patent rights on licensed goods in the area.

b) The licensor has been conducting a continuous marketing activity on licensed goods in the area.

(9) Restricting the licensee's export price or export volume of licensed goods, or making it obligatory for the licensee to export

through the licensor or a person designated by the licensor, insofar as the licensor allows the licensee to export to the areas falling within one of the paragraphs a) or b) mentioned in (8) above; provided that such restriction or obligation is confined to a reasonable extent.

(10) Making it obligatory for the licensee to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, insofar as licensed know-how is used for producing finished product or licensed know-how relates to its components, or making it obligatory for the licensee to use consumption of raw materials or components, etc., which are necessary for producing licensed goods, as a basis for royalty in order to facilitate its calculation.

(11) Making it obligatory for the licensee to accept licensing of more than two know-how [sic] as a package, insofar as such restriction is necessary for guaranteeing the effectiveness of licensed know-how.

(12) Providing that royalty continues to be charged after licensed know-how has become publicly known due to reasons of which the licensee is not responsible, insofar as it constitutes installment payment or extended payment of royalty, or insofar as royalty is charged for use after licensed know-how has become publicly known after a short period thereafter during the term of licensing agreements.

(13) Providing that the licensor can terminate licensing agreements if the licensee challenges whether licensed know-how has become publicly known.

(14) Making it obligatory for the licensee not to disclose know-how to a third party insofar as licensed know-how remains secret.

(15) Making it obligatory for the licensee to use his best efforts to exploit licensed know-how.

## 2. RESTRICTIONS WHICH MAY FALL UNDER UNFAIR TRADE PRACTICES.

Among restrictions which may fall under unfair trade practices in know-how licensing agreements, the following are outstanding.

The determination whether restrictions fall under unfair trade practices will be made, in addition to the requirements stipulated in each paragraph, after the positions of licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc. are examined as a whole.

(1) Making it obligatory for the licensee not to handle competing goods, or not to employ competing technology during the term of the licensing agreements.

- This restriction could fall under unfair trade practices in such cases where competing companies are deprived of important cus-

tomers or the chance of business with them, or the licensee is deprived of freedom to select his goods or technologies; thus it could result in the reduction of competition in a relevant market (possible falling under Articles 11 or 13 of the General designation).

(2) Making it obligatory for the licensee to sell licensed goods through the licensor or a person designated by the licensor, or not to sell to a person designated by the licensor.

- This restriction could fall under unfair trade practices in such cases where the licensee is deprived of an important means of competition, namely freedom to select sales outlet, and thus could result in the reduction of competition in a licensed goods market (possibly falling under Article 13 of the General designation).

(3) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed know-how, or to grant the licensor non-exclusive license with respect to an improved or applied invention by the licensee.

However, such cases are excluded where the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance. This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee, by such reasons as the licensor does not bear similar obligations, or obligations of both parties are not well-balanced in substance (possibly falling under Clause 3 of Article 14 of the General Designation).

(4) Making it obligatory for the licensee to use trademark, etc. designated by the licensor for the licensed goods.

- This restriction could fall under unfair trade practices in such cases where business activities of the licensee are unjustly restricted by the licensor by depriving of the licensee's freedom to select trademark, etc., which is one means of competition; thus it could result in the reduction of competition in a relevant market (possible falling under Article 13 of the General Designation).

This restriction could also fall under unfair trade practices in such cases when the licensee is forced to continue the use of trademark, etc. after licensed know-how has become publicly known because of his continued use of trademark, etc. during the term of licensing agreements; thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(5) Restricting quality of licensed goods, raw materials, components, etc.

However, obligations for the licensee to maintain certain standards of quality for licensed goods, raw materials, components etc.

are excluded where such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how, or for maintaining the goodwill of trademark, etc.

- This restriction could fall under unfair trade practices in such cases where it could result in the reduction of competition in a market for raw materials, components, etc. or in a market of licensed goods, because quality of licensed goods or quality of raw materials, components, etc., which should be freely decided by the licensee, is unduly restricted (possibly falling under Article 13 of the General Designation).

(6) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor.

However, such cases are excluded where restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed know-how, or to maintain the goodwill of trademark, etc., or where such obligation is vital for protection of the secrecy of licensed know-how, and such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how, or for maintaining the goodwill of trademark, etc., or for protecting the secrecy of licensed know-how.

- This restriction could fall under unfair trade practices in such cases where the licensee is deprived of freedom to select his sources of raw materials, components, etc., and thus it is deemed as an unfair means from the viewpoint of efficient competition, or where it could result in the reduction of competition in a market of raw materials, components, etc. (possibly falling under Article 10 of the General Designation).

(7) Restricting the area of the licensee to export licensed goods. However, such cases are excluded where restricted area falls within one of the following paragraphs.

a) The licensor has registered his patent rights on licensed goods in the area.

b) The licensor has been conducting a continuous marketing activity on licensed goods in the area.

c) The licensor assigns the area as an exclusive sales territory to a third party.

- This restriction could fall under unfair trade practices in such cases where freedom of the licensee to export licensed goods is restricted, and thus it could result in the reduction of competition in an export market (possibly falling under Article 13 of the General Designation).

(8) Restricting the licensee's export price or export volume of licensed goods, or making it obligatory for the licensee to export through the licensor or a person designated by the licensor.

However, such cases are excluded where the licensor allows the licensee to export to the areas falling within one of the paragraphs a), b) or c) mentioned in (7) above, and such restriction or obligation is confined to a reasonable extent.

- This restriction could fall under unfair trade practices in such cases where freedom of the licensee to export licensed goods is restricted, and thus it could result in the reduction of competition in an export market (possibly falling under Article 13 of the General Designation).

(9) Making it obligatory for the licensee to pay royalty based on product or service other than licensed goods.

However, such cases are excluded where the licensor makes it obligatory for the licensee to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, insofar as licensed know-how is used for producing finished product or licensed know-how relates to its components, or the licensor makes it obligatory for the licensee to use consumption of raw materials or component, etc., which are necessary for producing licensed goods, as a basis for royalty in order to facilitate its calculation.

- This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(10) Making it obligatory for the licensee to accept licensing of more than two know-how [sic] as a package.

However, such cases are excluded where such restriction is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how.

- This restriction could fall under unfair trade practices in such cases where the licensee is deprived of freedom to select his technology and thus it is deemed as an unfair means from the viewpoint of efficient competition, or it could result in the reduction of competition in a technology market (possibly falling under Article 10 of the General Designation).

This restriction could also fall under unfair trade practices in such cases where the licensee is forced to pay extra royalty or the duration of royalty payment is extended; thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(11) Imposing unilateral condition for the termination of licensing agreements disadvantageous to the licensee, such as terminating licensing agreements unilaterally or terminating them immediately without affording an appropriate notice by reasons

other than unenforceability of licensing agreements due to insolvency, etc. This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 Article 14 of the General Designation).

(12) Making it obligatory for the licensee not to challenge whether licensed know-how has become publicly known.

- This restriction could fall under unfair trade practices in such cases where the licensee may have to continue to pay royalty for technology which otherwise could be used without any royalty; thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

### 3. RESTRICTIONS WHICH ARE HIGHLY LIKELY TO FALL UNDER UNFAIR TRADE PRACTICES.

Among restrictions in know-how licensing agreements which are considered to constitute unfair trade practices unless specific justifiable reasons can be presented, the following are outstanding.

(1) Restricting resale prices of licensed goods in Japan.

- The licensor, under this restriction, restricts freedom of pricing which forms a basis of competition for wholesalers and retailers. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

(2) Restricting sales price of licensed goods by the licensee in Japan.

- This restriction, by restricting freedom of pricing of the licensee, will lead to a significant limitation of competitive ability of the licensee, and could result in the reduction of price competition in a licensed goods market.

Further, this restriction cannot be justifiable by such reason as securing royalty. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

(3) Making it obligatory for the licensee not to handle competing goods, or not to employ competing technology after the expiration or termination of licensing agreements.

However, such cases are excluded where such obligation covers for a short period after the expiration or termination of licensing agreements, and it is difficult to prevent unauthorized exploitation of licensed know-how by such restrictions as use ban after the expiration or termination of licensing agreements.

- After the expiration or termination of licensing agreements, this restriction could have no justification as securing royalty for the licensor based on sales by the licensee. Therefore, it is highly likely

to impede fair competition (possibly falling under Articles 11 or 13 of the General Designation).

(4) Restricting use of technology even though licensed know-how has become publicly known due to reasons for which the licensee is not responsible, or making it obligatory for the licensee to pay royalty for use after licensed know-how has become publicly known.

However, such cases are excluded where royalty is charged for use after licensed know-how has become publicly known for a short period thereafter during the term of licensing agreements. Anyone should be able to use technology freely after licensed know-how has become publicly known due to reasons for which the licensee is not responsible, and the licensor has no authority to limit the use of technology concerned, or to compel payment of royalty for use after know-how has become publicly known. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation).

(5) Restricting research and development activities by the licensee himself or joint research and development with a third party regarding licensed know-how or its competing technology.

- Under this restriction, the licensor restricts freedom of research and development activities of the licensee which are an important means of competition, and limits business activities of the licensee in a product or technology market also in the future; thus it could have an important and long-term impact on these markets. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

(6) Making it obligatory for the licensee to assign the licensor the right on an improved or applied invention by the licensee or to grant the licensor exclusive license (meaning such case where licensee grants a license exclusively for the licensor by agreeing not to exploit the invention by himself in the territory) with respect to an improved or applied invention by the licensee.

- This restriction could result in undue enhancement or maintenance of the dominant position of the licensor in a relevant market. This restriction could further impede incentive for research and development of the licensee, and thus it could impede development of new technology by restricting freedom of the licensee to use knowledge, experience and modification or to grant a license to a third party. Thus it could result in the reduction of competition in a product or technology market (possibly falling under Article 13 of the General Designation).

When the licensor does not bear similar obligations, or obligations of both parties are not well balanced in substance, this restriction could result in setting transaction terms in a way unduly

disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

## FACTS SHEETS ABOUT FILING SYSTEM FOR INTERNATIONAL AGREEMENTS UNDER THE ANTIMONOPOLY ACT

February 15, 1989

International Transaction Division Executive Bureau, Fair Trade  
Commission

### 1. FILING OBLIGATION OF INTERNATIONAL AGREEMENTS

(1) Under Paragraph 2, section 6 of the Antimonopoly Act, a copy of international agreements specified by FTC Regulation is required to be filed with the FTC. *This is a post notification requirement, and such requirement does not mean that these international agreements are authorized or approved by the FTC to become effective.*

(2) Technology licensing agreements including patent or know-how licensing are among those specified by the FTC Regulation (However, those agreements whose term is less than one year are excluded).

(3) Under Section 6 of the Antimonopoly Act, either party can file such international agreements. Normally, a Japanese entrepreneur who is one party to international agreements will file a copy of such agreements with the FTC, and the number of filings in recent years (fiscal year basis) is shown in Table 1. Agreement to modify a

TABLE 1  
THE NUMBER OF FILINGS OF  
INTERNATIONAL AGREEMENTS  
(BY TYPES)

Type	1986	1987	1986	1987
	Introduction A.		Assistance A.	
Technology L.A. Export/Import	1,543	1,710	850	986
Distributorship A.	483	560	789	687
Joint Venture A.	97	86	198	299
Trademark L.A.	334	220	63	74
Copyright L.A.	100	124	3	2
Others	8	3	0	0
Total	2,565	2,703	1,903	2,048

Note: L.A. means Licensing Agreements. A. means Agreements.

part of a contract or to extent contract term, which is subject to separate filing obligation, is included.

## 2. ENFORCEMENT OF GUIDELINES BY THE FTC

(1) Paragraph 1 of Section 6 of the Antimonopoly Act prohibits entrepreneurs to conclude international agreements which contain such matters constituting unreasonable restraint of trade or unfair trade practices. International agreements which contain such matters constituting unreasonable restraint of trade means [sic] so-called international cartels.

(2) Based on this provision, the FTC exercises its review power to those international agreements filed with her, and in order to clarify examining standards for such review, the Guidelines for the Regulation of Unfair Trade Practices with respect to Patent and Know-how Licensing Agreements are promulgated (Before these Guidelines, there were the Guidelines for International Licensing Agreements promulgated on May 24, 1968).

(3) Domestic licensing agreements meaning those concluded among Japanese entrepreneurs which only recently increased in significance in Japan are also subject to this regulation. As to domestic licensing agreements, the FTC can and will utilize its investigative power authorized under the law to detect any violation of these Guidelines.

(4) The FTC enforces these Guidelines primarily by way of guidance. The number of guidances issued by the FTC so far are as shown in Table 2.

## 3. ESTABLISHMENT OF A CLEARANCE SYSTEM.

(1) From now on, a clearance system is established by the FTC, and any foreign entrepreneur can ask the FTC for a clearance of international licensing agreements on patent or know-how which is going to be filed with the FTC. A clearance means a confirmation by the FTC that no provision contained in the international agreement is deemed to constitute unfair trade practices; therefore, they do not violate Paragraph 1, Section 6 of the Antimonopoly Act.

(2) Once cleared by the FTC, which is done by issuing a letter to those who requested clearance, those licensing agreements will not be subject to legal measures so far as unfair trade practices are concerned. However, the FTC will retain full power to cancel the clearance once issued when and only when it deems it necessary and appropriate under the changed circumstances. However, contracting parties can enjoy full assurance not to be subjected to legal measures by the FTC, once cleared by the FTC, until the time when the clearance is canceled (this is done also by issuing a letter to those who asked for clearance).

## 4. ABOUT THE FTC

(1) The FTC is an independent regulatory agency attached to

**TABLE 2**  
**STATISTICS ON JFTC ENFORCEMENT OF SECTION 6(1) AS TO INT'L LICENSING AGREEMENTS**

	Year												Total		Average		
	'75	'76	'77	'78	'79	'80	'81	'82	'83	'84	'85	'86	'87	75-80	81-87	75-80	81-87
Unfair Trade Practices	186	289	254	295	320	263	122	170	197	215	106	76	85	1,607	971	267.8	138.7
(1) Export area restriction	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(2) Restriction on grant back	94	199	174	173	149	140	51	55	71	66	49	34	26	929	352	154.8	50.3
(3) Restriction on Handling of competing technology or products	39	49	39	47	44	32	36	56	70	85	37	34	38	250	356	41.7	50.9
(4) Tie-in sales of raw materials and parts	16	6	12	22	6	4	2	3	5	5	5	1	1	66	22	11	3.1
(5) Designation of distributors	5	5	8	13	39	33	6	9	9	3	1	0	0	103	28	17.2	4.0
(6) Resale price restriction	3	2	0	0	20	15	3	5	5	6	2	1	3	40	25	6.7	3.6
(7) Excessive royalties	6	5	1	2	3	8	0	0	0	1	0	1	1	25	3	4.2	0.4
(8) Restrictions on quality of parts or its raw materials	0	0	0	6	15	10	4	1	0	0	0	0	0	31	5	5.2	0.7
(9) Hindrance of parallel importation	12	2	1	0	0	0	0	3	7	8	1	0	2	15	21	2.5	3.0
(10) Disadvantageous condition for terminating agreement	—	—	—	—	—	2	2	5	0	2	0	0	2	2	11	0.3	1.6
(11) Restriction on advertisement	4	2	2	9	10	6	0	10	14	12	4	0	2	33	42	5.5	6.0
(12) Restriction on sales method	—	0	0	0	0	2	0	1	0	0	0	0	0	2	1	0.3	0.1
(13) Restriction on trademarks	—	—	—	—	—	1	2	0	0	0	0	0	0	1	2	0.2	0.3
(14) Restriction on business activities	—	13	8	1	1	1	3	0	0	0	0	0	0	24	3	4	0.4
(15) Other restrictions	7	6	9	22	33	9	13	22	16	27	7	5	10	86	100	13.2	14.3
Unreasonable restraint of trade	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	186	289	254	295	320	263	122	170	197	215	106	76	85	1,607	971	267.8	138.7
Net Total (A)	156	241	212	228	224	200	101	141	176	178	89	68	74	1,261	827	210.2	118.1
Total int'l licensing agreements filed (B)	1,198	1,260	1,211	1,356	1,499	1,522	1,468	1,717	1,557	1,675	1,607	1,543	1,710	8,046	11,277	1,341	1,611
(A)/(B) (%)	13.0	19.1	17.5	16.8	14.9	13.1	6.9	8.2	11.3	10.6	5.5	4.4	4.3	15.7	7.3	—	—

*the Prime Minister's Office*, and exercises its power independently. It consists of a Chairman and four Commissioners, and has the command over a Secretariat of about 450 staff.

(2) The Chairman and Commissioners' appointments by the Cabinet shall be approved by both Houses of our Diet, and in addition, the Chairman's appointment shall also be attested by the Emperor.

(3) Reviewing of international agreements and issuance of a clearance are conducted by the International Transaction Division, Executive Bureau of the FTC; therefore, any inquiry about the Guidelines or about petition for clearance shall be directed to the Director, International Transaction Division, at the following address:

Fair Trade Commission  
2-2-1, Kasumigaseki  
Chiyoda-ku, Tokyo 100  
Japan