

# GUIDELINES FOR PATENT AND KNOW-HOW LICENSING AGREEMENTS UNDER THE ANTIMONOPOLY ACT

July 30, 1999  
Fair Trade Commission

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## **Part 1. Introduction**

1. The legal framework to protect intellectual property rights such as patents (hereinafter referred to as the "IPR system") is considered to have procompetitive effects, since it encourages firms to conduct research and development and can thus become an impetus for the development of new technologies and products using such technology.

Moreover, transfers of technology, whether through licensing or otherwise (hereinafter referred to as "technology transactions"), by promoting the efficient use of technology through the combination of different technologies, creating new markets for new technologies or products using such technologies and promoting an increase in the number of competing entities, are also basically considered to have procompetitive effects. In this way, the IPR system allows firms to realize their creative efforts in a free

economy and can fulfill its basic purpose of contributing to the development of the national economy. In this light, it is important to respect the basic purposes of the IPR system and to ensure that technology transactions can be conducted smoothly.

On the other hand, on occasion, the party who licenses the technology (hereinafter referred to as the “licensor”) will also seek to impose certain restrictions on the business activities of the party who is granted the license (hereinafter referred to as the “licensee”), such as on the research and development, production or sales activities of the licensee, and in some cases the said restrictions may have an adverse effect on competition in a particular product or technology market, depending on the form and content of the restrictions. Furthermore, in engaging in technology transactions, if the licensor and licensee deviate from the purposes of the IPR system and restrict research and development, production, sales or other activities on a mutual basis or enter into agreements that have the effect of excluding third parties, this may also adversely affect competition in a particular product or technology market. Therefore, in applying the Antimonopoly Act to technology transactions, it is important both to facilitate the achievement of the procompetitive effects that are expected to come from protecting the IPR system and technology transactions, and at the same time, to ensure that such protection is not used in a way that deviates from the basic purposes of the IPR system or that has an adverse effect on competition in product or technology markets.

## **2. Outline of these guidelines**

(1) Taking into account the perspectives mentioned above, the Fair Trade Commission’s (FTC’s) comprehensive viewpoint on the way and the scope of applying the Antimonopoly Act to patent or know-how licensing agreements, which are typical technology transactions, will be described in these guidelines. Part 2 of these guidelines sets out the FTC’s viewpoints regarding the relationship, etc., between patent licensing agreements and Section 23 of the Antimonopoly Act. Part 3 provides specific examples to illustrate the FTC’s viewpoints from the perspective of unreasonable restraint of trade and private monopolization regarding patent or know-how licensing agreements (\*). Part 4 sets forth the FTC’s viewpoints from the perspective of unfair trade practices regarding patent and know-how licensing agreements and indicates, for each type of major restriction, the restrictions that “in principle fall within the category of unfair trade practices and are in violation ,” the restrictions that “in certain circumstances fall within the category of unfair trade practice and are in violation,” and the restrictions that “do not, in principle, fall within the category of unfair trade practices.”

The basic viewpoint for each of the three categories of restrictions is as follows.

a) Restrictive conditions that, “will in principle fall within the category of unfair trade practices and be in violation” are considered, in principle, to constitute unfair trade practices when they are imposed because of the serious adverse effects that they have on competition in a market.

b) Restrictive conditions that “in certain circumstances, will fall within the category of unfair trade practices and be in violation” will be evaluated depending on their specific situation. The extent to which a certain restriction impedes fair competition will be determined on a case-by-case basis in light of its effect on competition in the relevant market. The effect on competition in a relevant market depends on the content of the restriction, as well as such factors as the position of the licensor and licensee in the relevant product and technology market, the overall market conditions, and the duration of the restriction.

Furthermore, while both restrictions “whose impediment to fair competition will be determined on a case-by-case basis” and restrictions “highly likely to fall within the category of unfair trade practices and be in violation” fall under this category, the latter restrictions are those that, in light of their basic tendency to impede fair competition, are considered to have a relatively high probability of falling within the category of unfair trade practices.

c) Restrictions that “will not, in principle, fall within the category of unfair trade practices” are those that, because they are considered to have a negligible effect on competition in a market, are not considered, in principle, to fall within the category of unfair trade practices even if the said restrictions were to be imposed

(\*) The “specific cases” provided in Part 3 are examples of violations found in past FTC decisions and are intended to facilitate a concrete understanding of these guidelines. The “illustrative examples” provided herein are examples of violations based on hypothetical conduct, in order to assist in a concrete understanding of these guidelines. The question whether specific conduct, including conduct not discussed in these guidelines, is illegal under the Antimonopoly Act will be determined on a case-by-case basis in light of the provisions of the Antimonopoly Act.

(2) In addition to competition in technology transactions, competition also exists in the development of technology. Regarding competition in the development of technology, problems can occur through transactions of technologies that are a fruit of research and development or through the effect on competition in a market for products using the said technology. Consequently, the effect on competition of restrictions that accompany patent or know-how licensing agreements will be determined by the effect on the properly defined market for the said products or technology. (Furthermore, when the

patent or know-how concerns the provision of a service or when a service is provided by using patented products, etc., it is possible that there is also an effect on a market for services. In these guidelines, the product market is considered to include such a service market as well.)

The method for defining a relevant technology transaction market does not differ from the method for defining a relevant product or service market. The product market is considered to be defined for each patented product and includes those other products which have a similar type of function or utility as such patented product. Since, depending on the content of the restrictions in a patent or know-how license, it is possible that there could be an effect on competition in the market for components and raw materials, etc., of the patented products, etc., or in the market for products that use the patented products, etc., the market for these components and raw materials, etc., of the patented products, etc., or the market for products that use the patented products, etc., is sometimes also identified. In addition, the technology market can be defined for each relevant licensed patent or know-how and includes those other technologies which have a similar function or utility. (Hereinafter, a market that is defined in these ways is referred to simply as the “market.”)

The question of which market is affected by the license restrictions will be determined on a case-by-case basis, based on the restrictions in the specific licensing agreement, since the relevant market and the effects will vary depending on the content of the restrictions in the patent or know-how licensing agreement.

### **3. Application of These Guidelines**

(1) These guidelines are applicable to patent or know-how licensing agreements.

These guidelines are also applicable to reciprocal licensing agreements, or patent or know-how licensing agreements among three or more parties, such as cross-licensing agreements, patent pools, multiple licensing agreements, etc., as well as the licensing of patents or know-how as part of a joint-venture agreement.

These guidelines are not directly applicable as they are to the licensing of other forms of IPRs. However, since the nature of exclusivity of patents or know-how can be seen to differ from that of other forms of IPRs, the viewpoints stated in these guidelines will be applied *mutatis mutandis* to the extent possible depending on the nature of such other IPR rights.

Furthermore, these guidelines focus on restrictions that are commonly found in patent or know-how license agreements. However, problematic conduct from the viewpoint of

the Antimonopoly Act is not necessarily limited to those situations, but may arise from any situation that restricts the business activities of the other party through artificial means or methods. These guidelines are applicable to such situations as well.

(2) The viewpoints in these guidelines are applicable to patent or know-how licensing agreements among firms in Japan or abroad without discrimination (\*).

However, regarding restrictions in patent or know-how licensing agreements between Japanese firms and foreign firms or among foreign firms, the viewpoints in these guidelines will apply to such agreements only to the extent that the restrictions have an effect on competition within a Japanese market.

(\*) The viewpoints stated in Appendix 1 of the “Guidelines Concerning Distribution Systems and Business Practices” (announced on July 11, 1991 and hereafter referred to as the “Guidelines Concerning Distribution and Business”) will also be applied to patent or know-how licensing agreements between parent and subsidiary companies.

(3) When a license agreement contains both a patent and a know-how license (patent/know-how hybrid agreement), a patent licensing agreement and know-how licensing agreement can be considered to have been concluded in parallel. Therefore, as to restrictions contained in such hybrid agreements, the viewpoints mentioned in these guidelines will be applied as appropriate based on the technology license to which the specific restriction in question is related.

(4) With the formulation of these guidelines, the “Guidelines for the Regulation of Unfair Trade Practices with respect to Patent and Know-how Licensing Agreements” and the “Prior Consultation System for Patent and Know-how Licensing Agreements”, announced on February 15, 1989 are hereby repealed.

#### **4. Prior Consultation System**

As indicated in the Attachment, following the announcement of these guidelines, the prior consultation system regarding patent or know-how licensing agreements is re-established and has been expanded also to cover licensing of other types of intellectual property rights. Any clearance request filed by a firm or trade association, irrespective of whether the firm or trade association is in Japan or overseas, will be responded to appropriately.

#### **5. Definition of terms**

In these guidelines, the following terms will be defined as follows:

(1) "Patents" refer to patents or utility models. In this case, patents include patent applications that are currently pending, and utility models include those for which registration is currently pending.

(2) "Know-how" refers to a collection of useful technical information in an industry, which has a confidential nature and is able to be identified properly, in other words, is described or recorded by an appropriate method.

(3) "Patents, etc." refer to the patents in (1) or the know-how in (2).

(4) "Patent rights" refer to patent rights or utility model rights.

(5) "Patent rights, etc." refer to patent rights in (4) or the know-how in (2).

(6) "Patent licensing agreements" refer to license agreements concerning the patent(s) in (1).

(7) "Know-how licensing agreements" refer to licensing agreements concerning the know-how in (2).

(8) "Patented products" refer to products that are produced by employing the licensed patents or utility models and, in the case of patented processes, refer to products that are produced by employing the processes.

(9) "Know-how products" refer to products that are produced by employing the licensed know-how.

(10) "Patented products, etc." refer to the patented products in (8) or the know-how products in (9).

(11) "Competing products" refer to products that have the same functions and effects as those of patented products, etc., in (10).

(12) "Competing technology" refers to technology that has the same functions and effects as those of the licensed patents, utility models or know-how.

**Part 2 Interpretation of Section 23 of the Antimonopoly Act on Patent Licensing Agreements, etc.**

**1.** Section 23 of the Antimonopoly Act provides: “The provisions of this Act shall not apply to such acts recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act, or the Trademark Act.”

With respect to restrictions in patent licensing agreements, there are some acts that are considered to be an exercise of rights under the Patent Act, etc., such as restrictions on territory, duration or field of use of the license. However, those acts also can often restrict the business activities of the other parties or other firms. So, it is first necessary to evaluate such acts in light of the provisions of Section 23 of the Antimonopoly Act.

It is also necessary to evaluate as well other acts that are considered to be an exercise of rights under the Patent Act, etc., such as decisions to license or not to license a patent, or filing a suit demanding a suspension of violation of the licensor’s rights.

**2.** Section 23 is viewed as having been enacted for the purpose of confirming that (1) “Acts recognizable as the exercise of rights” under the Patent Act, etc., are not subject to the Antimonopoly Act and shall not constitute a violation of the Antimonopoly Act; but that (2), on the other hand, even if acts are considered to be the “exercise of rights” under the Patent Act, etc., if the said acts are considered to deviate from or run counter to the purposes of the IPR system to, among other things, encourage innovation, the said acts are will no longer be deemed “acts recognizable as the exercise of rights” and the Antimonopoly Act shall be applicable to them.

For instance, even if an act is, on its face, considered to be an exercise of rights under the Patent Act, etc., if the said act is conducted under the pretext of exercising rights but in reality is considered to be employed as part of a series of acts that constitute an unreasonable restraint of trade or private monopolization, the said act is considered to deviate from or to run counter to the purposes of the IPR system to, among other things, encourage innovation and, for this reason, the said act is no longer deemed an “act recognizable as the exercise of rights” under the Patent Act, etc., and is subject to the Antimonopoly Act.

Furthermore, in addition to the above-mentioned situation, even if an act on its face appears to be an exercise of rights under the Patent Act, etc., if the said act, after evaluating its purpose and particular circumstances and the extent of its impact on competition in a market , is considered to deviate from or to run counter to the purposes of the IPR system, it is possible that the Antimonopoly Act will also apply to such act, since it would no longer be deemed an "act recognizable as the exercise of rights” under the Patent Act, etc.

3. If, after evaluating the act in light of the provisions of Section 23 of the Antimonopoly Act, the Antimonopoly Act is deemed applicable, the act will then, in accordance with the viewpoints in Part 3 or Part 4, be evaluated to determine whether it falls under unreasonable restraints of trade, private monopolization or unfair trade practices, etc..

4. In addition, when making a determination regarding the exercise of rights under the Patent Act, etc., it is also necessary to take into account whether the rights have been exhausted. In other words, the patent holder, in its exploitation of the patented invention, not only has exclusive possession of the rights to manufacture and use the patented invention, but also to sell patented products. When parties who have not been granted a license individually from the patent holder sell the patented products, the said act would also appear to be an act that infringes upon the patent rights in form.

However, when the patented products are distributed lawfully according to the wishes of the patent holder, as far as the said patented products are concerned, in the domestic context, this is interpreted to mean that the patent rights have already achieved their objective and that the patent rights for the products have been exhausted. Consequently, restrictions on the sale of patented products that were once lawfully distributed according to the wishes of the patent rights holder are handled in the same manner as restrictions on the sale of products in general under the Antimonopoly Act.

5. In addition, like other property rights or goods with value as property, know-how is subject to the Antimonopoly Act. However, because know-how is intellectual property with a confidential nature, it is necessary to take account of this nature when problems under the Antimonopoly Act concerning conduct regarding use, profit and sale of know-how itself or particular conduct based on know-how are considered.

Moreover, compared with patents, know-how is characterized by an uncertain of technological scope, weak exclusivity protection and uncertainty as to the duration of protection. Therefore, in determining the effect on competition in a market for know-how licensing agreements, it is necessary to take into account these specific characteristics of know-how.

### **Part 3: Viewpoints on Patent and Know-how Licensing Agreements from the Perspective of Unreasonable Restraint of Trade, Private Monopolization, etc.**

#### **1. Basic viewpoint**

Licenses of patents, etc. generally consist of a license under a patent and an agreed royalty as compensation for such license. These licenses may be accompanied by specific restrictions and obligations (hereafter, referred to as “restrictions”) that are imposed on

a party, such as a restriction on the territory in which the patent rights can be exercised or grant-back requirements for any improvements. However, since these licenses do not necessarily result in a mutual restriction of trade that causes a substantial restraint of competition so as to constitute an unreasonable restraint of trade, or in excluding or controlling the business activities of other firms in a way that causes a substantial restraint of competition so as to constitute private monopolization, these kinds of restrictions do not necessarily pose a problem under the Antimonopoly Act. Moreover, whether the patent holder, etc., exercises one's own patent, etc., or licenses or does not license it (including granting an exclusive license) to another person, does not, in principle, pose a problem in itself under the Antimonopoly Act.

However, in patent licensing agreements, it is possible that what can be recognized as an exercise of rights under the Patent Act, including restrictions on territory or on field of use, may be a part of conduct that falls under unreasonable restraint of trade or private monopolization, or may be used as a means to accomplish such anticompetitive ends. In such situations, it is first necessary to evaluate such acts in light of the provisions of Section 23 of the Antimonopoly Act in accordance with the viewpoints given in Part 2. If the Antimonopoly Act is found to be applicable to the said acts, the acts will then be evaluated to determine whether they constitute unreasonable restraint of trade, private monopolization, etc..

## **2. Viewpoints from the perspective of unreasonable restraints of trade, etc.**

(1) A licensing agreement for patents, etc. that is concluded between two parties, namely, the licensor and licensee, can pose a problem of unreasonable restraint of trade if it is employed in a manner that mutually restricts business activities, although as stated in 1 above, generally it does not the case. For example, in the event that a licensing agreement for patents, etc., imposes mutual restrictions regarding the sales price, manufacturing volume, sales volume, sales outlets, sales territories, etc., of the patented products, etc., and substantially restricts competition in a market for particular products, it will be illegal under the Antimonopoly Act as an unreasonable restraint of trade. Moreover, in the event that restrictions are mutually imposed regarding the fields of research and development, the parties to whom the license may be granted, the technology used, etc., and these restrictions substantially restrict competition in a market for particular products or particular technologies, then they also will be illegal under the Antimonopoly Act as an unreasonable restraint of trade (violation of Section 3 of the Antimonopoly Act)

(2) In addition, when a licensing agreement for patents, etc., that is concluded between two parties, namely, the licensor and licensee, takes the form of cross-licensing, it can easily be used in a way that mutually restricts their business activities. Furthermore,

when the agreement takes the form of a licensing agreement among three or more parties that amounts to a patent pool, it also can be easily used to mutually restrict their business activities. As such, it is particularly necessary to evaluate such agreements from the viewpoint of unreasonable restraint of trade.

a. Cross-licensing

Cross-licensing refers to reciprocal licensing of patented technologies that are owned by multiple holders or owners of patent, etc. rights (hereafter referred to as the “right holders”)

Cross-licensing, by allowing the reciprocal use of patents, etc. held separately by multiple right holders can have a procompetitive effect by increasing the utility value of the said patents, etc., or by promoting technological exchange among the right holders, and therefore, cross-licensing in itself does not pose a problem of unreasonable restraint of trade.

However, in the event, for example, that a patent cross-licensing agreement imposes mutual restrictions on the sales price, manufacturing volume, sales volume, sales outlets, sales territories or other aspects of the patented products and substantially restricts competition in a market for particular products, then it will be illegal under the Antimonopoly Act as an unreasonable restraint of trade. Moreover, when restrictions are mutually imposed regarding the fields of research and development, the parties to whom the license may be granted or the technology that may be used, etc., and as a result competition in a market for particular products or particular technologies is substantially restricted, it will also be equally illegal under the Antimonopoly Act as an unreasonable restraint of trade (violation of Section 3 of the Antimonopoly Act)

<Illustrative Example>

A firm substantially restricts competition in a market by allocating sales territories, etc., of patented products as follows.

- Company ‘a’ holds the patent for a certain manufacturing process of Product ‘A’, and manufactures and sells Product ‘A’, while Company ‘b’ holds the patent for another manufacturing process of Product ‘A’ and manufactures and sells Product ‘A’ as well. The two companies enter into a non-exclusive cross-licensing agreement regarding the said patents. Regarding new users for the said patented products, they agree that

Company 'a' will sell only to users in eastern Japan and Company 'b' will sell only to users in western Japan.

- Company 'c' holds the patent for a certain manufacturing process of Product 'B', and manufactures and sells Product 'B', while Company 'd' holds the patents for another manufacturing process of Product 'B', and manufactures and sells Product 'B'. The two companies enter into a non-exclusive cross-licensing agreement for the said patents. They agree that general products will be manufactured and sold by Company 'c', and special products will be manufactured and sold by Company 'd'.

#### b. Multiple licensing

Multiple licensing refers to the grant of licenses for a patent, etc., by one right holder to multiple firms.

When multiple licensing is conducted by granting non-exclusive licenses to multiple licensees on common conditions that are set forth by the licensor, this does not usually pose a problem under the Antimonopoly Act.

However, where, for example, there is an understanding between the licensor and the multiple licensees that they have accepted common restrictions, and the multiple licenses for patents, etc. impose mutual restrictions on the licensor and multiple licensees regarding the sales price, manufacturing volume, sales volume, sales outlets, sales territories, etc., of the patented products, etc., thereby substantially restrict competition in a market for particular products, then it will be illegal under the Antimonopoly Act as an unreasonable restraint of trade. Moreover, in the event that mutual restrictions are imposed on the licensor and the multiple licensees regarding the fields of research and development, the parties to whom the license may be granted or the technologies that may be used, etc., thus substantially restricting competition in a market for particular products or particular technologies, then it will also be equally illegal under the Antimonopoly Act as an unreasonable restraint of trade (violation of Section 3 of the Antimonopoly Act)

#### <Specific Case>

- Case against Company 'X' and six others (Fair Trade Commission Hearing Decision, No. 2 of 1991) with regard to the procurement of iron lids for the public sewer system by a certain local government. It was decided by the local government that specifications in the utility model of Company 'X' would be used for the procurement on the condition that the said utility model would also be licensed to other firms. In connection with this non-exclusive licensing agreements between Company 'X' and the six firms, the

involved firms decided that the price estimate of Company 'X' would be the lowest among the price estimates to be submitted to the local government for the said bids, and decided on the price and the margin rate of the bids sold to the construction firms. In addition, it was agreed that the share of the total sales volume of Company 'X' would be 20%, with the remainder to be evenly divided among Company 'X' and the six firms. These and other acts were found to be in violation of Section 3 of the Antimonopoly Act.

<Illustrative Example>

A firm or a trade association substantially restricts competition in a market by controlling production the volume, etc., of patented products, etc., as follows.

- Association 'e', which has acquired the patent, etc. for the production of Product 'C' which is produced by its members, concludes non-exclusive licensing agreements for said patents, etc., with the members of the Association. In these licensing agreements, the board of directors of the Association, composed of influential members, sets a limit on the volume that can be produced by each member for the purpose of promoting stable market conditions through the adjustment of supply and demand. The association decides that it can cancel licensing agreements when a member exceeds the said limit on production volume.

#### c. Patent pools

In a patent pool, right holders of patents concentrate their patents, etc. or their authority to license them in a specific corporate entity or an organization, and necessary licenses are granted through the corporate entity or the organization to its members or others. (These organizations may take various forms: they might be newly established or might be existing organizations.)

In the same manner as cross-licensing, patent pools, by allowing the reciprocal use of patents, etc. that are owned by right holders, can have a procompetitive effect in terms of increasing the utility value of the said patents, etc., and promoting technological exchange among right holders, and thus, in themselves, do not pose a problem of unreasonable restraint of trade.

However, where, for example, the licensing agreement for the patents, etc., are pooled in a corporate entity or organization with the understanding of the members of the patent pool that they have accepted common restrictions, and the agreement imposes mutual restrictions on the members regarding the sales price, manufacturing volume, sales volume, sales outlets, sales territories, etc. of the patented products, etc., and substantially restricts competition in a market for particular products, then it will be illegal under the Antimonopoly Act as an unreasonable restraint of trade. Moreover, in the event that mutual restrictions are imposed on the members of the patent pool

regarding the fields of research and development, the parties to whom the license may be granted or the technology that may be used, etc., thus substantially restricting competition in a market for particular products or particular technologies, then it will also be equally illegal under the Antimonopoly Act as an unreasonable restraint of trade (violation of Section 3 of the Antimonopoly Act).

<Illustrative Example>

A firm substantially restricts competition in a market by dividing sales territories, etc., of patented products, etc., as follows.

- Five firms (Companies 'f' through 'j'), the leading manufacturers and distributors of Product 'D', establish a patent pool in an attempt to license existing and future patents, etc. with one another in connection with the manufacture of Product 'D'. In the agreement establishing the patent pool, they agree (1) to an arrangement of mutual restrictions regarding sales territories, etc. in which Companies 'f' and 'g' will not sell the products in the western part of Japan and the Companies 'h', 'i', and 'j' will not sell the products in eastern part of Japan, as well as to an arrangement for deciding sales volume percentages between Companies 'f' and 'g' and among Companies 'h', 'i', and 'j'; and (2) to grant licenses only to those parties who agree to abide by the restrictions in (1) with respect to the pooled patents, etc.

(3) When a trade association organizes a patent pool and the trade association licenses the pooled patents, etc. to its members, and if competition in a market for particular products or particular technologies is substantially restricted, it will become problematic under Section 8.1 of the Antimonopoly Act. Furthermore, when a joint venture company is established to set up a patent pool and it licenses the pooled patents, etc. to the investor companies, and if competition in a market for particular products or particular technologies is substantially restricted, it will become problematic under Section 10.1 of the Antimonopoly Act.

Even though the conduct stated in (2) a, b or c does not substantially restrict competition in a market for particular products or particular technologies, there is a possibility that this conduct could be problematic from the perspective of unfair trade practices.

### **3. Viewpoints from the perspective of private monopolization, etc.**

Acts that are considered to be an exercise of rights under the Patent Act, etc. are generally not considered to give rise to problems under the Antimonopoly Act. However, for instance, even though an act is considered to be an exercise of rights under the Patent Act, etc. on its face, it cannot be considered to be an "act recognizable as the

exercise of rights” under the Patent Act, etc. if the said act is recognized to be conducted under the pretext of exercising rights and to deviate from or run counter to the purposes of the IPR system. Therefore, if these acts serve to exclude or control the business activities of other firms, and substantially restrict competition in a market for particular products or particular technologies, then they will be illegal under the Antimonopoly Act as private monopolization (violation of Section 3 of the Antimonopoly Act).

(1) Patent pools, etc.

As mentioned above, patent pools can have a procompetitive effect. Moreover, unless third parties are restricted in their ability to use the pooled patents under reasonable conditions, patent pools themselves will not become problematic as private monopolization.

However, for instance, there may be situations in which it becomes difficult to conduct business activities in a particular field of trade without first obtaining licenses for the patents, etc. of particular products, because, right holders competing in a market for the said products form a patent pool relevant to that particular field of trade, and consequently, agree to pool all existing and future improved technologies in the said patent pool. In this situation, if the right holders refuse to grant licenses to new entrants or to particular existing entrepreneurs without justifiable reasons, or take other measures that have the effect of impeding the entry of other firms or of making it difficult for existing firms to conduct business, it will be illegal under the Antimonopoly Act as private monopolization if these acts substantially restrict competition in a market for particular products or particular technologies.

Furthermore, if right holders competing in a market for particular products cross-license among themselves the patents, etc., that are essential to business activities in the particular field of trade, as well as all existing and future improvements to the technology, etc., and refuse to grant licenses without justifiable reasons to new entrants or particular existing firms, or take other measures that have the effect of impeding the entry of other firms or of making it difficult for existing firms to conduct business, it will also be equally illegal under the Antimonopoly Act as private monopolization (violation of Section 3 of the Antimonopoly Act).

<Specific Case>

- Case against 11 entities, including Company ‘X’ (Fair Trade Commission Recommendation Decision No. 5 of 1997).

Company 'X' and 9 other firms engaged in the manufacture of Pachinko machines and Federation 'Y' held the patents, etc. relevant to the manufacture of the Pachinko machines, and the situation was such that it was difficult to manufacture Pachinko machines without a license from them. The management of the patent rights was entrusted to Federation 'Y'. The 10 firms and Federation 'Y' prevented new entry by refusing to grant licenses to third parties, and this was determined to be in violation of Section 3 of the Antimonopoly Act.

Furthermore, when a trade association uses such patent pools and excludes new entrants and existing firms, it will become problematic under Section 8.1 of the Antimonopoly Act, and when firms establish a joint venture company to set up such a patent pool and uses the patent pool to exclude entrants and business activities of existing firms, it will become problematic under Section 10.1 of the Antimonopoly Act.

(2) Concentration of patents, etc.

Acquiring or otherwise obtaining patent rights, etc., or receiving an exclusive patent license, does not in itself necessarily pose a problem of private monopolization.

However, for instance, there may arise situations where it is difficult to conduct business activities in the particular product field unless licenses for the patents, etc., are granted and a firm attempts to concentrate patents, etc. relevant to a particular product field by acquiring the patents, etc. from other firms even when they are not particularly necessary for the firm's own use. In this situation, it will be illegal under the Antimonopoly Act as private monopolization where the said firm excludes or controls the business activities of other firms by such means as refusing to grant licenses to third parties or bringing a patent infringement suit for the purpose of impeding new entrants in the particular product field if these acts substantially restrict competition in a market for particular products or particular technologies (violation of Section 3 of the Antimonopoly Act).

<Illustrative Example>

A firm substantially restricts competition in a market by means of controlling or excluding business activities of other firms by using its patents, etc. as follows.

- Company 'k', the dominant manufacturer and distributor of Product 'E', holds patents, etc. relevant to the manufacture of Product 'E'. In order to impede imports of cheaper foreign-made Product 'E', which is produced using a different manufacturing process, Company 'k' buys and collects the patents for the related manufacturing processes held by other firms and brings a patent infringement suit against manufacturers of the

foreign-made Product 'E', thus attempting to impede the import of the foreign-made products.

### (3) Restrictions in licensing agreements

Various licensing restrictions that are imposed by a licensor on a licensee are mainly examined from the perspective of unfair trade practices as stated in Part 4. However, it will be illegal under the Antimonopoly Act as private monopolization when a dominant firm controls or excludes business activities of other firms, including licensees, by imposing licensing restrictions, if these acts restrict competition in a market for particular products or particular technologies.

For instance, there may be situations in where because a patent, etc. has become a *de facto* standard for the particular products and therefore has become essential to business activities in the field, it becomes difficult to conduct business activities in a particular product field without obtaining licenses under the relevant patents, etc.. In this case, it will be illegal under the Antimonopoly Act as private monopolization where a licensor excludes or controls the business activities of other firms, including licensees, by imposing restrictions, such as making it obligatory for the licensee to procure products and technology designated by the licensor and thereby excluding the business activities of firms which manufacture products competing with the said designated products, if these acts substantially restrict competition in a market for particular products or particular technologies (violation of Section 3 of the Antimonopoly Act).

#### <Illustrative Example>

A firm substantially restricts competition in a market by means of controlling or excluding business activities of other firms by using its patents, etc. as follows.

- The patent held by Company 'l', the dominant manufacturer and distributor of Product 'F', has become a *de facto* standard in the industry and it has become difficult to manufacture Product 'F' without the said patent license being granted. Company 'l' makes it a condition for granting the patent license that the licensee also procure Product 'G' from Company 'l,' thereby excluding Company 'm', a company engaged in manufacturing and selling products competing with Product 'G,' from the market.

Furthermore, even if the acts in the above-mentioned (1), (2), and (3) do not have the effect of substantially restricting competition in a particular product or technology market, these acts may be considered to be problematic from the viewpoint of unfair trade practices.

## **Part 4 Viewpoints on Patent and Know-how Licensing Agreements from the Perspective of Unfair Trade Practices**

### **1. Basic viewpoint**

(1) In patent and know-how licensing agreements, a licensor will, in some instances, impose various restrictions on the business activities of a licensee (\*). These include restrictions on the scope of licensing such as the territory covered, duration, etc., restrictions on research and development, etc., and restrictions on the manufacture, sale, etc., of the patented products, etc.

When such restrictions in patent licensing agreements are not considered to be the “exercise of rights” under the Patent Act, etc., or, even though they are examined in light of the provisions of Section 23 of the Antimonopoly Act in accordance with the viewpoints given in Part 2, and considered to be the “exercise of rights” under the Patent Act, etc., when the Antimonopoly Act is considered to be applicable to the restrictions, the restrictions will then be examined in accordance with the following viewpoints to determine whether it falls within the category of unfair trade practices.

Restrictions in know-how licensing agreements will similarly be examined in accordance with the following viewpoints to determine whether they fall within the category of unfair trade practices.

(\*) Part 4, in principle, assumes a situation in which a licensor grants a license to a single licensee, but multiple licensing is basically examined in the same way. However, in multiple licensing, because common restrictions are imposed on more than one licensee, the effect of multiple licensing on competition in a market can be greater than the case of licensing to a single licensee. Therefore, it is necessary to take into consideration that the evaluation of the extent to which restrictions impede fair competition can differ in multiple licensing as compared to single licensing cases. Furthermore, the possibility of unreasonable restraint of trade or private monopolization in multiple licensing is addressed in Part 3 above.

Moreover, there are instances in which a licensor grants to a licensee the right to sublicense to a third party. In these instances, the restrictions that the licensee has imposed on the third party (sub-licensee) in the sub-licensing agreement are handled in basically the same manner as if the restrictions were imposed by a licensor on a licensee.

(2) Regarding the above-mentioned restrictions, it is also necessary to examine them from the perspective of the abuse of dominant bargaining position (Item 14 of the General Designation), in addition to the perspectives stated in 2 below and thereafter.

It is in principle possible that the restrictions discussed in 2 below and thereafter can become problematic from the perspective of abuse of dominant bargaining position (\*, \*\*). In addition to these restrictions, other restrictions can be problematic from the perspective of abuse of dominant bargaining position. In these cases, Item 14 of the General Designation may be applicable in addition to each of the provisions of the General Designation mentioned in the viewpoints concerning particular restrictions below. (Thus, whether the following restrictions could constitute abuse of dominant bargaining position is not discussed separately.)

(\*) A licensor is said to be in a “dominant bargaining position” over its licensee in such cases where the licensee is obliged to accept the licensor’s requests even if they are excessively disadvantageous to the licensee, because the licensor’s denial or suspension of technology transactions would present major obstacles to the licensee’s business. In making this judgment, various factors will be taken into consideration, such as the degree of dependence on the patent, etc. by the licensee, the positions held by the licensor and licensee in the product or technology market, the possibility that the licensee could change licensors, circumstances in the said product or technology market and the disparity between the licensor and licensee in their scale of business, etc.

In summary, as a matter of course, the bargaining position of the licensor with respect to the licensee is not considered to be dominant solely because of the high value of the patent license, etc. sought by the licensee.

(\*\*) An example of a case that can be considered problematic as abuse of dominant bargaining position is shown as follows.

A licensor, unjustly in light of normal business practices, causes an unjust disadvantage on a licensee regarding the terms and enforcement of transactions by, for example, imposing an obligation to pay a royalty after the expiration of patent rights, etc., requiring the licensing of more than one patent as a package, requiring the license to assign rights and to grant exclusive licenses for improvement inventions, etc., prohibiting the licensee from asserting its patent rights, imposing restrictions on the sources of raw materials, components, etc., or requiring the licensee to use a trademark, etc.

## **2. Restrictions regarding the scope of licensing**

### (1) Basic viewpoint

a. In patent licensing agreements, the licensor will, in some instances, impose restrictions on the licensee for the purpose of limiting the scope within which the licensee can exploit the technology, by such means as granting licenses separately to manufacture, use, sell, etc., limiting the duration of the license to a period within the life of the patent rights, granting licenses limited to a territory within Japan or restricting the exploitation (manufacture, use, sales, etc.) of the patent to a specified field of technology. Those kinds of licensing activities that can be classified as “exploitation” activities controlled by the Patent Act, etc., are considered to be an exercise of rights provided for under the Patent Act, etc. Since such acts are seen to have a negligible effect on competition in a market, they are not considered to cause problems under the Antimonopoly Act.

b. In comparison, it is a matter of course that the Antimonopoly Act applies to restrictions on the scope of licenses that are not considered to be an exercise of rights under the Patent Act, etc. or that are part of know-how licensing agreements, and the extent to which the said restrictions impede fair competition will be determined on a case-by-case basis, in light of their effect on competition in a market.

### (2) Granting licenses separately to manufacture, use, sell, etc.

a. In patent licensing agreements, when a licensor separates the exploitation of the patent into manufacturing, use, selling, etc., and grants separate licenses for each licensee, it will not, in principle, fall within the category of unfair trade practices.

b. In know-how licensing agreements, when a licensor separates the exploitation of the know-how into manufacturing, use, selling, etc., and grants separate licenses for each license, and in that way limits the licensees’ scope of use of the know-how, it will not, in principle, fall within the category of unfair trade practices.

### (3) Restrictions on duration

a. Patent licensing agreements that grant a license for a limited duration within the life of the patent rights will not, in principle, fall within the category of unfair trade practices.

b. The basic viewpoint point mentioned in a. will also be applied to know-how licensing agreements.

### (4) Restrictions on territory

a. Patent licensing agreements that grant a license for a limited area within Japan will not, in principle, fall within the category of unfair trade practices.

However, it will not be considered to be an exercise of rights under the Patent Act, etc. if a licensor imposes restrictions on a licensee limiting the sales territory for the patented products in situations where it is recognized that the licensor's patent rights in Japan have been exhausted, and the extent to which the restrictions impede fair competition will be determined on a case-by-case basis in light of their effect on competition in a market in accordance with the viewpoints stated in Part 2. Chapter 2-3 ("Restrictions on Distributor's Sales Territory") of the "Guidelines Concerning Distribution and Business".

b. Know-how licensing agreements that restrict the area in which the licensee can use the know-how, will not, in principle, fall within the category of unfair trade practices. However, with regard to restrictions on the licensee's sales territory for know-how products, the extent to which the restrictions impede fair competition will be determined on a case-by-case basis in light of their effect on competition in a market in accordance with the viewpoints indicated in Part 2. Chapter 2-3 ("Restrictions on Distributor's Sales Territory") of the Guidelines Concerning Distribution and Business.

#### (5) Restrictions on the field of technology

a. Patent licensing agreements that grant a license that restricts the exploitation of the patent (manufacture, use, sell, etc.) to a specified field of technology will not, in principle, fall within the category of unfair trade practices.

However, irrespective of restrictions on the field of technology, restriction of the licensee's sales fields or customers (\*) for the patented products will not be considered to be an exercise of rights under the Patent Act, etc., and the viewpoints set forth below in 5(3)b (Restrictions on Customers) will be applicable.

b. Know-how licensing agreements that restrict the field of use of know-how to a specified field of technology, will not, in principle, fall within the category of unfair trade practices.

However, irrespective of restrictions on the field of technology, restriction of the licensee's sales fields or customers (\*) for the know-how products will be subject to the viewpoints set forth below in 5(3)b (Restrictions on Customers).

(\*) This refers, for example, to permitting wholesale sales only and prohibiting retail sales, or imposing obligations to sell only to parties employing specified sales methods such as door-to-door sales, etc.

### **3. Restrictions and obligations, etc. accompanying licensing**

#### (1) Basic viewpoint

a. In patent or know-how licensing agreements, a licensor will, in some instances, impose various restrictions on a licensee regarding the business activities of the licensee, such as requiring the licensee to pay a royalty based on the production volume of specified products, restricting the licensee's use of the technology after expiration of the patent rights, requiring the licensee to accept licensing of two or more patents or technologies as a package, prohibiting the licensee from challenging the validity of the patent, restricting the licensee's research and development activities, or requiring the licensee to license or assign improvements to the licensor.

b. Many of such restrictions in patent licensing agreements are not considered to be an exercise of rights under the Patent Act, etc., and therefore the extent to which the restrictions impede fair competition will be determined in light of their effect on competition in a market. This point will also apply to equivalent restrictions in know-how licensing agreements.

#### (2) Obligations regarding use of technology, etc. and royalties

##### a. Obligations to pay a royalty based on the production volume, etc. of the specified products

(a) In a patent licensing agreement, when a licensor requires a licensee to pay a royalty based on the licensee's production volume or sales volume, etc. of the patented products, or of specified products that are non-patented, regardless of whether the licensed patent is used or not, this will be evaluated according to the viewpoints set forth in 4 (3) below (Restrictions on the manufacture, use, etc. of competing products and employing competing technology). When the effect is such that it restricts the handling of competing products or competing technologies, and when the obligation may have an adverse effect on competition in a market, such a requirement will fall within the category of unfair trade practices, and be in violation of the Antimonopoly Act (Item 11 of the General Designation (Dealing on Exclusive Terms) or Item 13 of the General Designation (Dealing on Restrictive Terms)).

However, when the licensed patent is used in one part of the production process or in a component, if the licensor requires the licensee to use the production or sales volume, or the production and sales amount of the finished product using the said patent or the components with the said patent as the basis for the royalty in order to make its calculation easier, or if the licensor requires the licensee to use consumption of raw materials or components, etc. which are necessary for producing patented products, as the basis for the royalty in order to make its calculation easier, it will not, in principle, fall within the category of unfair trade practices.

(b) The viewpoints mentioned in (a) will also be applied to know-how licensing agreements.

b. Restrictions on use of technology and obligations to pay a royalty after expiration of patent rights, etc.

(a) Patent licensing agreements that restrict the licensee's use of the said technology even after the patent rights have expired or require the licensee to pay a royalty for exploitation of the said technology even after the patent rights have expired are considered to have an adverse effect on competition in the market in which the licensee is prevented from doing business activities by freely using the said technology. Moreover, anyone should be able to use the licensed technology freely after the expiration of patent rights since the licensor has no authority to limit the use of the technology concerned or to compel payment of a royalty for use after the expiration of the patent rights. Therefore, these restrictions are highly likely to fall within the category of unfair trade practices, and be in violation of the Antimonopoly Act (Item 13 of the General Designation (Dealing on Restrictive Terms)).

However, a requirement that the licensee continue to pay a royalty after expiration of the patent rights insofar as it is recognized to be an installment payment or deferred payment of royalty will not, in principle, fall within the category of unfair trade practices.

(b) Know-how licensing agreements that restrict the licensee's use of a technology, or require the licensee to pay a royalty for use of the said technology, even after the licensed know-how has become publicly known due to reasons for which the licensee is not responsible, will be subject to the same viewpoints as mentioned in (a).

In addition, a requirement that the licensee continue to pay a royalty after the licensed know-how has become publicly known will not, in principle, fall within the category of unfair trade practices where it is recognized to be an installment payment or a deferred

payment of royalty, or where the royalty must be paid for only a short period thereafter that is within the term of the licensing agreement.

### (3) Licensing of more than one patent as a package

a. In patent licensing agreements in which a licensor obliges a licensee to accept licenses for two or more patents as a package (\*), if such an obligation may have an adverse effect on competition in a market by restricting the freedom of the licensee to select appropriate technology or by restricting the licensee's ability to enter into transactions with competing firms by coercing the licensee to accept, together with licensing of a particular patent, the licensing of other technology from the licensor or a person designated by the licensor, it will fall within the category of unfair trade practice and be in violation of the Antimonopoly Act (Item 10 of the General Designation (Tie-in Sales, etc.)).

However, to the extent that the package license obligation is necessary to guarantee the effectiveness (\*\*) of the licensed technology, it will not, in principle, fall within the category of unfair trade practices.

b. The viewpoints mentioned in a. will be also applied to know-how licensing agreements.

(\*) Even when the licensor requires the licensee to accept licensing of two or more patents as a package, if a royalty is required only to the extent of use of each of the patents in the package, it will not be viewed as requiring the licensee to accept licensing of two or more patents as a package.

(\*\*) "Guaranteeing the effectiveness of the licensed technology" refers to a situation where the licensor guarantees to the licensee that the licensed technology has a minimum level of effectiveness.

### (4) Obligations not to contest the validity of the patent

a. Patent licensing agreements that prohibit the licensee from contesting the validity of the licensed patent rights (\*), will fall within the category of unfair trade practice and be in violation of the Antimonopoly Act (Item 13 of the General Designation (Dealing on Restrictive Terms)) if this prohibition may have an adverse effect on competition in a market by continuing the rights under a patent that the licensor would not originally have been able to obtain.

However, providing in patent licensing agreements that the licensor can terminate the said licensing agreement if the licensee contests the validity of the patent rights will not,

in principle, fall within the category of unfair trade practices when the licensee can contest the validity of the said patent rights.

(\*) “Not contesting the validity of the licensed patent rights” refers to, for instance, the obligation not to raise an objection to the patent for the patented invention or not to request a void judgment, etc.

b. In know-how licensing agreements, the viewpoints mentioned in a. will also be applied when the licensor prohibits the licensee from contesting the know-how licensing agreement on the grounds that the licensed know-how has become publicly known.

In addition, providing in know-how licensing agreements that the licensor can terminate the said licensing agreement if the licensee contests the continued validity of the know-how license on the grounds that the licensed know-how has become publicly known will not, in principle, fall within the category of unfair trade practices when the licensee can challenge whether the said know-how has become publicly known.

(5) Restrictions and obligations regarding research and development activities, improved inventions, etc.

a. Restrictions on research and development activities

(a) In patent licensing agreements, when a licensor restricts the research and development activities of a licensee or restricts conducting joint research and development with a third party regarding the licensed patent or its competing technologies, such restrictions are considered to have an adverse effect on competition from a long-term perspective since they restrict the ability of the licensee to compete with the licensor through R&D activities and thereby restricts the licensee’s ability to compete in future product or technology markets. Since there usually is not a reasonable justification for the licensor to impose such restrictions, they are highly likely to fall within the category of unfair trade practice and be in violation of the Antimonopoly Act (Item 13 of the General Designation (Dealing on Restrictive Terms)).

(Part 2-2-(1) of the “Guidelines Concerning Joint Research and Development with Respect to the Antimonopoly Act” announced on April 20, 1993 will be applied to the handling of matters regarding joint research and development.)

(b) The viewpoints mentioned in (a) will also be basically applied to know-how licensing agreements.

However, depending on the content of the licensed know-how, it may be difficult to prevent the unauthorized exploitation of the licensed know-how solely through obligations to protect the secrecy of the know-how or through restrictions on the fields of exploitation, etc. In this situation, restricting the licensee's joint research and development with a third party and for a reasonable duration to the extent necessary to prevent unauthorized exploitation of the licensed know-how and within a reasonable duration, will not, in principle, fall within the category of unfair trade practices.

b. Obligations regarding improvement inventions, etc.

(a) Obligations to assign rights and grant exclusive licenses for improvement inventions, etc.

i. In patent licensing agreements, when the licensor requires the licensee to assign (\*) to the licensor the rights to any improvements by the licensee or to grant the licensor an exclusive license (\*\*), such a requirement may have an adverse effect on competition in a market because it could result in the enhancement of the influential position of the licensor in a relevant product or technology field, and further impede the licensee's incentive to engage in research and development, thereby impeding the development of new technologies by restricting the licensee's own use of the knowledge, experience or modification that the licensee has newly obtained or by restricting the licensee's ability to grant a license to a third party (\*\*\*). Since there is not usually a reasonable justification for the licensor to impose such a requirement, it is highly likely to fall within the category of unfair trade practices and be in violation of the Antimonopoly Act (Item 13 of the General Designation (Dealing on Restrictive Terms)).

ii. The viewpoints mentioned in i. will also be applied to know-how licensing agreements.

(\*) Where the licensor and licensee agree that they will jointly own any improvements by the licensee, the said patent rights are considered to be held by both the licensee and licensor and, as such, that agreement does not usually fall under this restriction. (However, since this constitutes a limitation of the use of the said patent rights by the licensee, it may, in some instances, raise the problem of a non-exclusive grant-back discussed in (b) below.)

In addition, where the licensee assigns any improvements to the licensor for an appropriate price, it will not fall under this restriction. (This will also apply to an exclusive license.)

Furthermore, where the licensor requires the licensee to grant to the licensor the right to file for a patent on the improvement in any country or territory in which the licensee does not want to make such application, it is not considered that the licensor restricts the licensee's freedom to use and sell the licensee's rights and does not fall under this restriction.

(\*\*) "Granting an exclusive license" refers to the patent holder assigning sole exploitation rights provided for under the Patent Act to the licensee, as well as cases where the patent holder grants a license exclusively to the licensee and agrees not to exploit the invention itself in the territory. In these guidelines, therefore, an exclusive license in which the patent holder also reserves the exploitation rights for itself does not constitute an exclusive license and is handled as a non-exclusive license.

(\*\*\*) Determining whether the licensee's own use of the knowledge, experience or modification that the licensee has newly obtained, or the licensee's ability to grant a license to a third party is restricted, requires consideration of not only the circumstances of the restrictions on these business activities in Japan, but also whether the business activities are restricted from a global perspective. Therefore, even if in the licensor's country the licensor requires the licensee to assign any improvements to the licensor, or to grant to the licensor an exclusive license for such improvements, when these business activities of the licensee in another market are not seen to be restricted, the likelihood that these restrictions will impede the licensee's incentive to engage in research and development and thereby impede the development of new technologies will normally be considered small.

(b) Obligations to grant non-exclusive licenses for improvement inventions, etc.

i. Patent licensing agreements that impose an obligation on a licensee to grant back a non-exclusive license(\*) for any improvement inventions and applied inventions, etc. made by a licensee, will not, in principle, fall within the category of unfair trade practices.

However, it will fall within the category of unfair trade practice and be in violation of the Antimonopoly Act (Item 13 of the General Designation (Dealing on Restrictive Terms)) when a licensor requires a licensee to grant to the licensor a non-exclusive license and prohibits a licensee from licensing any improvements to any third party (i.e. only the licensor and licensee can use the patent), if this restriction, by reducing the licensee's incentive to engage in research and development and impeding the development of new technologies, may have an adverse effect on competition in a market .

ii. The viewpoints mentioned in i. will also be applied to know-how licensing agreements.

(\*) Refer to (\*) and (\*\*) in (a).

(c) Obligations to notify knowledge and experience obtained

i. In patent licensing agreements, when a licensor requires a licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding the licensed patent (\*), it will not, in principle, fall within the category of unfair trade practices.

ii. The viewpoints mentioned in i. will also be applied to know-how licensing agreements.

(\*) This obligation to inform does not include a situation in which, by disclosing the contents of the said knowledge or experience newly obtained by the licensee to the licensor, the effect is identical to having licensed the said knowledge or experience. Such a situation will be analyzed in accordance with the viewpoints set forth in (a) and (b) above.

(6) Obligations not to assert the licensee's patent rights

a. In patent licensing agreements that prohibit a licensee from exercising against the licensor or a person designated by the licensor all or a part of the patent rights, etc. that are held or will be obtained by the licensee, (\*) if this prohibition may have an adverse effect on competition in a market because it could result in the enhancement of an influential position of the licensor in a relevant product or technology field or could further impede the licensee's incentive to engage in research and development, thereby impeding the development of new technologies by restricting the exercise of the licensee's patent rights, etc., it will fall within the category of unfair trade practice and be in violation of the Antimonopoly Act (Item 13 of the General Designation (Dealing on Restrictive Terms)).

However, the viewpoints mentioned in (5)-b-(b)-i will be applied to the case where a licensor, in substance, imposes on a licensee an obligation only to grant a non-exclusive license for the improvement invention.

b. The viewpoints mentioned in a. will also be applied to know-how licensing agreements.

(\*) This includes an obligation to license all or a part of the patent rights, etc. that will be owned or obtained by a licensee to a licensor or a person designated by a licensor.

(7) Other restrictions, obligations, etc.

a. Obligations to make best efforts to exploit

(a) Patent licensing agreements that require a licensee to use one's best efforts to exploit the licensed patent, will not, in principle, fall within the category of unfair trade practices.

(b) The viewpoints mentioned in (a) will also be applied to know-how licensing agreements.

b. Obligations to protect secrecy

A know-how licensing agreement that requires a licensee to protect the secrecy of the licensed know-how throughout the duration of the agreement and after termination of the agreement (including non-disclosure of the said know-how to a third party), will not, in principle, fall within the category of unfair trade practices.

c. Unilateral termination provisions

(a) In a patent licensing agreement, when a licensor imposes disadvantageous license termination terms on a licensee, such as providing that the licensor can unilaterally terminate the license agreement at any time without cause or can terminate the agreement immediately without appropriate notice (for reasons other than unenforceability of licensing agreements due to insolvency, etc.), if the said termination provision is a means or has the effect of securing the effectiveness of other restrictions that are problematic under the Antimonopoly Act in Part 4 of these Guidelines, both the termination provision and the other problematic restrictions will fall within the category of unfair trade practices and be in violation of Article 11 of the General Designation (Dealing on Exclusive Terms) and Article 13 of the General Designation (Dealing on Restrictive Terms).

(b) The viewpoints mentioned in (a) will also be applied to know-how licensing agreements.

#### **4. Restrictions and obligations regarding manufacture of patented products, etc.**

(1) Basic viewpoint

a. In patent or know-how licensing agreements, a licensor will, in some instances, impose specific restrictions on a licensee regarding the manufacture of the patented products, etc., such as restrictions on production volume, etc., restrictions on the manufacture of competing products, etc., restrictions on the party from whom the licensee procures raw materials, etc., and obligations regarding the quality of the patented products, etc. produced by the licensee.

b. Many of such restrictions in patent licensing agreements are not acts that are considered to be the exercise of rights under the Patent Act, etc.. Therefore, the extent to which the restrictions impede fair competition will be determined on a case-by-case basis in light of their effect on competition in a market. Regarding such restrictions in know-how licensing agreements, the extent to which the restrictions impede fair competition will similarly be determined on a case-by-case basis in light of their effect on competition in a market.

c. Restrictions regarding production volume, etc., will be evaluated in light of the provisions of Section 23 of the Antimonopoly Act as presented in Part 2, and if the Antimonopoly Act is deemed applicable, the extent to which the restrictions impede fair competition will be determined on a case-by-case basis in accordance with the viewpoints set forth in (2)a below, in light of the purpose and form of the restrictions and the significance of their effect on competition in a market.

(2) Restrictions on production volume and frequency of use

a. Patent licensing agreements that require a licensee to maintain a minimum production volume of the patented products or a minimum number of times of use of the patented process will not, in principle, fall within the category of unfair trade practices, if it secures a minimum royalty income.

However, regarding restrictions on the maximum production volume of the patented products or the maximum number of times of use of the patented process, the extent to which the restrictions impede fair competition will be determined on a case-by-case basis in light of the purpose and form of the restrictions and significance of their effect on competition in a market. If such restrictions have the effect of adjusting supply and demand in the said market, they will fall within the category of unfair trade practices and be in violation of the Antimonopoly Act (Item 13 of the General Designation (Dealing on Restrictive Terms)).

b. The viewpoints on know-how licensing agreements are basically the same as those set forth in (2)a above.

(3) Restrictions on the manufacture, use, etc. of competing products and on employing competing technology

a. In patent licensing agreements that prohibit a licensee from manufacturing, using, etc. competing products, or from employing a competing technology, if this restriction may have an adverse effect on competition in a market by restricting the freedom of the licensee to select which products to produce or which technology to employ, or impedes competition with regard to the patented products, or deprives competing companies of licensees for their technology or the opportunity of doing business with them, it will fall within the category of unfair trade practices and be in violation of the Antimonopoly Act.

In particular, restrictions not to manufacture, use, etc. competing products or employ competing technologies after the expiration or termination of the licensing agreement do not normally have a reasonable justification, such as the necessity of securing royalties for the licensor based on sales by the licensee (\*). Therefore, it is highly likely to fall within the category of unfair trade practices and be in violation of the Antimonopoly Act (Item 11 of the General Designation (Dealing on Exclusive Terms) or Item 13 of the General Designation (Dealing on Restrictive Terms)).

b. The viewpoints on know-how licensing agreements are basically the same as those set forth in (3)a above.

However, depending on the content of the licensed know-how, it may be difficult to prevent unauthorized exploitation of the licensed know-how solely by, for example, a restriction not to exploit the license after the expiration or termination of the agreement.

In such a case, a restriction on the manufacture, use, etc. of competing products or the employment of competing technology by a licensee for a short period after the expiration or termination of the licensing agreement to the extent necessary to prevent unauthorized exploitation of the licensed know-how, will not, in principle, fall within the category of unfair trade practices.

(\*) "The necessity of securing royalties for the licensor based on sales by the licensee" refers to a situation in which it is necessary to require the licensee not to manufacture, etc. competing products as a means of ensuring the best exploitation of the patent by the licensee when the royalty payment is dependent on the production volume, etc. of the patented products.

(4) Restrictions on sources of raw materials, components, etc.

a. In patent licensing agreements that require the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor, if this restriction may have an adverse effect on competition in a market because the licensee's freedom to select his sources of raw materials, components, etc. is restricted and other firms manufacturing or selling the raw materials, components, etc. become unable to easily secure alternative customers or the chance of doing business with them, it will fall within the category of unfair trade practices and be in violation of the Antimonopoly Act (Item 10 of General Designation (Tie-in Sales, etc.), Item 11 of the General Designation (Dealing on Exclusive Terms) or Item 13 of the General Designation (Dealing on Restrictive Terms)).

However, restrictions specifying the quality of raw materials, components, etc. or any other restrictions may be insufficient to guarantee the effectiveness of the licensed technology, or to maintain the goodwill of the trademark, etc. In such a case, requiring the licensee to procure raw materials, components, etc. from designated sources to the extent necessary to guarantee the effectiveness of the licensed technology, or to maintain the goodwill of the trademark, etc. will not, in principle, fall within the category of unfair trade practices.

b. The viewpoints on know-how licensing agreements are basically the same as those set forth in (4)a above.

Furthermore, when a licensor requires a licensee to procure raw materials, components, etc., from a certain source to the extent necessary to protect the secrecy of the licensed know-how, this will not, in principle, fall within the category of unfair trade practices.

(5) Restrictions on the quality of patented products, raw materials, components, etc.

a. In patent licensing agreements that impose restrictions on a licensee regarding the quality of patented products, raw materials, components, etc., if these restrictions may have an adverse effect on competition in a market, similarly to the case of restricting the sources of the raw materials, components, etc., this restriction will in accordance with the viewpoints set forth in (4)a above, fall within the category of unfair trade practices and be in violation of the Antimonopoly Act (Item 11 of the General Designation (Dealing on Exclusive Terms) or Item 13 of the General Designation (Dealing on Restrictive Terms)).

However, when the licensor requires the licensee to maintain certain standards of quality for patented products, raw materials, components, etc. to the extent necessary

to guarantee the effectiveness of the licensed technology or to maintaining the goodwill of the trademark, etc., (\*, \*\*), it will not, in principle, fall within the category of unfair trade practices.

b. The viewpoints mentioned in a. will also be applied to know-how licensing agreements.

(\*) “Maintaining the goodwill of the trademark, etc.” refers to a case in which the licensor grants the licensee a license to use its trademark, etc., and the licensee actually uses the trademark, etc.

(\*\*) “Trademark, etc.” includes registered trademarks, non-registered trademarks, etc.

## **5. Restrictions and obligations regarding the sale of patented products, etc.**

### (1) Basic viewpoint

a. In patent or know-how licensing agreements, a licensor will, in some instances, impose specific restrictions on a licensee regarding the sales of the patented products or know-how products, such as restrictions on resale prices, restrictions on sales prices, restrictions on sales volume, restrictions on customers, restrictions on sales of competing products and the obligation to use a trademark, etc.

b. Most of such restrictions in patent licensing agreements are not acts that are considered to be the exercise of rights provided for under the Patent Act, etc.. Therefore, the extent to which the restrictions impede fair competition will be determined on a case-by-case basis in light of their effect on competition in a market. Regarding such restrictions in know-how licensing agreements, the extent to which the restrictions impede fair competition will similarly be determined on a case-by-case basis in light of their effect on competition in a market.

c. i. The general viewpoints regarding such restrictions under the Antimonopoly Act are clarified in Part 2 of the Guidelines Concerning Distribution and Business, taking into consideration the distribution transactions that take place from the time the product leaves the producer until it comes into the possession of the consumer. The viewpoints indicated therein will also basically apply to the distribution of patented products, etc. (\*).

(\*) Therefore, if a licensee is in an influential position in the market for the patented products, etc., non-price restrictions regarding sales of patented products, etc.

mentioned below will be problematic as unfair trade practices (refer to Part 2. Chapter 2-3-(2)-(Note 4) of the “Guidelines Concerning Distribution and Businesses).

ii. Of these restrictions, regarding those on prices, a firm’s independent decision-making about its own sales prices in accordance with market conditions is the most basic matter in the business activities of a firm, and only through this it is possible to ensure competition among firms and consumer choice. Therefore, when a licensor restricts the resale price or sales price of the licensee’s products, it will, in principle, fall within the category of unfair trade practices and be in violation of the Antimonopoly Act.

iii. Non-price restrictions such as restrictions on sales volume, restrictions on customers, restrictions on sales of competing products and the obligation to use a trademark, etc., differ in their effect on competition in a market according to the position, etc. of a licensor and a licensee in the market, and therefore the extent to which the restrictions impede fair competition will basically be determined on a case-by-case basis in light of their effect on competition in a market.

iv. Furthermore, in patent or know-how licensing agreements, a licensor will, in some instances, restrict the areas to which a licensee can export, the export price, or the volume which the licensee can export, or will impose an obligation to export through a person designated by the licensor. These restrictions concerning export business will be examined in light of the viewpoints indicated in the relevant provisions of these guidelines and the extent to which the said restrictions impede fair competition will be determined on a case-by-case basis in light of their effect on competition in a market in Japan. In this case, consideration will be given to such factor as whether the licensor has registered the patent rights for the patented products in the area for export , whether the licensor itself is engaged in continuous marketing activities with respect to patented products there or whether the licensor has assigned the export areas for the export as the areas for the exclusive sales territory of third parties, etc..

## (2) Price restrictions

### a. Restrictions on resale prices

(a) In patent licensing agreements, when a licensor causes a licensee to restrict the resale price for the patented products in Japan, this restriction is likely to have an adverse effect on competition in a market because it causes price competition to be reduced or to cease to exist among wholesalers and retailers in connection with the said patented products, and will therefore, in principle, fall within the category of unfair trade practices and be in violation of the Antimonopoly Act (Item 13 of General Designation (Dealing on Restrictive Terms)).

(b) The viewpoints mentioned in (a) will also be applied to know-how licensing agreements.

b. Restrictions on sales prices

(a) In patent licensing agreements that restrict a licensee's sale prices for the patented products in Japan, this restriction is likely to have an adverse effect on competition in a market because it restricts the freedom of pricing of the licensee and causes price competition to be reduced or to cease to exist in connection with the said patented products, and will therefore, in principle, fall within the category of unfair trade practices and be in violation of the Antimonopoly Act (Item 13 of General Designation (Dealing on Restrictive Terms)).

(b) The viewpoints mentioned in (a) will also be applied to know-how licensing agreements.

(3) Non-price restrictions

a. Restrictions on sales volume

In patent or know-how licensing agreements, when a licensor restricts the sales volume of the patented products, etc. of a licensee, the viewpoints regarding this will be the same as in 4(2) above (Restrictions on production volume and frequency of use).

b. Restrictions on customers

(a) In patent licensing agreements that require a licensee to sell the patented products through a licensor or a person designated by the licensor, or not to sell to a person designated by the licensor, if this requirement may have an adverse effect on competition in a market by restricting the freedom of the licensee to select sales outlets, it will fall within the category of unfair trade practices and be in violation of the Antimonopoly Act (Item 13 of General Designation (Dealing on Restrictive Terms)).

(b) The viewpoints mentioned in (a) will also be applied to know-how licensing agreements.

c. Restrictions on sales of competing products

With respect to patent or know-how licensing agreements that restrict a licensee's sales of competing products, the viewpoints regarding this will be the same as in 4(3) above

(Restrictions on the manufacture, use, etc. of competing products and on employing competing technology)

d. Obligations to use a trademark, etc.

(a) In patent licensing agreements that require a licensee to use a trademark, etc. designated by a licensor for the patented products, if it may have an adverse effect on competition in a market (\*) by restricting the freedom of the licensee to select a trademark, etc., or by coercing the licensee also to receive a license from the licensor or a person designated by the licensor for the trademark, etc. together with the patent license. In such cases, it will fall within the category of unfair trade practices and be in violation of the Antimonopoly Act (Item 10 of the General Designation (Tie-in Sales, etc.) or Item 13 of General Designation (Dealing on Restrictive Terms)).

(b) The viewpoints mentioned in (a) will also be applied to know-how licensing agreements.

(\*) In this case, whether the licensee is prevented from indicating on the patented products that they are manufactured by the licensee will be one of the points that are taken into consideration.