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JFTC Published Final Guidelines Concerning Use Of Intellectual Property

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On September 28, 2007, the Japan Fair Trade Commission (“JFTC”) published new “Guidelines Concerning the Use of Intellectual Property” (*Chiteki Zaisan no Riyo ni Kansuru Dokusenkinshiho Jo no Shishin*) (the “IP Guidelines”).

The IP Guidelines provide insight into how the JFTC views intellectual property licensing practices, and particularly provides insight into the circumstances under which certain types of licensing practices might run afoul of Japan’s Antimonopoly Act (the “AMA”). While the JFTC recognizes in the IP Guidelines that intellectual property licenses and licensing practices are generally procompetitive, the IP Guidelines also contain cautionary language that potentially could have a significant impact on certain common licensing practices:

- Refusal to License Intellectual Property & Excessive Royalties – The IP Guidelines equate a refusal to license intellectual property with a demand for an “excessive” royalty, and indicate that even a unilateral refusal to license intellectual property may give rise to issues under the AMA if the technology is in widespread use or it would be difficult for potential licensees to switch to a competing technology.
- Agreements Not to Challenge Validity of Licensed IP – In a notable reversal from draft guidelines circulated months ago, the IP Guidelines preserve the JFTC’s historic and relatively unusual skepticism of license provisions that prohibit the licensee from challenging the validity of the underlying intellectual property.
- License Provisions Relating to “Platform Functionality” – The IP Guidelines suggest that licenses covering basic platform technologies (such as an operating system or communications standard) may give rise to issues under the AMA if the license to the platform also covers enhanced additional functionality that many competitive firms seek to provide.

Background

The JFTC’s final IP Guidelines are effective immediately, and replace the JFTC’s previous guidance in this area, the “Guidelines for Patent and Know-How Licensing Agreements under the Anti-Monopoly Act” (also referred to as the “Patent and Know-How Licensing Guidelines”).

The JFTC first published a draft of the new guidelines in April 2007, and invited public comment on the proposed revisions. The final IP Guidelines follow approximately four months after the close of public comment on previously released draft guidelines.^[1]

Highlights of the IP Guidelines

As a general matter, the IP Guidelines treat intellectual property licensing agreements, and restrictions imposed in IP licenses, in a manner that is consistent with the other major competition law regimes around the world. Among other things, the JFTC recognizes in the IP Guidelines that license agreements are often procompetitive, and restrictions imposed in licenses should be evaluated in the light of the positive incentives to R&D and competition, in addition to the

reasonableness of the specific restriction. This statement declares, for the first time, that the JFTC would engage in a comprehensive balancing of the effects of the agreement at issue (a process the IP Guidelines describe as “total consideration of the factors having pro-competitive effect and anti-competitive effect”).

Treatment of Refusals to License and “Excessive” Royalties

The JFTC’s previous guidelines focused principally on conditions or restrictions imposed in licenses. The new IP Guidelines cover much of the same ground, but also discuss for the first time the treatment under the AMA of refusals to license and demands for “excessive” royalties.

The IP Guidelines are particularly noteworthy in two respects for their treatment of refusals to license. First, the IP Guidelines state that a unilateral refusal to license intellectual property may be an “unfair trade practice” under the AMA if it would be “difficult” for potential licensees to switch to another technology or would create a circumstance where the rights of potential licensees are “unjustly offended.” Second, the IP Guidelines indicate for the first time that, under the AMA, a demand for an “excessive” royalty may be viewed and analyzed as a refusal to license.

These two elements of the IP Guidelines represent the biggest change in guidance from the JFTC and potentially reduce the risk of patent “hold-up” in the context of technology standard-setting. However, the IP Guidelines continue to leave many questions unanswered even as to this narrow context, so continued careful monitoring of developments will be essential.

Agreements Not to Challenge Validity of Intellectual Property

The IP Guidelines preserve the JFTC’s previous guidance that license agreement provisions that impose an obligation not to contest the invalidity of the licensed intellectual property are “gray clauses,” meaning that the provision raises concern and may be unlawful under the AMA, depending on the circumstances.

Notably, the JFTC’s draft IP Guidelines did not contain this language and therefore would have marked a change in the JFTC’s position on such provisions. The draft IP Guidelines indicated that provisions of this sort would generally be considered “white clauses,” meaning they are unlikely to be illegal. It appears the JFTC may have decided to maintain its previous guidance in response to criticism it received during the public comment period on the draft.

Licensing Agreements Relating to Platform Functions

The IP Guidelines add a new section that discusses licensing agreements relating to “platform functions,” which the IP Guidelines define as a standard technology to which related products or services can be added. (The addition of new functions to a cellular phone would be an example.) The IP Guidelines indicate that where there is competition to apply various subsequent technological applications to an original platform, a new license that expands the basic “platform” to include certain favored new applications may be an unfair trade practice, or a “gray clause,” under the AMA

[1] Please see “Japan Fair Trade Commission Publishes Draft Guidelines Concerning Use of Intellectual Property.” <http://www.mofo.com/news/updates/files/12424.html>