# IP Licensing Competition Law Guidelines for Developing Countries: Implications from U.S., EU, and Japanese Guidelines

| | |
|---|---|
| 著者 | Takigawa Toshiaki |
| page range | 1-26 |
| year | 2010-12-17 |
| URL | http://hdl.handle.net/10112/7563 |

December 17, 2010

# IP Licensing Competition Law Guidelines for Developing Countries: Implications from U.S., EU, and Japanese Guidelines*

Toshiaki Takigawa*

*ABSTRACT*

Licensing of intellectual property (IP) has played a vital role for dissemination of technologies, and has contributed to spread innovation across industries. In consideration of this, and also taking into account exclusionary power granted to IP holders by IP laws, competition agencies in major developed countries/regions, most importantly, U.S., European Union (EU), and Japan have set up guidelines on application of competition laws to IP licensing. In contrast, developing countries, including China, have yet to develop their competition law guidelines on IP licensing. This article compares competition law guidelines on IP licensing in U.S., EU and Japan, aiming to propose an outline of a model guideline for developing countries. Following Introduction (Part I), Part II considers how to set up "White lists" through distinguishing vertical from horizontal restraints. Part III considers how to set up "Black lists" (restraints treated as virtually per se illegal). Part IV considers how to set up market power screen as well as safe harbors. Part V considers how best to apply the rule of reason. Part VI, as conclusion and summary, lists recommendation to developing countries for their IP guidelines.

---

* An earlier version of this paper was presented at *Beijing Competition Law Conference* (July 3-4, 2009, Chinese Academy of Social Sciences, Beijing, China).

* Professor, Kansai University School of Law, Osaka, Japan. <takigawa@kansai-u.ac.jp>

## Table of Contents

## I. Introduction

Licensing of intellectual property (IP) has played a vital role for dissemination of technologies, and has contributed to spread innovation across industries. IP licensing agreements are formed between either competitors or non-competitors, and thus are treated as either horizontal or vertical restraints under competition laws. Restraints contained in IP licensing agreements, therefore, may be treated by competition agencies (and courts) in line with general treatment for horizontal and vertical restraints. Nevertheless, in consideration of exclusionary power granted to IP holders by IP laws, IP licensing agreements have received special treatments by competition agencies in major developed countries/regions, most importantly, U.S., EU, and Japan. These three countries/regions have set up guidelines on application of competition laws to IP licensing.

In contrast, developing countries have yet to develop their competition law guidelines on IP licensing. Most notably, China, in its competition law (Antimonopoly Law[1]), included a clause on exercises of IP rights.[2] However, regulatory standard of the clause is ambiguous, since the clause merely prescribes to prohibit "abuse", meaning of which is not defined. This clause is in need of an interpretation guideline.

This article compares competition law guidelines on IP licensing in U.S., EU and Japan, resulting in a proposal on a model guideline for developing countries. The proposed guideline takes into account special needs of developing countries. Competition agencies in developing countries are generally devoid of both ample resources and enforcement experiences. Moreover, judicial systems are generally not well developed,

---

[1] *Anti-monopoly Law of the People's Republic of China* (adopted on August 30, 2007) (hereafter AML), English translation available at http://www.china.org.cn/government/laws/2009-02/10/content_17254169.htm (visited on March 23, 2009).

[2] Article 55 of AML: "This Law does not govern the conduct of business operators to exercise their intellectual property rights under laws and relevant administrative regulations on intellectual property rights; however, business operators' conduct to eliminate or restrict market competition by abusing their intellectual property rights shall be governed by this Law."

nor are judges trained for economic reasoning necessary for competition law interpretation. Therefore, bright-line guides in which prohibited practices ("Black" lists) and allowed practices ("White" lists) are clearly demarcated are preferable to rule-of-reason type guides. It is granted that bright-line guides some times give rise to occasions of over- regulation or under- regulation, but they are better than ambiguous and hard-to-apply rules.

## II. Distinguishing Horizontal from Vertical Restraints in establishment of "White lists"

### A. General consideration

Table 1: Classification of competition restrictions caused by IP licensing

| Effect<br>Competitors/<br>Non-competitors | Non-competing agreements among the licensor and licensees | Foreclosure of rival technologies |
|---|---|---|
| Horizontal restraints (Restraints among competitors) | [Inter-technology competition restriction]<br>• Price restriction.<br>• Quantity restrictions<br>• Market division. | [Inter-technology competition restriction]<br>• Concerted refusal to deal, etc. |
| Vertical restraints (Restraints among Non-competitors) | [*Intra-technology* competition restriction]<br>• Price restrictions<br>• Quantity restrictions<br>• Field-of-use restrictions.<br>• Territorial | [Inter-technology competition restriction]<br>• Tying.<br>• Exclusive dealing.<br>• Grant-back.<br>• Restraints on R&D<br>• Non-assertion clauses |

| | | |
|---|---|---|
| | restrictions. | |

For IP licensing, competition takes place basically across different technologies rather than across goods. Maintenance and promotion of inter-technology competition should be the focus of regulation on IP licensing. It is important to notice at the outset that inter-technology competition is negatively affected not only by horizontal restraints but also by vertical restraints in the form of foreclosure of rival technologies (See Tables 1 &2).

Within the licensed technology, competition does not arise until an agreement for license is made between the licensor and the licensee, since IP right authorizes the IP holder (who is the licensor) to foreclose other entities. The licensing agreement, however, allows the licensee to make use of the technology, so that competition is newly generated between the licensor and the licensee. In order to prevent this competition materializing, licensors usually attach conditions to the licensing agreements, which prevent the licensees from competing with the licensor or between licensees.

The U.S. and EU IP Guidelines both treat such post-license competitors as non-competitors, reasoning that entities may be treated as competitors only when competition would exist in the absence of the license. Therefore, agreements to restrict intra-technology competition are treated as agreements between non-competitors, namely "vertical restraints".

Nevertheless, restraints levied on licensees regarding development of new technologies distinct from the licensed technology, need to be treated as "foreclosure of rival technologies" (Column D in Table 2), since new technology generates new competition between the licensor and the licensee.

Aside from the distinction between horizontal restraints and vertical restraints, competition restraints regarding IP are divided between "agreements not to compete" ("non-competing agreements" among the licensor and licensees), and "foreclosure of rival technologies". This distinction is important particularly for vertical restraints; non-competing vertical agreements, namely, "intra-technology agreements" need to be distinguished from vertical agreements foreclosing rival technologies.

Combination of these two classifications generates four categories of competition restrains:

Table 2: Matrix of restraints in IP licensing

| | Non-competing agreements among the licensor and licensees | Foreclosure of rival technologies |
|---|---|---|
| Horizontal restraints (Restraints among competitors) | [Inter-technology competition restriction] A | [Inter-technology competition restriction] C |
| Vertical restraints (Restraints among Non-competitors) | [*Intra-technology* competition restriction] B | [Inter-technology competition restriction] D |

In the matrix above, the column D, although it belongs to vertical restraints, restricts inter-technology competition. This distinction needs to be borne in mind in establishing regulatory standards for vertical restraints in IP licensing.

Intra-technology competition restriction is limited to the licensed technology; therefore *per se* illegal treatment may not be considered appropriate. Nevertheless, EU has treated price restraints and certain non-price restraints as *per se* illegal for intra-technology restraints. This treatment is in conformity with EU's treatment of vertical restrains in general[3]. Contrary to the EU position, U.S. Supreme Court, in *Leegin*,[4] changed its traditional standard on vertical price restraint, from *per se* illegality to rule of reason.

[3] EU's treatment of vertical restraints is explained in *Commission Notice, Guidelines on Vertical Restraints* (SEC (2010) 411).
[4] *Leegin Creative Leather Products, Inc. v. PSKS*, Inc., 127 S.Ct. 2705 (2007).

On the other hand, certain restraints on horizontal competition, which exert clear and grave competition restraining effect, need to be treated as *per se* illegal (or “black list”).

## B. U.S. Approach

Table 3: Competition law standards on restraints in US IP Guideline

| Effect / Competitors/ Non-competitors | Non-competing agreements among the licensor and licensees | Foreclosure of rival technologies |
|---|---|---|
| Horizontal restraints (Restraints among competitors) | Gray (Rule of reason) excepting Black for naked restraints without efficiency enhancing integration. | Gray |
| Vertical restraints (Restraints among Non-competitors) | Gray, excepting virtually White for “field-of-use” and territorial restrictions. | Gray |

U.S. IP Guideline[5] treats intra-technology restraints (field of use restraints, territorial restraints, etc.) favorably, stating "The Agencies will not require the owner of intellectual property to create competition in its own technology. However, antitrust concerns may arise when a licensing arrangement harms competition among entities that would have been actual or likely potential competitors in a relevant market in the absence of the license (entities in a “horizontal relationship”)."[6] Reason for this treatment is that “The key competitive issue raised by the licensing arrangement is whether it harms

[5] Antitrust Guidelines for the Licensing of Intellectual Property, U.S. Department of Justice and the Federal Trade Commission (April 6, 1995).
[6] U.S. IP Guideline 3.1.

competition among entities that would have been actual or likely potential competitors in the absence of the arrangement."[7] This standpoint is called "but for" approach.

In line with this standpoint, U.S. IP Guideline treats "field-of-use" and territorial restrictions virtually *per se* legal (White), opining "[T]he arrangement is merely a subdivision of the licensor's intellectual property among different fields of use and territories." [8]

Nevertheless, the Guideline does not treat whole range of vertical restraints, including intra-technology restraints as legal (White), but applies rule of reason: "In the vast majority of cases, restraints in intellectual property licensing arrangements are evaluated under the rule of reason."[9] However, the rule of reason for purely vertical non-price restraints has resulted in approaching automatic legality; very few of them have been condemned.[10]

In contrast to vertical restraints, horizontal restraints in IP licensing are treated in the same way as general horizontal restraints. In line with the general antitrust standard, US IP Guideline distinguishes between nakedly anti-competitive agreements and other agreements, and treats as *per se* illegal only the former.

## C. EU Approach

Table 4: Competition law standards on restraints in EU IP Guideline

| Effect<br>Competitors/<br>Non-competitors | Non-competing agreements among the licensor and licensees | Foreclosure of rival technologies |
|---|---|---|
| Horizontal restraints (Restraints among competitors) | • Black: Restraints of price, quantity, etc.<br>• White: Combined | Gray |

[7] U.S. IP Guideline, Example 1.
[8] U.S. IP Guideline, Example 1.
[9] U.S. IP Guideline 3.4.
[10] Herbert Hovenkamp Mark Janis and M.A. Lemley, IP and Antitrust 2008 Supplement (Aspen Publishers, 2008), at 24-64.

| | | |
|---|---|---|
| | market shares do not exceed 20%, excepting black listed restraints. | |
| Vertical restraints (Restraints among Non-competitors) | • Black: Restraints of price, quantity, etc.<br>• White: Market shares do not exceed 30%, excepting black listed restraints.<br>• Gray: All others. | Gray |

The EU block exemption rule on technology transfer (TTBER) and IP Guideline (Technology Transfer Guideline), in the same way as the U.S IP Guideline, identify the licensor and the licensee as competitors only in case they competed before licensing takes place, stating "competing undertakings on the relevant product market, being undertakings which, in the absence of the technology transfer agreement, are both active on the relevant product and geographic market(s) . . ."[11] "The assessment of whether a licence agreement restricts competition must be made within the actual context in which competition would occur in the absence of the agreement with its alleged restrictions."[12]

Consequently, EU shows a favorable attitude toward restrictions in licensing that prohibit licensors from competing with the licensor: "Above the market share threshold restrictions on active and passive sales by licensees to territories or customer groups reserved for the licensor may fall outside [Article 101(1)] where on the basis of objective

[11] Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements (TTBER), at Art. 1 (j) (ii).

[12] Commission Notice - Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements [Official Journal C 101 of 27.04.2004] (hereinafter, "Tech GL"), para.11.

factors it can be concluded that in the absence of the sales restrictions licensing would not occur."[13] "In the absence of the restraint the licensor may not grant the licence or may do so only against higher royalties, because otherwise he would create direct competition to himself on the component market."[14]

Nevertheless, EU's attitude toward vertical restraints is radically different from that of U.S, in that EU does not show generally favorable position toward intra-technology competition restriction. European Commission grounds this position on that "intra-technology competition between licensees constitutes an important complement to competition between undertakings that use rival technologies (inter-technology competition).[15] From this position, TTBER treats considerable parts of intra-technology restraints as *per-se* illegal (Black listed restraints).

### D. Japanese Approach

Table 5: Competition law standards on restraints in Japanese IP Guideline

| Effect / Competitors/ Non-competitors | Non-competing agreements among the licensor and licensees | Foreclosure of rival technologies |
|---|---|---|
| Horizontal restraints (Restraints among competitors) | Gray excepting price restraint which is treated as Black. | • Gray |
| Vertical restraints (Restraints among Non-competitors) | White excepting price restraint, which is treated as Black. | • Gray<br>• Black (exclusive grant back, etc) |

[13] Tech GL, para.172.
[14] Tech GL, para.189.
[15] Tech GL, para.26.

Japanese competition law (Antimonopoly Act, hereinafter "AMA"[16]) stipulates that exercise of IP rights is exempted from application of AMA: "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."[17]

This exemption clause appears to exonerate all licensing restrictions. Nevertheless, the Fair Trade Commission of Japan (hereinafter "JFTC") has narrowed the range of exemption through its IP Guideline,[18] which stipulates: "any business activity that may seem to be an exercise of a right cannot be 'recognizable as the exercise of the right' . . . , provided that it is found to deviate from or run counter to the purposes of the intellectual property system, which is to motivate firms to realize their creative efforts and make use of technology, in view of the purpose and manner of the conduct and the scale of its impact on competition. The Antimonopoly Act is applicable to this kind of conduct."[19] This standard on treatment of IP is basically the same as that in both U.S. and EU, in that IP laws' exclusionary power is not absolute regarding competition law application.[20]

The JFTC IP Guideline generally exonerates intra-technology restrictions, excepting price restraint,—(i) field-of-use restrictions, (ii) territorial restrictions, (iii) export ban or export area restrictions.[21] Price restrictions are not exonerated: they are treated as virtually per se illegal ("illegal in principle").[22]

---

[16] Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade, Act No. 54 (1947, revised 2005), English translation available at http://www.jftc.go.jp/e-page/legislation/ama/amended_ama.pdf (visited December 13, 2010).

[17] AMA art. 21.

[18] JFTC, Guidelines for the Use of Intellectual Property under the Antimonopoly Act (2007) (hereinafter, JFTC IP Guideline), translation *available at* http://www.jftc.go.jp/e-page/legislation/ama/070928_IP_Guideline.pdf (visited August 3, 2009).

[19] JFTC IP Guideline, at II. 1.

[20] Apparently, Chinese legislators took Japanese AMA article 21 and the JFTC IP Guideline as models in stipulating, at AML article 55, that AML does not govern exercise of IP rights, but that abusive exercise of IP rights is not exempted from AML. See supra note 2.

[21] JFTC IP Guideline, IV. 3.

[22] JFTC IP Guideline, IV. 4 (3).

## E. Recommendation for developing countries

Developing countries' competition authorities may treat intra-technology competition restrictions, including price restraints, generally as legal ("White"), since intra-technology restraints merely preserves IP rights of licensors. Gray treatment of intra-technology restraints would inhibit IP right holders to engage in licensing. In contrast to this view, EU IP Guideline holds that intra-technology competition may in some instances supplement inter-technology competition. However, such instances would be rare and would not compensate for advantage of clear white treatment, which would provide transparency to licensing companies, and thus would facilitate spread of licensing.

Moreover, bright-line white list would simplify regulatory administration. Simplicity is important for competition agencies in developing countries since they are devoid of ample resources and enforcement experiences.

Among vertical restraints, restraints on licensees' innovation (R&D activities), and restraints inhibiting licensees' innovative activities, such as exclusive grant-back or "non-assertion clauses" need to be treated as foreclosure of rival technologies rather than intra-technology competition restrictions, since innovative activities, by its innovative nature, naturally go outside the licensed technologies. Preservation of innovation incentives should be treated as prioritized objective of competition law. Therefore, restraints on licensees' innovation (R&D activities) need to be treated harshly, and therefore are appropriate to be treated as presumptively illegal.

In contrast to vertical restrains, restraints on horizontal restraints do not need special treatment, and may be regulated based on general competition law standard.

Patent pools (or technology pools) are arrangements among IP holders to license each other, as well as giving packaged licensing to outside parties. Restraints in patent pools are vertical restraints in case contained patents consist of non-substitutable or essential patents. On the other hand, patent pools constitute horizontal restraints in case contained patents include substitutable patents.

Patent pools giving rise to vertical restraints need to be treated as per-se legal (White), excepting either dealing with outside parties or restraints foreclosing rival technologiesfut. Patent pools giving rise to horizontal restraints need to be scrutinized by the rule of reason.

## III. Restraints in licensing to be included in “Black lists”

### A. General consideration

Among restraints in licensing agreements, limited categories of restraints need to be treated as always illegal. This treatment is derived from the U.S. antitrust principle, in which certain categories of predominantly anticompetitive restraints, such as price cartels, should always be prohibited regardless of case-by-case defenses. The U.S. antitrust jurisprudence calls this treatment “per se” illegality. Equivalent terminology in EU competition law is “hardcore restraints”. Almost equivalent terminology in Japanese AMA is “illegal in principle”. I call, in this article, these per se or quasi per se illegalities collectively “black lists”.

In order to reduce false positive (error in condemning actually beneficial restraints), black lists should be limited to categories of restraints clearly or predominantly anticompetitive.

### B. U.S. Approach

In U.S., only a few restrictions are treated as per se illegal in conformity with general antitrust standard. The US IP Guideline notes: “In the vast majority of cases, restraints in intellectual property licensing arrangements are evaluated under the rule of reason.” “Among the restraints that have been held per se unlawful are naked price-fixing, output restraints, and market division among horizontal competitors, as well as certain group boycotts and resale price maintenance.”[23] "[S]ome [horizontal] restraints may merit per se treatment, including price fixing, allocation of markets or customers, agreements to reduce output, and certain group boycotts."[24]

U.S. IP Guideline has departed from traditional categorical treatment of per se illegality. Even price restraints, traditionally treated categorically as per se illegal, may be treated under the rule of reason in certain circumstances: “To determine whether a particular restraint in a licensing arrangement is given per se or rule of reason treatment,

---

[23] U.S. IP Guideline 3.4.
[24] U.S. IP Guideline, 5.1.

the Agencies will assess whether the restraint in question can be expected to contribute to an efficiency-enhancing integration of economic activity. . . In general, licensing arrangements promote such integration because they facilitate the combination of the licensor's intellectual property with complementary factors of production owned by the licensee."[25]

Price restraints, traditionally condemned as per se illegal, may be found contributing to economic efficiency when they are not naked restraints: "collective price or output restraints in pooling arrangements, such as the joint marketing of pooled intellectual property rights with collective price setting or coordinated output restrictions, may be deemed unlawful if they do not contribute to an efficiency-enhancing integration of economic activity among the participants."[26]

### C. EU Approach

In disagreement with U.S., EU's TTBER as well as IP Guideline includes wide area of restraints, both horizontal and vertical, in its black lists, namely "hard core restrictions". Nevertheless, limited range of restraints, particularly prohibitions from competing with the licensor, are carved out from the black lists. Black lists are listed in TTBER as follows:

(1) Horizontal restraints: agreements among competing undertakings:[27]

(i) Price restraints.

(ii) Limitation of output, except limitations on the output of contract products imposed on the licensee in a non-reciprocal agreement or imposed on only one of the licensees in a reciprocal agreement.

(iii) Allocation of markets or customers, except 7 situations.

(iv) Restriction of the licensee's ability to exploit its own technology unless such latter restriction is indispensable to prevent the disclosure of the licensed know-how to third parties.

[25] U.S. IP Guideline, 3.4.
[26] U.S. IP Guideline, 5.5.
[27] TTBER Art 4.1.

(2) Vertical restraints: agreements among non-competing undertakings:[28]

(i) Minimum sales price (resale price maintenance).

(ii) Territorial or customer restrictions, except 6 situations.

(iii) Restriction of active or passive sales to end-users by a licensee which is a member of a selective distribution system.

### D. Japanese Approach

Japanese approach is in common with that of EU in two respects. First, JFTC IP Guideline does not limit its black lists—restraints treated as "illegal in principle"-- to narrowly defined naked horizontal restraints. Second, restraints treated as black lists cover not only horizontal restraints but also several vertical restraints. Nevertheless, Japanese coverage of black lists is much narrower than that of EU.

Restraints black listed by JFTC IP Guideline consist of three kinds:

(i) Price restraints (both horizontal and vertical).[29]

(ii) Restraints on licensees' R&D activities.[30]

(iii) Exclusive grant back (obligation on licensees to exclusively grant to the licensors their rights on improved technologies).[31]

JFTC decision *Microsoft II*[32] concerned Microsoft's conduct impacting on licensees' R&D activities. Microsoft (as the licensor of Windows) obligated Japanese licensees (PC manufacturers) not to challenge validity of IP rights held by Microsoft. Owing to this obligation, the Japanese licensees had been prohibited from challenging Microsoft regarding their patented technologies on audio-visual technologies, which Microsoft incorporated in Windows. Namely, Microsoft inflicted on Japanese licensees "non-assertion clause". This obligation resulted in Japanese licensees giving royalty-free their patented technologies to Microsoft.

---

[28] TTBER Art 4.2.
[29] JFTC IP Guideline, IV 4(3).
[30] JFTC IP Guideline, IV 5(7).
[31] JFTC IP Guideline, IV 5(8).
[32] JFTC hearing decision *Microsoft II* (September 16, 2008), decision in original Japanese is *available at* http://www.jftc.go.jp/pressrelease/08.september/08091801shinketu.pdf; summary translation is *available at* http://www.jftc.go.jp/e-page/pressreleases/2008/September/080918.pdf (visited November 18, 2008).

In its decision, JFTC examined competition restraining effect together with compensating reasonableness of the Microsoft's conduct regarding the "PC related audiovisual technology". JFTC eventually found that Microsoft had engaged in illegal unfair trade practice: "Dealing on Restrictive Terms" (General Designation, Section 13).[33] In this decision, JFTC rejected the argument put forth by Microsoft on the necessity of delineating a relevant market, opining it is enough to examine the area where licensees' incentive to innovate has been negatively affected, namely the "PC related audiovisual technology".[34] In this finding, JFTC did not explain if this "PC related audiovisual technology" is the relevant antitrust market.[35]

JFTC's decision has weakness in its lack of precise market delineation and consequently Microsoft's market power. However, JFTC IP Guideline includes in its black-lists restraints on licensees' R&D activities. Microsoft's conduct, although it is not direct restraint on licensees' R&D activities, undermines the licensees' incentive for R&D activities. The JFTC decision, making reference to the predecessor of the IP Guideline (Patent and Know-how Guideline)[36], remarks: "Targeted market for this case is the transaction market which is affected by reduction of R&D incentives, and it should be examined whether fair competition order was negatively affected in this market."[37] This remark may be interpreted to imply that conduct gravely undermining licensees' innovative incentives may be condemned without precise market delineation, in case the licensor does not come up with justifications.

---

[33] *Id.* (original Japanese) at 139.
[34] *Id*. at 96.
[35] See *Id*. at 96 (JFTC merely opined: "One should take the targeted market for considering this case as the transaction market where innovation incentives are negatively affected, and then, should examine whether fair market order was negatively affected in that market.")
[36] At the time of the Microsoft's conduct in this decision, JFTC 2007 IP Guideline was not promulgated, but its predecessor (Patent and Know-how Guideline) was in effect.
[37] Microsoft II decision, at IV. 1 (3) [Conclusion].

Microsoft's conduct amounts to "non-assertion clause", to which U.S. FTC has treated leniently in their application of the rule of reason, in line with the treatment toward exclusive grant-back.[38]

In variance with the U.S. approach, JFTC IP Guideline states that "non-assertion clause" will be found illegal when it harms fair competition order through undermining licensees' innovation incentives.[39] This statement is not equivalent with treating "non-assertion clause" as black listed conduct because JFTC examines whether the clause "harms fair competition order" or not. JFTC indicated, in *Microsoft II*, that "non-assertion clause" negatively affects licensees' innovation (R&D) incentives. Whereas restraints on licensees' R&D activities are black-listed, restraints affecting licensees' innovation incentives, *Microsoft II* shows, are treated presumptively illegal, with efficiency justifications.

### E. Recommendation for developing countries

Black lists should be limited to restraints on inter-technology competition. For vertical restraints, it is only the restraints foreclosing rival technologies that affect inter-technology competition; therefore restraints on intra-technology should not be included in black lists.[40]

Limited categories of predominantly anticompetitive restraints only may be included in black lists. In this regard, U.S. IP Guideline avoided establishing categorical "black lists", condemning only narrowly defined "naked" restraints. Horizontal restraints, in U.S., then, may be found not illegal when they are not naked, namely ancillary to legitimate objectives. Such flexible approach is appropriate for U.S., where antitrust decisions have been accumulated over more than one hundred years, and not only antitrust agencies but courts are equipped with detailed understanding of antitrust law and economics. In contrast, developing countries' antitrust authorities, courts in particular,

[38] U.S. Department of Justice and Federal Trade Commission, *Antitrust Enforcement and Intellectual Property Rights* (2007), at 101.
[39] JFTC IP Guideline, IV.5 (6).
[40] See supra II. A.

generally are devoid of capacities to engage in detailed case-by-case analyses. Black lists, therefore, are useful as a bright line standard for developing countries.

Nevertheless, enlarging coverage of black lists would increase risk of false positive. In this regard, EU's black lists' coverage is too wide. Moreover, EU's description of black lists is too complicated in that it set up detailed exceptions.

On balance, Japanese treatment of black lists seems to be more appropriate than that of EU, in that black lists are shorter and simpler. Moreover, Japanese Guideline's emphasis on preserving innovation incentives for licensees is appropriate in consideration of IP regime's innovation objective.

Consequently, I would advise developing countries to set up black lists composed of the following. Among these, items (2), (3), and (4) may be treated as presumptively illegal, with possible efficiency defenses. Such presumptive approach is recommended for countries with competent antitrust authorities.

(1) Horizontal hardcore restraints—price restraints, territorial restraints, and quantity restraints.

(2) Restraints on licensees' R&D activities.

(3) Exclusive grant back

(4) Non-assertion clause

## IV. Market power screen and Safe harbors

### A. General consideration

After setting up "white lists" and "black lists", we are left with gray area—restraints treated neither white nor black. Gray area restraints may not be found illegal unless the restraints are expected to generate market power.[41] This is because, without market power, consumers would be able to avail themselves of alternative goods or technologies, and thus are not harmed.

Several Asian countries including Japan, Republic of Korea, Taiwan, and Vietnam have in their competition laws "unfair competition" (or "unfair trade") clauses, under

[41] Market power is the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time.(U.S. IP Guideline, 2.2)

which restraints may be condemned as unfair without regard to harm to consumers. Unfair competition rules, thus, do not require finding of market power for finding illegality. However, competition laws are required to adopt consumer benefit objective in order not to overly protect competitors. Unfair competition rules, without consumer benefit objective, are ambiguous in its definition of "unfairness", and thus tend to invite arbitrary intervention into hard competition. Competition laws based on consumer benefit objective, in the long run, would increase national economic welfare and economic growth. Asian countries are advised to refrain from adopting unfair competition rules in their competition laws.

Consumer benefit objective of competition law would logically lead to a regulatory principle called "market power screen", in which competition agencies prohibit or intervene into licensing agreements only when the agreements are expected to generate, or maintain market power.

Closely related with the concept of "market power screen" are "safe harbors (or safety zones)", which have been set up in the IP guidelines of U.S., EU, and Japanese competition agencies. Nevertheless, these agencies have not designated their safe harbors as surrogates of market power screen. Rather, the safe harbors have been adopted to prevent, by objectively numerical indices, governmental intervention into minor restraints which are considered to exert only negligible competition restraining effects.

## B. U.S. Approach

### 1. Market power screen

U.S. courts and antitrust agencies have applied the rule of reason to all restraints except those treated as per se illegal. Under the rule of reason, U.S. antitrust agencies have not adopted strict market power screen, stating in their IP Guideline: "Application of the rule of reason generally requires a comprehensive inquiry into market conditions. … However, that inquiry may be truncated in certain circumstances."[42] Nevertheless, U.S. antitrust agencies' *Competitors' Collaboration Guideline*, in essence, states that, for conducts analyzed under the rule of reason, agencies would usually refrain from

[42] U.S. IP Guideline 3.4.

challenging conduct short of market power: “In some cases, the nature of the agreement and the absence of market power together may demonstrate the absence of anticompetitive harm. In such cases, the Agencies do not challenge the agreement.”[43] Moreover, for certain categories of exclusionary restraints in IP licensing, U.S. antitrust agencies have adopted market power screen: “tying”,[44] “exclusion from a pooling or cross-licensing”,[45] and “grantbacks”.[46]

### 2. Safe harbor

U.S. antitrust agencies have set up safety harbors (safety zones) in their IP Guideline: (i) Collective market share of 20 per cent, or (ii) Existence of 5 or more rival technologies.[47]

## C. EU Approach

### 1. Market power screen

European Commission has not treated market power as the threshold for finding illegality in licensing agreements: “Above the market share thresholds [shown in safe harbors], it is necessary to balance the anti-competitive and pro-competitive effects of tying.”[48] "Appreciable anticompetitive effects are likely to occur when at least one of the parties has or obtains some degree of market power and the agreement contributes to the creation, maintenance or strengthening of that market power or allows the parties to exploit such market power."[49]

---

[43] U.S. FTC and DOJ, Antitrust Guidelines for Collaborations among Competitors (2000) , at §1.2.
[44] U.S.IP Guideline 5.3.
[45] U.S.IP Guideline 5.5.
[46] U.S.IP Guideline 5.6.
[47] U.S.IP Guideline 4.3.
[48] Tech Transfer GL. para.192.
[49] Tech Transfer GL. para.15.

### 2. Safe harbor

Exemption rule from EU competition law is described in TTBER. TTBER is applicable only for parties of two; patent pool is outside the domain of TTBER.

Exempted from illegality by TTBER, excepting black listed restraints, are: (i) Agreements between competitors, where the combined share of the relevant markets accounted for by the parties does not exceed 20 per cent.[50]; (ii) Agreements between non-competitors, where the individual share of the relevant markets accounted for by each of the parties does not exceed 30 per cent.[51] "Article 101 is unlikely to be infringed where there are four or more independently controlled technologies in addition to the technologies controlled by the parties to the agreement . . ."[52]

## D. Japanese Approach

### 1. Market power screen

JFTC, in its IP Guideline, has not adopted market power threshold for either horizontal or vertical agreements. JFTC IP Guideline merely states that agreements between competitors exert relatively more serious effect on competition than agreements between non-competitors.[53]

### 2. Safe harbor

JFTC IP Guideline has virtually adopted safe harbors by indicating "instances where competition reducing effects are minor."[54] Such instances apply to agreements or restraints where (i) combined market share does not exceed 20 per cent, or (ii) when market shares may not be calculable, number of enterprises holding substitutable technologies is 4 or more.

These safe harbors, in contrast to the U.S. and EU counterparts, also apply to restraints included in "black lists", since JFTC IP Guideline does not state that black listed restraints are foreclosed from application of safe harbors. Nevertheless, safe

---

[50] TTBER Art. 3.1.
[51] TTBER Art. 3.2.
[52] Tech Transfer GL.131.
[53] JFTC IP Guideline II.4 (1).
[54] JFTC IP Guideline II.5.

harbors do not apply to certain categories of unfair trade practices: unfair trade practices belonging to “unfair method of competition” or “disruption of fundamentals of competition order.”[55]

### E. Recommendation for developing countries

Developing countries are advised to adopt market power screen for licensing restraints, excepting black listed ones. Consumers are scarcely harmed by restraints short of attaining market power. For a negligible amount of consumer harm, it is not worthwhile for agencies to intervene.

Competition agencies in developing countries are generally short of personnel and budgetary resources. Market power screen, therefore, is useful for effective use of limited resources. Market power screen, moreover, would prevent excessive intervention motivated by protection of small and medium companies at the sacrifice of consumers.

In relation to the role of market power screen, safe harbors need to be regarded as conservative estimate of market power. Rigorous identification of market power is a difficult and time consuming task for competition agencies in developing countries. Then, safe harbors expressed by market shares or number of competing technologies are capable of functioning as approximations of market power, without need for going through case-by-case market inquiries.

Safe harbors, treated as conservative estimate of market power, may be set at higher market shares than those in current guidelines of U.S., EU, and Japan. The market shares for safe harbors, then, may be designated as combined market share of 30 per cent, or existence of 4 or more competing technologies. As companies often find it difficult to calculate market shares, safe harbors are recommended to be expressed by a number of competing technologies.

## V. Contents of rule of reason applied to gray area

[55] JFTC IP Guideline IV.1 (3).

## A. General consideration

Gray area restraints— restraints in licensing agreements which are treated neither black nor white-- are examined under the rule of reason unless they are exonerated by market power screen or safe harbors. Competition agencies of U.S., EU, and Japan have applied the rule of reason in varied ways.

Core concept of the rule of reason is balancing of competition restraints and pro-competition efficiencies. Balancing approach is intrinsically ambiguous; therefore competition agencies need to reduce ambiguity through establishment of concrete standards.

## B. U.S. Approach

U.S. antitrust agencies, in their IP Guideline, indicate that rule of reason is conducted as balancing of "the procompetitive efficiencies and the anticompetitive effects to determine the probable net effect on competition in each relevant market."[56] Under this standard, restraining clauses in licensing are exonerated when they are deemed reasonably necessary to achieve procompetitive benefits that outweigh those anticompetitive effects.[57]

U.S. IP Guideline lists several elements constituting the rule of reason: (1) whether the patent holder possesses market power in the relevant market, (2) whether the practice encourages unlawful coordination among competitors, (3) whether the practice inhibits entry of other firms through the licensing regime's exclusivity or exclusion, and (4) whether the practice reduces the incentive to innovate in the future.[58]

The rule of reason expressed in U.S. IP Guideline requires detailed assessment of each licensing restriction. Nevertheless, as one important limiting factor, the antitrust agencies require that the restraint is "reasonably necessary to achieve procompetitive efficiencies" as a condition to go into rule of reason enquiry.[59] Therefore, if the alleged

---

[56] U.S. IP Guideline 4.2.
[57] U.S. IP Guideline 3.4.
[58] U.S. IP Guideline 3.2.3 (considering future innovation); id. 4.1.2 (discussing licensing arrangements involving exclusivity); id. § 5.5 (considering portfolio cross licenses and patent-pooling arrangements); id. 5.6 (discussing grantbacks). See generally id. 3.1.
[59] U.S. IP Guideline 4.2.

efficiencies may be obtained through less restrictive means, the restraint may be found illegal without going through rule of reason analysis.

## C. EU Approach

EU Tech Transfer Guideline states that those restraints found illegal under Art. 101 (1) may be saved under Art. 101(3).[60] Combined application of Articles 101 (1) and 101(3) has resulted in balancing consideration of pro-competitive effects and restrictive effects.[61] Therefore, gray area restraints—those left out of either black listed or white listed restraints—are analyzed by virtual rule of reason. The rule of reason analysis is conducted through "individual assessment of their anti-competitive and pro-competitive effects."[62]

Restraints in licensing which are scrutinized by rule of reason consist of, among others, (i) exclusive grantback obligation, (ii) obligation on the licensee to assign to the licensor rights to severable improvements to or new applications of the licensed technology, and (iii) obligation on the licensee not to challenge the validity of intellectual property rights held by the licensor.[63]

EU has put emphasis on innovation incentive: "[The objective of the regulation is to protect] incentive of licensees to innovate".[64] Moreover, in contrast to U.S. IP Guidelines, EU has not adopted the "but for" approach; therefore EU's attitude toward IP related restraints are generally harsher than that of U.S.

## D. Japanese Approach

In contrast with both U.S. and EU agencies, JFTC's adoption of rule of reason is of limited nature. Moreover, JFTC's adoption of rule of reason is mostly limited to vertical non-price restraints.

Vertical non-price restraints and unitary conduct are scrutinized by JFTC based on the unfair trade practices clause regarding whether they bring about "danger to impede

---

[60] Tech Transfer GL. 18.
[61] Tech Transfer GL. 18.
[62] Tech Transfer GL.107.
[63] Tech Transfer GL.108- 116.
[64] Tech Transfer GL. 108.

fair competition", which JFTC IP Guidelines paraphrased as "danger to lessen competitive ability of competitors." The "danger" is not defined in the unfair trade practices clause (nor in the JFTC IP Guidelines), so that any restraint faces risk to be found as illegal unfair trade practices. Nevertheless, JFTC IP Guideline admits several restraints as reasonable from the view of efficient use of technologies.[65]

JFTC IP Guideline, therefore, has not adopted full-fledged rule of reason as practiced in U.S. Moreover, JFTC Guideline requires that such restraints, for them to be allowed, should be limited to a degree minimally necessary for achieving reasonable objectives.[66]

As to horizontal restraints, excepting those condemned as illegal in principle, JFTC IP Guideline limits their explanation to patent pools, explaining that restraints among competitors conducted through patent pools are found illegal when they form "substantial restraint of competition" (namely, substantial market power), based on the "unreasonable restraint" clause (AMA Art. 2 (5)).[67] JFTC IP Guideline, therefore, does not proclaim rule of reason analysis on horizontal restraints. Horizontal restraints, then, may not be defended based on their reasonableness if they bring about substantial market power.

### E. Recommendation for developing countries

Rule of reason analyses on individual restrictions require detailed inquiry into overall market conditions. Rule of reason, therefore, demands considerable degree of competence and human resources on competition agencies. Adoption of market power screen, however, would greatly reduce number of licensing cases to which rule of reason is applied. For this reason, developing countries, with limited resources, are advised to adopt market power screen.

In addition to the market power screen, developing countries , in their rule of reason analysis, should adopt "reasonably necessary" test, under which restraints should be reasonably necessary to achieve procompetitive efficiencies for them to be analyzed by rule of reason. Adoption of this test would further reduce coverage of restrictions to which rule of reason is applied.

---

[65] JFTC IP Guideline IV.4.
[66] JFTC IP Guideline IV.4.
[67] JFTC IP Guideline III.2.

## VI. Conclusion: Proposal for Developing countries

As a summary to the overall analysis, I would suggest that antitrust authorities in developing countries would adopt following principles in intervening into licensing agreements:

(1) Designate “intra-technology restraints” as “white lists”.
(2) Black lists should be limited to the following:
  (i) Horizontal hardcore restraints.
  (ii) Restraints on licensees’ innovative activities.
  (iii) Exclusive grant back and Non-assertion clause.
    (ii) and (iii) may be treated as presumptively illegal, with possible efficiency defenses.
(3) Set up “market power screen” as well as “safe-harbors.”
(4) Area where “rule of reason” is applied should be limited through both “market power screen” and the “reasonably necessary test”.