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JAPANESE FAIR TRADE COMMISSION GUIDELINES FOR LICENSING AGREEMENTS: AN OVERVIEW AND A CRITIQUE

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I. INTRODUCTION

On February 15, 1989, the Japanese Fair Trade Commission ("JFTC") released new *Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-how Licensing Agreements* ("Guidelines"). United States licensors doing business in Japan must pay close attention to the Guidelines, for the Guidelines are not mere suggestions, but have the de facto force of law. Under Japanese law such international agreements must be submitted to the JFTC for approval. Thus, there is no way to avoid the scrutiny of the JFTC. In general, the Guidelines reflect antitrust concerns, and while Japanese antitrust law is based to some degree on United States antitrust law, there are significant differences between United States and Japanese law which United States executives and attorneys may not reasonably anticipate. For while the Guidelines purport to regulate antitrust, the function of antitrust law in this instance is slightly different from antitrust law in the United States. These differences are pitfalls for the uninformed attorney or executive and can mean hours of wasted negotiation time, when upon review, the JFTC nullifies a clause or section of the agreement which the parties believed innocuous. Such nullification could come after transfer of the patent or know-how. A United States executive should be prepared for what

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the JFTC will approve and not approve, for the JFTC can function as an extra party in licensing agreements, much to the potential aggravation of United States executives doing business in Japan.

This paper consists of three major sections. Part One is a general description of the context of Japanese antitrust law and how the Guidelines fit into this framework. Part Two is a comparative discussion which describes the substance of the Guidelines and compares this law with United States antitrust doctrine. This section serves as a convenient way for the United States reader to comprehend the Guidelines, in terms of what he or she may already know.

Part Three consists of a critique. The United States is the greatest technology exporter; Japan is the largest technology importer. Naturally there is a tension between the interests of these high-technology giants. This section discusses their interests, the tensions in the transfer of technology between the United States (among other foreign licensors) and Japan, and the grievances of foreign licensors. The section ultimately argues for consideration of a uniform code of licensing conduct such as the *UNCTAD Universal Code of Conduct for Technology Transactions.*

II. THE GUIDELINES AND THE STRUCTURE OF JAPANESE ANTITRUST LAW

A. *An Overview and History of the Guidelines*

The Guidelines issued on 15 February 1989 are a revised version of Guidelines first issued by the JFTC in 1968.[1] The Guidelines' function is to clarify enforcement of the regulations prohibiting unfair trade practices involving patents and know-how licensing. The Guidelines issued in 1968[2] consisted of a list of five acceptable practices and another list of seven unacceptable practices. The Guidelines have been expanded to treat patent and know-how violations separately, and have grown from two categories of practices to three. These three categories are (1) not unfair trade practices, (2) may be unfair

[1] *Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-How Licensing Agreements*, February 15, 1989, Executive Bureau, Fair Trade Commission, *reprinted in* BENDER, PATENT ANTITRUST 645-691 (1989) [hereinafter *Guidelines*].

[2] Antimonopoly Act Guidelines for International Licensing Agreements, May 24, 1968, *reprinted in* H. IYORI, ANTIMONOPOLY LEGISLATION IN JAPAN 199-202 (1969).

trade practices, and (3) highly likely to be unfair trade practices.[3]

B. The JFTC and Antitrust Regulation in Japan

Japanese antitrust law bears some similarity to United States antitrust law.[4] This should not be surprising, for the United States conquered Japan and modified certain aspects of the Japanese legal system and industrial organization after World War II.[5] Before the Second World War, huge conglomerates ("zaibatsu") dominated the Japanese economy. Economic policy before the war even encouraged concentration in large important industries.[6] Some believed that the concentrated nature of the prewar Japanese economy led to the expansion of Japanese colonial/military power, leading to the war itself.[7] The occupying allied forces pressured Japan to pursue a policy of fostering competition in the economy, and decentralizing economic power. The allied forces thought this would promote democratic political reform.[8]

The Antimonopoly Act of 1947[9] is the fountainhead of Japanese antitrust law.[10] It incorporates the essential features of the Sherman,

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[3] A word should be said about the organization of the Guidelines. The organization of the Guidelines is terribly illogical. Each category is repeated twice, because the Guidelines treat patents and know-how separately. Such a division, while conceptually oriented, is not generally necessary. A second reason why the number of items within each category has grown is because certain practices occur in all three categories, in both the patent and know-how sections, with a discussion each time of what surrounding circumstances would require a certain result. Each category is supposed to represent a certain kind of *analysis*, based on the circumstances, rather than the result. This conceptual confusion tends to support the suspicion that labelling generally prevails over analysis.

[4] Uesugi, *Japanese Antimonopoly Policy—Its Past and Future*, 50 ANTITRUST L.J. 709, 718 (1981).

[5] *Id.* at 709. "The Act was originally drafted by the Supreme Commander Allied Powers (SCAP) . . . to introduce American free market principles, including those embodied in its antitrust laws, into the Japanese economy." *See also* HADLEY, ANTITRUST IN JAPAN 4 (1970).

[6] For example, see the Key Industries Control Law of 1931, discussed in HADLEY, *supra* note 5, at 1-4.

[7] *Id.*

[8] *Id.* at 5.

[9] Act Concerning Prohibition of Private Monopoly and Maintenance of Fair Trade, Act No. 54 of 1947 (amended 1982), *reprinted in* H. IYORI AND A. UESUGI, THE ANTIMONOPOLY LAWS OF JAPAN 213-264 (1983) [hereinafter *Antimonopoly Act*].

[10] The purpose, wide scope, and importance of the Antimonopoly Act is demonstrated in Article 1:

> This Act, by prohibiting private monopolization, unreasonable restraint of trade and unfair business practices, by preventing the excessive concentration

Clayton, and Federal Trade Commission Acts, as well as important United States case law.[11] Many prohibitions are common to both systems. The Antimonopoly Act, like the Sherman Act, prohibits unreasonable restraints of trade.[12] There are also sections similar to Section 2 of the Sherman Act prohibiting monopolization and attempts and conspiracies to monopolize.[13] The Antimonopoly Act also prohibits unfair trade practices in the manner of Section 5 of the Federal Trade Commission Act.[14]

The JFTC is the antitrust enforcement agency in Japan. Established by the Antimonopoly Act, its primary responsibility is to enforce the Act.[15] The JFTC is an administrative agency with both quasi-judicial and quasi-legislative powers. Although the JFTC is attached to the Office of the Prime Minister, the chairman and four commissioners enjoy functional independence in order to perform their duties.[16] These duties include the power to remedy alleged violations of the Act, from investigation to recommending an action, with or without the use of adjudicatory procedure. The Antimonopoly Act enables the JFTC to make rules and regulations governing its own internal discipline, and to devise procedures for handling cases, reports and applications for approval.[17] The adjudicatory procedures and remedial powers of the JFTC shall be addressed in later sections of this paper.[18]

> of economic power and by eliminating unreasonable restraint of production, sale, price, technology, and the like, and all other undue restriction of business activities through combinations, agreements, and otherwise, aims to promote free and fair competition, to stimulate the initiative of entrepreneurs, to encourage business activities of enterprises, to heighten the level of employment and people's real income, and thereby to promote the democratic and wholesome development of national economy as well as to assure the interests of consumers in general.

Id. at § 1.

An important Japanese antitrust analyst comments: "As amended in 1977, the Japanese Antimonopoly Act is one of the most sophisticated pieces of antitrust legislation among the developed nations." Uesugi, *supra* note 4, at 718.

[11] T. DOI, THE INTELLECTUAL PROPERTY LAW OF JAPAN 258 (1980).

[12] *Antimonopoly Act*, *supra* note 9, at § 1, § 2(6), and § 3.

[13] *See Antimonopoly Act*, *supra* note 9, at § 3, ("No entrepreneur shall effect monopolization or any unreasonable restraint of trade"); and at § 2(5) (defining "private monopolization").

[14] *See Antimonopoly Act*, *supra* note 9, at §§ 2(9), 19.

[15] *Id.* at § 27(1).

[16] *See id.*, §§ 27(2), 28 and 31.

[17] *Id.* at § 76.

[18] *See infra*, Sections II, F, and G.

C. *Unfair Trade Practices and International Licensing Contracts*

Antimonopoly Act Section 2(9) and Section 19 prohibit unfair trade practices similar to Section 5 of the Federal Trade Commission Act in the United States, but leave to the JFTC the power to give content to these prohibitions, as well as the power to apply them to specific areas such as international licensing. Section 19 merely states that "[N]o entrepreneur shall employ unfair business practices."[19] Section 2(9) sets forth six categories broadly outlining unfair trade practices.

> 1. Unduly discriminating against other entrepreneurs;[20]
> 2. Dealing at unfair prices;
> 3. Unduly inducing or coercing a competitor's customers to deal with oneself;
> 4. Dealing with another party on such conditions as will unjustly restrict the business activities of such party;
> 5. Dealing with another party through undue use of one's bargaining position;
> 6. Unjustly interfering with a transaction between [on one hand] an entrepreneur who competes in Japan with oneself or the company of which one is a stockholder or an officer and [on the other hand] the customers of such entrepreneur; or, where such entrepreneur is a company, unjustly inducing, instigating, or coercing a stockholder or an officer of such company to act against the interest of such company.[21]

The Act makes any business practice coming under one of the above items, which tends to impede fair competition, and which is "designated" by the Fair Trade Commission, an unfair business practice.

Thus, several elements must exist for a business practice to be unfair. First, it must fall within the scope of the activities set forth in items 1-6 of Article 2(9). Second, it must tend to impede fair competition. As applied, this requirement has been interpreted by the JFTC to mean that the practice must constitute an impediment to competition either at the level of the party benefiting from the practice or at the level of the party injured by the practice.[22] Third, The JFTC must have designated the activity as an unfair business practice.

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[19] *Antimonopoly Act*, *supra* note 9, at § 19.

[20] "Entrepreneur" is defined in § 2(1) of the *Antimonopoly Act* as "a person, who carries on a commercial, industrial, financial, or any other business." *Id.* at § 2(1).

[21] *Id.* at § 2(9).

[22] Uesugi, *Unfair Business Practices*, in 5 DOING BUSINESS IN JAPAN § 6.02(1), n.2 (Z. Kitagawa, ed. 1989) [hereinafter UESUGI].

The power of the JFTC to designate unfair business practices emanates from the Antimonopoly Act itself. The Act states that the JFTC shall designate specific business practices in the particular field of trade in accordance with the provisions of Section 2(9).[23] In doing so, the JFTC shall listen to the views of "entrepreneurs operating in the same line of business as that of the entrepreneurs who employ the specific business practices concerned, hold a public hearing to obtain the views of the public and thereupon shall make the designation after due consideration of the views disclosed."[24] The Act further mandates that the designation of unfair business practices be made by "notification."[25] Because there have been few judicial decisions defining the boundaries of the JFTC's authority in the area of unfair business practices, the extent of its statutory authority is not clear.[26]

Pursuant to the third prong of the elements of Section 2(9), the JFTC has issued regulations creating a "General Designation" of unfair business practices.[27] These practices include concerted refusals to deal and other concerted action,[28] discriminatory pricing[29]

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[23] *Antimonopoly Act, supra* note 9, at § 71.

[24] *Id.*

[25] *Id.*, at § 72.

[26] *See* Uesugi, *supra* note 22, at § 6.02(4).

[27] FTC Notification No. 15, June 18, 1982 [hereinafter *General Designation*]. Notification No. 15 replaced the older set of prohibitions issued under FTC Notification No. 11 of 1953. New Designations were seen as desirable due to the allegedly vague content of the Old Designation. *See* Uesugi, *supra* note 22, at § 6.03. There is also a set of Specific Designations which cover certain industries in Japan. *See id.* at § 6.04.

[28] General Designation, *supra* note 27, at 685.

Art. 1—Concerted Refusal to Deal:

> 1. Without proper justification, taking an act specified in one of the following paragraphs concertedly with another entrepreneur who is in a competitive relationship with oneself (hereinafter a "competitor"):
>
> (a) Refusing to deal with a certain entrepreneur or restricting the quantity or substance of a commodity or service involved in transactions with a certain entrepreneur, or
>
> (b) Causing another entrepreneur to take an act which comes under the preceding paragraph.

Art. 2. Other refusal to deal:

> 2. Unjustly refusing to deal, or restricting the quantity or substance of a commodity or service involved in transactions with a certain entrepreneur, or causing another entrepreneur to take any act which comes under one of these categories.

Id.

[29] *Id.* Art. 3. Discriminatory Pricing:

> Unjustly supplying or accepting a commodity or service at prices which discriminate between regions or between other parties.

Id.

or other discriminatory treatment,[30] predatory pricing,[31] predatory costing,[32] deceptive consumer practices,[33] tying,[34] exclusive dealing,[35] resale price maintenance,[36] dealing on restrictive

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[30] *Id.* Art. 4. Discriminatory Treatment on Transaction Terms:
Unjustly affording favorable or unfavorable treatment to a certain entrepreneur in regard to the terms or execution of a transaction.
Art. 5. Discriminatory Treatment in a Trade Association, etc.:
Unjustly excluding a specific entrepreneur from a trade association or from a concerted activity, or unjustly discriminating against a specific entrepreneur in a trade association or a concerted activity, thereby causing difficulties in the business activities of the said entrepreneur.
Id. at 685-86.

[31] *Id.* Art. 6. Unjustly Low Price Sales:
Without proper justification, supplying a commodity or service continuously at a price which is excessively below cost incurred in the said supply, or otherwise unjustly supplying a commodity or service at a low price, thereby tending to cause difficulties to the business activities of other entrepreneurs.
Id. at 686.

[32] *Id.* Art. 7. Unjustly High Price Purchasing:
Unjustly purchasing a commodity or service at a high price, thereby tending to cause difficulties in the business activities of other entrepreneurs.
Id.

[33] *Id.* Art. 8. Deceptive Customer Inducements:
Unjustly inducing customers of a competitor to deal with oneself by causing them to misunderstand that the substance of a commodity or service supplied by oneself, or the terms of the transaction, or other matters relating to such transactions are much better or much more favorable than the actual ones or than those relating to the competitor.
Art. 9. Undue Customer Inducement by Unjust Benefits:
Inducing customers of a competitor to deal with oneself by offering benefits unjust in the light of normal business practices.
Id.

[34] *Id.* Art. 10. Tie-in Sales:
Unjustly causing the other party to purchase a commodity or service from oneself or from an entrepreneur designated by oneself by tying it to the supply of another commodity or service, or otherwise coercing the said party to deal with oneself or with an entrepreneur designated by oneself.
Id.

[35] *Id.* Art. 11. Dealing on Exclusive Terms:
Unjustly dealing with the other party on condition that the said party shall not deal with one's competitor, thereby tending to reduce transaction opportunities for the said competitor.
Id.

[36] *Id.* Art. 12. Resale Price Restrictions:
Supplying a commodity to a party who purchases the said commodity from oneself while imposing, without proper justification, one of the restrictive terms specified below:
(a) Causing said party to maintain the sales price of the commodity that one has determined, or otherwise restricting the said party's free decision on sales price of the commodity, or
(b) Having the said party cause an entrepreneur who purchases the com-

terms,[37] abuse of market power[38] and interference with competitors' dealings[39] or internal operations.[40]

Section 6(1) of the Antimonopoly Act mandates that the prohibitions of unfair trade practices be applied to international licensing agreements.[41] To alert firms to the JFTC's concerns with antitrust violations of Section 19 and the General Designation, it has created

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modity from the said party to maintain the sales price of the commodity that one has determined, or otherwise causing the said party to restrict the said entrepreneur's free decision on sales price of the commodity.

Id. at 686-87.

[37] *Id.* Art. 13. Dealing on Restrictive Terms:

Other than any act coming under the preceding two paragraphs, dealing with the other party on conditions which unjustly restrict any transaction between the said party and his other transacting party or other business activities of the said party.

Id. at 687.

[38] *Id.* Art. 14. Abuse of Dominant Bargaining Position:

Taking any act specified in one of the following paragraphs, unjustly in the light of the normal business practices, by making use of one's dominant bargaining position over the transacting party:

(a) Causing the said party in a continuous transaction to purchase a commodity or service other than the one involved in the said transaction;

(b) Causing the said party in a continuous transaction to provide for oneself money, service or other economic benefits;

(c) Setting or changing transaction terms in a way disadvantageous to the said party;

(d) In addition to any act coming under the preceding three paragraphs, imposing a disadvantage on the said party regarding terms or execution of the transaction; or

(e) Causing a company which is one's other transacting party to follow one's direction in advance, or to get one's approval regarding the appointment of officers of the said company (meaning those as defined by subsection 3 of section 2 of the [Antimonopoly Act].

Id.

[39] *Id.* Art. 15. Interference with a Competitor's Transaction:

Unjustly interfering with a transaction between another entrepreneur who is in a domestic competitive relationship with oneself or with the company of which one is a stockholder or an officer and the other party to such transaction, by preventing the formation of a contract, inducing the breach of a contract, or by any other means whatsoever.

Id.

[40] *Id.* Art. 16. Interference with Internal Operation of a Competing Company:

Unjustly inducing, abetting, or coercing a stockholder or an officer of a company which is in a domestic competitive relationship with oneself or with a company of which one is a stockholder or an officer to take an act disadvantageous to such company by the exercise of voting rights, transfer of stock, divulgence of secrets, or any other means whatsoever.

Id.

[41] No entrepreneur shall enter into an international agreement or an international contract which contains such matters as constitute unreasonable restraint of trade or unfair business practices. *Antimonopoly Act, supra* note 9, at § 6(1).

the Guidelines to educate firms on what the JFTC defines as unfair business practices in the fields of patent and know-how licensing.

Although the lists of practices in the General Designation and the Guidelines appear very similar to United States antitrust laws, familiarity will be no comfort to the United States attorney or executive. The JFTC has great discretion to determine the content of unfair business practices under the General Designation, and how to apply and enforce the law to practices it deems unfair. In fact, the standards in the Guidelines—not to mention the Antimonopoly Act and the General Designation—are vague, and no examples are provided. The standards are quite flexible, and the JFTC admits that the outcome will depend greatly on surrounding circumstances.[42] The JFTC also adheres to certain unwritten rules which are revealed only to those who watch the behavior of the JFTC closely.[43] The JFTC's interpretation and application of the Guidelines has changed on occasion without public revision of the Guidelines themselves; such semi-mysterious behavior has created a group of JFTC "kremlinologists."[44]

D. Licensing Contracts To Which the Guidelines Apply

The Guidelines apply to all agreements between foreign entrepreneurs and Japanese entrepreneurs concerning patent and know-how licensing agreements which are longer than one year in duration.[45] The Guidelines apply not only to agreements between foreign companies and Japanese companies, but also to agreements between

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[42] In view of the nature of such [anticompetitive] restrictions, impacts on competition should as a matter of course be evaluated individually in each case when it is examined to determine whether restrictions contained in technology licensing agreements constitute unfair trade practices.

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

Guidelines, *supra* note 1, preamble § 3 at 646.

[43] Higgins, *Japanese Fair Trade Commission Review of International Agreements,* 3 LOY. L.A. INT'L & COMP. L. ANN. 43, 49, n.22 (1980).

[44] *Cf. id.* The Guidelines thus fail to give much guidance to help foreign licensors.

[45] The Guidelines' scope is mandated by the following provision of the Antimonopoly Act:

> The provisions of the preceding subsection shall not apply to an agreement or contract regarding a single transaction (excluding such transactions of which the delivery of the goods extends over a period of one year), or to an agreement or contract merely creating an agency in business matters (excluding an agreement or contract containing conditions that restrict the business activities of the other party).

Antimonopoly Act, supra note 9, at § 6(3).

Japanese companies.[46] But while all international agreements must be submitted, agreements between domestic firms need not be submitted to the agency. The Guidelines also apply to reciprocal licensing agreements or licensing agreements between more than two parties, such as cross-licensing agreements, patent pools, multiple licensing agreements, and other complex licensing arrangements.[47] In such cases, in addition to the Guidelines, Section 3 of the Antimonopoly Act (Prohibition of Private Monopolization or Unreasonable Restraints of Trade), as well as other sections could be applicable.[48]

E. Submission of the Agreement for JFTC Approval

The Antimonopoly Act mandates that copies of all international agreements between Japanese and foreign entrepreneurs must be filed with the JFTC.[49] However, agreements need to be reported only if they exceed one year in duration.[50] Notification of the agreement to the JFTC must take place within thirty days of completion.[51] Agreements to modify a part of the contract or extend the contract term are also subject to reporting.[52] Under Section 6 of the Antimonopoly Act, either party can file such international agreements. Normally, the Japanese party will file.[53] Domestic licensing agreements, such as those between Japanese businesses, are also subject to reporting.[54] The JFTC will notify the parties in about two to three months if the JFTC wants the agreement revised. This can be inconvenient after

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[46] *Guidelines, supra* note 1, preamble, § 2, at 646.

[47] *Id.*, preamble, § 6, at 648.

[48] *Id.*

[49] (2) An entrepreneur who has entered into an international agreement or an international contract shall file, in accordance with the Regulations of the Fair Trade Commission, a report thereof with the said Commission, accompanied by a copy of the said agreement or contract (in the case of an oral agreement or contract, a document describing the contents thereof), within thirty days from the execution of such act.

Antimonopoly Act, supra note 9, at § 6(2). These contracts come under six categories, but only the "technical collaboration contracts" concern us here, for these cover patent and know-how licensing agreements. *See* Ohara, *International Licensing*, in 5 DOING BUSINESS IN JAPAN § 8.02 (Z. Katagana, ed. 1989).

[50] *Antimonopoly Act, supra* note 9, at § 6(3). *See also Guidelines, supra* note 1, at 36.

[51] *Antimonopoly Act, supra* note 9, at § 6(2).

[52] *Fact Sheets About Filing System for International Agreements Under the Antimonopoly Act*, Feb. 15, 1989, Executive Bureau, Fair Trade Commission, *reprinted in* BENDER, PATENT ANTITRUST 666-69 (1989) [hereinafter *Fact Sheets*].

[53] *Id.*

[54] *Id.* § 2(3), at 668.

the technology has been transferred, and the agreement formalized.

The 1989 Guidelines provide for a second method of approval, which may be called the "clearance system."[55] Any foreign or Japanese business can ask the JFTC for clearance of a licensing agreement on patents or know-how before the completion of the agreement. Either the Japanese or the foreign party may file the agreement with the JFTC, and the JFTC will issue a letter stating that it does or does not approve the agreement; however, subject to changed circumstances, the JFTC can revoke its approval.[56] The clearance procedure has definite advantages for licensors because they can retain full possession over the patent or know-how technology until the agreement is complete and approved.

F. The Discussion Process: The JFTC as an Additional Party to the Agreement

If the JFTC finds clauses which, under the circumstances, it suspects of being unfair business practices, the JFTC will initiate a discussion process. The JFTC's antimonopoly concerns in international technology transfer agreements are not fought out in litigation, as they are in the United States, but are resolved by revising the agreement to the JFTC's satisfaction. Therefore, unlike United States antitrust law, Japanese antitrust is enforced through private consultation with the parties. Thus, the JFTC acts as an additional party to the negotiation, and not merely as a referee.[57]

The JFTC will notify the parties of what specific changes it wants. However, the parties need not accept what the JFTC dictates without a fight. This stage is the last chance the United States company has

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[55] *Guidelines, supra* note 1, preamble, § 5, at 647.

[56] A clearance is a confirmation by the [J]FTC that no provision contained in the international licensing agreement is deemed to constitute an unfair trade practice, and therefore the provisions do not violate Paragraph 1, Section 6 of the Antimonopoly Act.

> Once cleared by the [J]FTC, which is accomplished by issuance of a letter to those who asked for the clearance, the licensing agreement will not be subject to legal measures so far as unfair trade practices are concerned. However, the [J]FTC will retain full power to cancel the clearance, once issued, when and only when it is deemed necessary and appropriate because of changed circumstances. However, contracting parties can enjoy full assurance of not being subject to legal measures by the [J]FTC, once cleared by the [J]FTC, until such time as the clearance is cancelled (which is done by issuance of a letter addressed to those who asked for the clearance).

Fact Sheets, *supra* note 52, § 3, at 668.

[57] Higgins, *supra* note 43, at 45.

to make a difference in the agreement, for the process will be essentially over if the United States licensor relies on the appeals process for help.[58] The problem may be that the JFTC misunderstood the agreement, or misunderstood the meaning attached to certain terms by the parties. If the parties are successful in presenting their case in discussions with the JFTC, the JFTC may modify its amendment to the agreement or may capitulate to the parties completely.

The degree to which the parties will be successful in persuading the JFTC depends to a large extent on the cooperation of the Japanese partner. If the Japanese partner takes a tough stand with the JFTC, the JFTC is more likely to back down.[59] But the JFTC generally protects the rights of the licensee, and the licensee is usually the Japanese firm. Therefore, because the JFTC changes are usually in the Japanese firm's favor, the firm is unlikely to object to the JFTC's amendments. The Japanese firm would also be reluctant to challenge the bureaucracy, for it will almost certainly appear before the JFTC again. The United States firm should realize that the JFTC is not on its side.[60]

Nor is the JFTC supposed to be. The JFTC promises to apply the standards in the Guidelines without discrimination.[61] But in terms of application, the JFTC is concerned only to the extent that licensing agreement restrictions affect competition in *Japanese* markets.[62] The JFTC is concerned ultimately with protecting Japanese firms who are licensees from being exploited by foreign licensors with market power. Obviously, patents are a powerful source of anticompetitive strength, and foreign firms with patents could surely affect competition in Japan. In protecting the integrity of Japanese markets, and acting on behalf of domestic licensees, Japan behaves no differently than other countries. Also, seen in a different light, the ultimate purpose of the Guidelines is to help develop the Japanese economy and promote its technology policy, thereby assuring a smooth transfer of technology from foreign firms to Japanese firms.[63] Ultimately, the

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[58] *See infra*, Section II. G.

[59] Higgins, *supra* note 43, at 45.

[60] *Cf.* J. Richards, *Licensing in the International Field*, in DOMESTIC AND FOREIGN TECHNOLOGY LICENSING 1984, 189, 232 (T. Arnold, ed. 1984) [hereinafter Richards] ("Thus although a substantive law in Japan is now [for] the most part purely of 'antitrust' type, for procedural reasons it still is biased against a foreign licensor.").

[61] *Guidelines, supra* note 1, preamble, § 4, at 647.

[62] *Id.* Of course, this is clearly no different than the scope of antitrust enforcement in the United States or the EEC, or any other country.

[63] In this regard, see *infra*, part IV.

United States licensor must be aware of the discussion process. Japanese counsel, with experience in dealing with the JFTC, should be present and diligent in presenting the United States firm's case.

The JFTC prefers to work through persuasion, but will use its enforcement powers under the Antimonoply Act when necessary.[64] If the parties disregard the Guidelines and try to overcome the discussion process they will be faced with an uphill battle in the appeals process.

G. The Appeals Process: Better to Avoid

Nearly any attempt to challenge the JFTC is doomed to failure because of the "catch-22" nature of the appeals process. Generally, the JFTC uses the Guidelines as a warning and then relies on informal admonition to gently coerce companies into complying with its rulings.[65] If parties wish to challenge the JFTC, the JFTC will hold a hearing.[66] If the JFTC finds a violation of the antitrust law, the JFTC may, for example, issue an injunction.[67] In response, the parties may file an appeal in the Tokyo High Court to quash the JFTC's order for an injunction.[68]

The problem for the United States licensor in this process is that the Japanese firm will be eager to avoid sanctions, and therefore is highly unlikely to cooperate in an appeal, because the JFTC could threaten the Japanese firm with sanction unless the Japanese firm cancels the agreement. If the foreign firm appeals, the appeals court, following precedent, will then rule that the foreign firm does not have standing to sue because it is not the firm under sanction.[69] The licensor is left out in the cold. For these reasons the vast majority of problematic agreements are resolved through informal discussion,

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[64] This appears to be a successful approach: "[F]ormal enforcement of the Antimonopoly Act has itself been rare. Nevertheless, the provisions of the law seem generally to be abided by." Richards, *supra* note 60, at 227.

[65] Higgins, *supra* note 43, at 54.

[66] Antimonopoly Act, *supra* note 9, at § 49.

[67] *Id.* at § 67. The JFTC is an agency with full enforcement powers. Remedies the JFTC is empowered to issue include cease and desist orders, information reports from the company, divestiture, nullification of mergers or acquisitions and publicity of discontinuance of the unfair trade practice. Particularly in cases involving intellectual property, the JFTC may level fines, or revoke Japanese patent rights. *See generally* Uesugi, *supra* note 22, at § 6.08.

[68] *Antimonopoly Act, supra* note 9, at §§ 77, 85, and 86.

[69] Novo Industri S.A. v. FTC, Supreme Court, 800 HANREI JIHO 35 (1975). One commentator states that this case casts doubt on the general principle that "a person has standing to sue as long as his legal interests are adversely affected by an FTC decision." Matsushita, *Court Proceedings*, in 5 DOING BUSINESS IN JAPAN, at § 11.01(2) (Kitagawa, ed. 1989).

and the appeals process is avoided. The predictability of the result gives the so-called "Guidelines" *de facto* force of law.[70]

The next section of this paper is a discussion of the substantive terms of the Guidelines and a comparative analysis of United States and Japanese antitrust law and enforcement policy with regard to licensing agreements. This involves comparing the Japanese policy as expressed in the Guidelines, United States policy as defined in case law,[71] the Department of Justice International Antitrust Guidelines,[72] and statements by Justice Department Antitrust Division personnel.[73] The two systems are related in the substance of antitrust law, but in some points of doctrine the JFTC is more strict than the United States, and certainly more strict than United States Department of Justice enforcement.[74]

III. THE SUBSTANCE OF THE GUIDELINES

A. *Licensing Practices With JFTC Approval*

Some kinds of business practices and terms in licensing agreements have been given unqualified approval by the JFTC.[75] These will merely be listed because they are quite self-explanatory: best efforts clauses which promise that the licensee will exploit the licensed patent;[76] contractual obligations designating a minimum production level, sales volume, or level of use;[77] requiring minimum production or minimum sales volume of patented goods or a trade secret, or minimum use

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[70] *See* Richards, *supra* note 60, at 231.

[71] *See generally* G. SOBEL, TECHNOLOGY LICENSING 1989 (1989); Richards, *supra* note 60; L. SULLIVAN, ANTITRUST (1977); ABA ANTITRUST (2d ed. 1985).

[72] *U.S. Department of Justice Antitrust Enforcement Guidelines for International Operations*, 55 Antitrust & Trade Reg. Rep. (BNA Special Supplement) No. 1391 (Nov. 17, 1988).

[73] Andewelt, *Antitrust Perspective on Intellectual Property Protection*, 30 Pat. Trademark & Copyright J. (BNA), 319 (July 25, 1985); Remarks of Abbot Lipsky, Jr., Deputy Assistant Attorney General, Antitrust Division (Nov. 5, 1981) *reprinted in* SOBEL, *supra* note 71, at 151-52.

[74] What follows is an analysis of patents and know-how together, noting where the Guidelines treat them differently. The Guidelines themselves ultimately make few distinctions. This is done not merely in the interests of space and brevity but because they are closely comparable in strength where antitrust and trade practices are concerned. *See generally* MacDonald, *Know-How Licensing and Antitrust Laws*, 62 MICH. L. REV. 351 (1964).

[75] *Guidelines, supra* note 1, pt. 1, § 1, at 648-50.

[76] *Id.* pt. 1, § 1(13), at 650, pt. 2, § 1(15), at 658.

[77] *Id.* pt. 2, § 1(3), at 657.

of patented process;[78] licensing for a limited period within the life of a patent right or as long as the know-how remains secret;[79] in a know-how licensing agreement, a clause obligating the licensee not to disclose to third parties the trade secret that is the subject of the agreement;[80] in a know-how licensing agreement, a clause obligating the licensee not to handle competing products or technology for a short time after the know-how is no longer a secret;[81] and, in a patent licensing agreement, a licensor's right to grant separate licenses to sell, use or manufacture.[82]

B. *Practices Which May Be Condemned or Allowed Depending On the Circumstances: The JFTC's Rule of Reason*

The Guidelines define a category of business behavior which, depending on the business context, may be justified or prohibited. If antitrust standards are looked upon as a series of more intense evidentiary presumptions against certain behavior,[83] the presumption of illegality in this category is not as great as under the per se category (likely to be found to be a violation, in the Guidelines' parlance).[84] Whatever the circumstances, if any of the following clauses should appear in the finished license agreement, the parties should think beforehand about legitimate pro-competitive reasons that will justify the practice in the eyes of the JFTC. This category is roughly analogous to the "rule of reason" in United States antitrust law.[85]

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[78] *Id.* pt. 1, § 1(15), at 649.

[79] *Id.* pt. 1, § 1(2), at 648, pt. 2, § 1(1), at 656.

[80] *Id.* pt. 2, § 1(14), at 658.

[81] *Id.* pt. 2, § 1(14), at 657.

[82] *Id.* pt. 1, § 1(1), at 648. United States law is in accord. *See* Brulotte v. Thys Co., 379 U.S. 29, 31 (1964).

[83] *See* L.SCHWARTZ, J.FLYNN & H.FIRST, FREE ENTERPRISE AND ECONOMIC ORGANIZATION: ANTITRUST 338 (1983); Flynn, *Rethinking Sherman Act Section 1 Analysis: Three Proposals for Reducing the Chaos,* 49 ANTITRUST L. J. 1593 (1964).

[84] *See infra,* Section III. C.

[85] The two earliest cases which established the "rule of reason" in United States antitrust law were: Standard Oil Co. v. United States, 221 U.S. 1, 59-60 (1911); United States v. Addyston Pipe & Steel Co., 85 F. 271 (6th Cir. 1898), *aff'd,* 175 U.S. 211 (1899). A good general statement of the rule of reason is by the Assistant Attorney General in charge of antitrust in 1971:

> The rule of reason . . . embraces three principle elements. First the restriction or limitation must be ancillary to the lawful main purpose of a contract. Second, the scope and duration of the limitation must not be substantially greater than necessary to achieve that purpose. Third, the limitation must be otherwise reasonable in the circumstances.

Arnold, *An Overview of U.S. Antitrust and Misuse Law for Licensors and Licenses,* The JFTC analyzes anticompetitive effect based on both general factors as well as specific factors which are listed with the practices discussed below. The general factors include the market share of the companies involved, the market conditions generally, the duration of the restrictions, and possibly other factors related to the competitive situation when examined as a whole.[86]

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in DOMESTIC AND FOREIGN TECHNOLOGY LICENSING 1984, at 339 (T. Arnold, ed. 1984).

The Justice Department's most recent set of International Antitrust Guidelines endorses the rule of reason for intellectual property transactions that bear a relationship to the underlying property transfer and which are not "a mere sham" to disguise a naked restraint. *U.S. Department of Justice Antitrust Enforcement Guidelines for International Operations*, 55 Antitrust & Trade Reg. Rep. (BNA Special Supplement) No. 1391, at S-17 (Nov. 17, 1988) [hereinafter *U.S. Guidelines*]. The Justice Department now believes that the "owner of intellectual property is entitled to enjoy whatever market power the property itself may confer." *Id.* at S-16. Under the U.S. Guidelines the rule of reason analysis is "conducted with two fundamental principles in mind. First, the Department will not challenge licensing arrangements that represent simply an effort by the creator of intellectual property to appropriate the full inherent value for that property . . . Second, the Department will not require the owner of technology to create competition in its own technology." *Id.* at S-17. As a policy matter the U.S. Guidelines attempt to enable the inventor to get the most the market will fairly allow, and thus give the most generous reasonable incentive to innovation. This approach contrasts with the apparent position of the JFTC Guidelines. In fact, the clearest interest in the Guidelines is how best to acquire and appropriate existing foreign technology. *See infra*, part IV.

There are four steps in the United States Department of Justice Antitrust Division's rule of reason analysis: first, it tests for restraints on competition and asks whether the license facilitates the use of market power; second, it asks whether the license restricts competition in other markets; third, it asks whether the license would facilitate collusion or anticompetitive exclusion; and fourth, it asks whether any anticompetitive risks found in steps one through three are outweighed by procompetitive benefits of the license. *U.S. Guidelines*, at 5-17.

The remarks of Roger B. Andewelt, Deputy Director of Operations, Antitrust Division further demonstrate current thinking on the application of the rule of reason. Andewelt states that while licensing arrangements are vertical rather than horizontal arrangements, they can have horizontal anticompetitive effects, and that these are the prime target of the Antitrust Division. "Our rule of reason analysis would exclusively search for such horizontal effects." Andewelt, *Antitrust Perspective on Intellectual Property Protection*, 30 Pat. Trademark & Copyright J. (BNA) 319, 322 (July 25, 1985) [hereinafter Remarks of Andewelt]. The search proceeds by defining the geographic and product markets, and then assessing whether competition is restrained in these markets. The focus of the analysis is *not* on whether competition is increased, for the licensor has no obligation to create competition; antitrust policy only requires that the licensor not restrain competition. *Id.* at 323.

[86] *Guidelines, supra* note 1, preamble, § 3, at 647, pt. 1, § 2; at 650, pt. 2, § 2, at 659.

1. Export restrictions

Restricting the ability of the licensee to export patented products, or products produced according to a licensed know-how process, is a suspect practice. This includes restrictions on exporting the product generally, or to specific countries or areas, or restrictions on the export price or volume, or requiring the licensor to export through the licensor or the licensor's designee. This last restriction could be an unfair trade practice in cases where the freedom of the licensee to export patented products to an area not covered by patent or trade secret rights is restricted, thus reducing competition in an export market.[87] This last restriction, however, seems inconsistent with the JFTC's assertion that it is only interested in Japanese markets since these are export markets outside Japan. However, Japan is to a large extent an export-driven economy[88] and such restrictions could easily affect Japanese companies competing for market share in such export markets.

There are three exceptions to this provision: (1) where the licensor has registered its patent rights on patented or licensed products in that geographic area; (2) where the licensor has been continuously marketing patented or know-how licensed products in the area; and (3) where the licensor has assigned the area as an exclusive sales territory to a third party.[89] United States law has no counterpart to these restrictions.

2. Grantbacks of improvements

While grantbacks are an important part of most technology licenses, they are also one of the features of licensing agreements most often challenged by the JFTC.[90] A grant back provision requires the licensee to inform the licensor of improvements such as discoveries, knowledge, and experience newly obtained by the licensee concerning the licensed patent or know-how. A restriction obligating the licensee to inform the licensor of knowledge or experience, or granting the licensor a non-exclusive license to the improvements, is acceptable,

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[87] *Id.*, pt. 1, § 2(7), at 652-53.

[88] *See* Krause & Sekiguchi, *Japan and the World Economy*, in ASIA'S NEW GIANT: HOW THE JAPANESE ECONOMY WORKS 389-402, 417-23 (H. Patrick & H. Rosovsky, eds. 1976).

[89] *Guidelines, supra* note 1, pt. 1, § 2(7), at 652.

[90] Between 1981 & 1987, 36% (352/971) of all unfair trade practices were restrictions on grant backs. *Guidelines, supra* note 1, Table 2, at 670.

provided that the grantback is nonexclusive and balanced in obligations. These provisions are critical.

Exclusivity involves the extent of ownership of the improvements made to the licensed patent or know-how. A nonexclusive grantback means that when the licensee makes improvements, the licensor jointly owns the improvements, but the licensee is free to license its patent improvement to firms other than the original licensor. An exclusive grant back means that the licensor alone is entitled to any improvements the licensee makes. The Guidelines define an exclusive license as "such case where licensee grants a license exclusively for the licensor by agreeing not to exploit the invention by himself in the territory."[91] Exclusive grantback provisions are not legal under the Guidelines.[92] The rationale is threefold. First, the restriction "could result in undue enhancement or maintenance of the dominant position of the licensor in a market."[93] Second, it could also thus impede development of new technology by restricting the licensee's freedom to license, thus removing his incentive to innovate. Third, for these reasons it could result in the reduction of competition in a technology market.[94]

The principle of mutuality or equality of obligations is very important to the JFTC, even where it is not important to the parties. The Guidelines state that a restriction could be an unfair trade practice where the terms are unduly disadvantageous to the licensee because the licensor does not bear similar obligations, or the obligations of both parties are not well-balanced in substance. This is considered an abuse of dominant bargaining position falling under Clause 3 of Article 14 of the General Designation.[95] The JFTC will apply the test

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[91] *Guidelines, supra* note 1, pt. 1, § 3(6), at 656, pt. 2, § 3(6), at 644. Under United States law, a non-exclusive license can simply be looked at as the patent owner's contractual waiver of his right to exclude the licensee from making, using or selling the invention. On the other hand, in an exclusive license, the patent owner agrees not to license others, and perhaps himself. *See* General Talking Pictures Corp. v. Western Elec. Co., 304 U.S. 175, 181 (1938); De Forest Radio Tel.& Tel.Co. v. United States, 273 U.S. 236, 241-42 (1927); Bement v. National Harrow Co., 186 U.S. 70, 94 (1902).

[92] *Guidelines, supra* note 1, pt. 1, § 3(6), at 656, pt. 2, § 3(6), at 644.

[93] *Id.*

[94] *Id.*

[95] *Id.* For Article 14, see *supra* note 38. According to one article, the mutuality or equality principle is very strict in practice. If a licensor wants to transfer technology without improvements, then that licensor will have to accept not knowing about any of the licensee's improvements. Even in cases where the licensee would not be able to use the improvements, the JFTC insists that the agreement not be one-sided. The article gives a useful example: a licensor grants a license to manufacture

of mutuality and equality to the entire agreement, not merely grant back provisions.[96] United States courts do not judge grantbacks as carefully as the JFTC.[97]

3. Royalty calculations

Royalty calculations based either wholly or in part on products or materials not subject to the licensing agreement, that is, based on products or services other than the know-how or patented goods, are suspect of being unfair trade practices.[98] The JFTC will find an unfair trade practice where it feels the transaction is unduly disadvantageous to the licensee, particularly where the licensee appears to be paying

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equipment which does not use the latest technology, but the licensee is willing to pay a lower price for the license. The licensor wants to know of any improvements the licensee makes in the manufacturing process, but does not want to disclose its latest technology, and the licensee is not even using this technology. The JFTC will insist that such an agreement is not balanced in substance, and must be changed to allow the licensee access to the licensor's improvements. *See generally* Higgins, *supra* note 43, at 50-55. Whether the agreement could be tailored to refer to a specific model or stage of development of a model, or a very particular patent or know-how, and still pass review, is unclear.

[96] Higgins, *supra* note 43, at 55.

[97] Grantbacks under United States law are judged under the rule of reason. In Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947), the Supreme Court recognized that a grantback provision is "not per se illegal and unenforceable," under the rationale that a patent is a "species of property" and Congress had not made illegal the use of a patent to acquire improvement patents. Like the Japanese approach, a non-exclusive grantback calls for application of the rule of reason. There is authority for the view that a grantback clause by itself would not make out an antitrust violation, but its combination with other illegal practices can make a grantback an "integral part[] of [a] general scheme to suppress trade." United States v. Timken Roller Bearing Co., 83 F.Supp. 284, 309 (N.D.Ohio 1949), *modified*, 341 U.S. 593 (1951). Grantbacks are most likely to be challenged if they are exclusive, and when the result is an expansion or extension of the original licensor's patent licensing power. A list of "pertinent circumstances" is presented in SOBEL, *supra* note 71, at 138.

The United States Antitrust Division's enforcement stance is that grant-backs are legitimate where they are between non-competitors, the grantback is nonexclusive, and is limited to improvements made possible by the practice of the patent. But grantbacks are not legitimate in an "exclusive grantback provision in a license granted to all or most significant or actual of the patentee competitors or to trivial licensee competitors of an industry dominating patentee." The overall policy is sensitive to keeping the incentive to invent and innovate high: the Antitrust Division will evaluate whether "the incentive to invent has been sacrificed to a degree unnecessary for the adequate exploitation of the patentee's monopoly rights." Remarks of Abbot Lipsky, Jr., Deputy Assistant Attorney General, Antitrust Division (Nov. 5, 1981) *reprinted in* SOBEL, *supra* note 71, at 151-52 (PLI, 1989) [hereinafter Remarks of Lipsky].

[98] *Guidelines, supra* note 1, pt. 1, § 2(9), at 653, pt. 2, § 2(9), at 661.

for more than the value of the benefit it is receiving.[99] This would fall under Clause 3 of Article 14 of the General Designation as an abuse of market power.[100] However, where the licensed patent or know-how is vital to production, (i.e., where "the finished product cannot be produced without using the licensed patent or components concerned") using production or sales volume or price of the finished product as a basis for royalty in order to facilitate its calculation is valid. Implicit in the Guidelines is the principle that the calculation based on production be fair with respect to the degree of use of the licensed patent or know-how.[101]

4. Package Selling

Selling patents or know-how items as a set or package, that is, tying the sale of a desired patent or patents to an undesired patent or patents, is suspect under the Guidelines. While the practice is suspect, such an arrangement can be justified where the restriction is confined to the extent necessary to guarantee the effectiveness of the licensed patents or know-how.[102]

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[99] *Id.*, pt. 1, § 2(9), at 653, pt. 2, § 2(9) at 662.

[100] *See supra* note 38.

[101] Calculating royalties on indicia other than use may be characterized as patent abuse under United States law. In Zenith Radio Corp. v. Hazeltine, 395 U.S. 100 (1969) the Supreme Court held that "conditioning the grant of a patent license upon payment of royalties which do not use the teaching of the patent does amount to patent abuse," and that "[t]here is nothing in the right granted the patentee . . . which empowers him to insist on payment not only for use but also for producing products which do not employ his discoveries at all." *Id.* at 135, 139. But the Court was careful to say that for the convenience of the parties, rather than abusive patent power, they may contract to base royalties on sales of products other than just the patented products. *Id.* at 135, 137.

In its analysis, the United States Antitrust Division emphasizes efficiency and considers such calculations under the rule of reason:

> [B]asing royalties on a measure other than the licensee's sales of products that use the invention, can be efficient in that it can significantly lower costs associated with policing the licensee's compliance with the license royalty provisions. For example, if the owner of a patent had to check each television manufactured by a licensee to determine whether it contained a patented transistor, the cost of policing compliance could be very high. It may be far more efficient to base the royalty on an easily determined number, such as the total number of televisions produced by the licensee.

Remarks of Andewelt, *supra* note 85, at 322. This position is consistent with that of the JFTC.

[102] Under United States law, package selling (as well as discriminatory royalties which induce the buyer to purchase patents as a package) can be an antitrust violation if the licensor has coercive intent. *See* Beckman Instruments, Inc. v. Technical Dev.

5. Quality standards or purchasing requirements set by the licensor

The Guidelines allow a licensor to require an obligation on the part of the licensee to maintain certain quality standards for the finished licensed product, for the raw materials and components which make up the licensed product, where the restriction is limited to what is necessary to guarantee the effectiveness of the licensed patent or know-how, or to maintain the goodwill of the licensor's trademark.[103] However, a restriction on the quality of the products or where they are purchased could be characterized as an unfair trade practice where it would reduce the competition in the raw materials market, or where it would unduly constrain the licensee's ability to freely choose the quality of the licensed products or raw materials.[104]

Likewise, a requirement of buying raw materials and components from the licensor or the licensor's designee is suspect for the reasons just given.[105] The Guidelines allow such a requirement, but only where less restrictive means—such as the quality restrictions just discussed—are insufficient, and limited solely to the extent necessary to assure the effectiveness of the licensed patent or know-how, or the secrecy

Corp., 433 F.2d 55, 60 (7th Cir. 1970), *cert. denied*, 401 U.S. 976 (1971). Otherwise, the "mere inclusion of two or more patents in a single license agreement does not of itself constitute patent misuse where the parties mutually agree that a group of patents are to form the subject matter of the license agreement." Duplan Corp. v. Deering Milliken, Inc., 444 F.Supp. 648, 696 (D.S.C. 1977), *aff'd in relevant part and rev'd in part*, 594 F.2d 979 (4th Cir. 1979), *cert. denied*, 444 U.S. 1015 (1980). Moreover, a seller can legitimately try to sell a package by refusing to sell individually for a reasonable period in order to contract for package sale. *Cf.* United States v. Loew's Inc., 371 U.S. 38, 55 (1962) (copyright). Where the patents in question are so related that one patent may not be used without infringing the others, there is no Sherman Act violation. *See* Int'l Mfg. Co. v. Landon, Inc., 336 F.2d 723, 729-30 (9th Cir. 1964), *cert. denied*, 379 U.S. 988 (1965).

Under United States law licensing patents and know-how together may create a package violation issue. *See, e.g.*, St. Regis Paper Co. v. Royal Indus., 552 F.2d 309, 315 (9th Cir.), *cert. denied*, 434 U.S. 966 (1977) (invalid patent nullifies patent/know-how package royalty where the "patent rights and know-how are so intimately intertwined").

In terms of enforcement, the Antitrust Division endorses the procompetitive efficiency of package licensing. Package licensing allows the patentee to maximize the net return on his patent. Remarks of Lipsky, *supra* note 97, at 153. The efficiency in package licensing is that "it avoids the necessity of costly individual negotiations, between the parties with respect to each patent." Remarks of Andewelt, *supra* note 85, at 322.

[103] *Guidelines, supra* note 1, pt. 1, § 2(5), at 651-52, pt. 2, 2(5), at 660.

[104] *Id.*, pt. 1, § 2(5), at 652, pt. 2, § 2(5), at 660.

[105] *Guidelines, supra* note 1, pt. 1, § 2(6), at 652, pt. 2, § 2(6), at 660-61.

of licensed know-how.[106] United States law addresses such restrictions under the antitrust prohibition of illegal or unreasonable tying arrangements.[107]

6. Requirement of use of licensor's trademark

The Guidelines state that a requirement that a licensee must use the licensor's trademark is suspect.[108] Such a requirement could be an unfair trade practice where the licensee's business practices are unjustly restricted because the licensor has deprived the licensee of the freedom to choose its most advantageous means of competition.

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[106] *Id.* One article suggests that the proper, and easy, way around this requirement is to make the language as objective as possible. There should be no hint that the licensor could exercise any arbitrary judgment. Instead, language merely stating that the goods must be of the "highest standards of quality," without stating who shall judge what such quality is, should pass muster, even where the contract requires samples to be sent to the licensor on a regular basis. Stating that the *licensor's* quality standards must be met, however, will probably invite the JFTC's attention. *See* Higgins, *supra* note 43, at 59-60.

[107] For many years tie-ins were addressed under the per se rule. Northern Pacific Ry. v. United States, 356 U.S. 1 (1956). A more flexible approach has prevailed since Jefferson Parish Hosp. v. Hyde, 466 U.S. 2 (1984). Although the per se rule was affirmed, barely, the per se rule is now only applicable where the plaintiff can demonstrate certain requisite preconditions. The plaintiff must show (1) a tie-in between two distinct products or services; (2) sufficient economic power in the tying product market to impose significant restrictions in the tied product market; and (3) an effect on a not insubstantial volume of commerce in the tied product market. SOBEL, *supra* note 71, at 103 (*citing* Tominga v. Shepard, 682 F.Supp. 1489, 1493 (C.D.Cal. 1988)). Otherwise, according to *Jefferson Parish*, the restriction is judged under the rule of reason. Under the second prong of demonstrating sufficient economic power, patents, copyrights and trademarks have been judged to create the required advantage. *See* SOBEL, *supra* note 71, at 104-05 and the cases cited therein.

Purchasing requirements which demonstrate business justification have withstood challenge as a tying arrangement. In Mozart Co. v. Mercedes-Benz of North America, Inc., 833 F.2d 1342 (9th Cir. 1987), *cert. denied*, 488 U.S. 870 (1988), the court upheld a requirement that Mercedes-Benz dealers purchase replacement parts directly from Mercedes-Benz, or parts approved by Mercedes-Benz. The court saw the relationship as a tying issue: Mercedes-Benz had refused to sell the new Mercedes cars to plaintiff unless plaintiff agreed to purchase replacement parts from Mercedes. The jury found that Mercedes was guilty of tying both under the per se and rule of reason standards. But Mercedes-Benz met an affirmative defense of business justification, by showing that its tying arrangement was the only way the safety and quality of its cars could be assured and no less restrictive alternatives were available.

In the area of tying, then, United States law is close to the regulations in the Guidelines. Strong economic power will create a greater burden for the licensor to overcome, and a business or technical justification is necessary to prevail if such economic power is shown.

[108] *Guidelines, supra* note 1, pt. 1, § 2(4), at 651, pt. 2, § 2(4), at 660. Trademarks are usually addressed under United States franchise law.

It could also be an unfair trade practice where the licensee finds itself forced to continue to use the trademark after the licensing agreement has expired. That is, once the licensee is publicly known by the trademark, and the licensing agreements requires that the licensee use the trademark during the life of the agreement, the licensee would find it difficult to change to a trademark of its own choosing after the expiration of the agreement. The Guidelines state that such an agreement sets the transaction terms in a way unduly disadvantageous to the licensee.[109]

7. Termination clauses

Provisions in licensing agreements which allow one party to terminate the agreement unilaterally or without notice are not valid. The theory is that such termination clauses are unjustly disadvantageous to the licensee. However, exceptions are allowed for unilateral and immediate terminations when the agreement is unenforceable due to the bankruptcy of the licensee.[110]

In addition, a clause mandating termination if the licensee challenges the validity of the patent or challenges whether the licensed know-how is no longer secret is valid.[111] However, a provision that the licensee will not challenge the patent or trade secret is listed as a possibly unfair trade practice.[112] The Guidelines state that the latter provision unrestricted by intellectual property rights, amounts to an unfair trade practice because the licensee may have to pay royalties for technology which otherwise could be used without paying royalties. The result, according to the JFTC, is a transaction disadvantageous to the licensee, and therefore in violation of the General Designation.[113] The Guidelines emphasize that trade barriers, such as invalid

[109] *Id.*

[110] *Guidelines, supra* note 1, pt. 1, § 2(11), at 654, pt. 2, § 2(11), at 662.

[111] *Id.*

[112] *Id.* pt. 1, § 1(12), at 654, pt. 2, § 2(12), at 663. The licensee has the right to challenge the patent's validity under United States law. Lear, Inc. v. Adkins, 395 U.S. 653, 671 (1969). A license provision barring a licensee from contesting validity is unenforceable. But courts rarely hold that such a provision violates the Sherman Act, or constitutes misuse. Bendix Corp. v. Balax, Inc., 471 F.2d 149, 158 (7th Cir. 1972), *cert. denied*, 414 U.S. 819 (1973); Panther Pumps & Equip.Co. v. Hydrocraft, Inc., 468 F.2d 225, 232 (7th Cir. 1972), *cert. denied*, 411 U.S. 965, 974 (1973) (remarking also that the case would be different "if either the license provision or the patentee's exploitation of his patent produced economic consequences raising serious questions under the antitrust laws").

[113] *Guidelines, supra* note 1, pt. 1, § 1(12), at 654, pt. 2, § 2(12), at 663. *See General Designation, supra* note 38, Article 14, Clause 3 .

patent claims and trade secrets which are no longer secrets, should be challenged and adjudicated to allow more companies access to technology.[114]

8. Requirement of not handling competing products or technology

The requirement that a licensee not handle competing products or technology, along with grant backs, is one of the most frequently challenged.[115] It appears in both the "per se" category and the "rule of reason" category. The "rule of reason" section states that requiring the licensee not to handle products which are in competition with the products made by the licensed patent or know-how, or not to use technology which is in competition with the patented or know-how process itself, is suspect. This restriction could be an unfair trade practice where companies competing with the licensor are deprived of important customers, or the licensee is deprived of freedom to select its products or technologies. Thus, the restriction could lead to a lessening of competition.[116]

The "per se" analysis mentions that an obligation not to handle competing goods after the expiration or termination of the agreement is forbidden because the restriction can have no justification for securing a royalty for the licensor based on sales by the licensee and therefore is highly likely to impede competition.[117] An exception exists

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[114] *See Guidelines, supra* note 1, pt. 1, § 1(12), at 654, pt. 2, § 2(12), at 663. Termination is usually addressed in United States technology agreements by agreement of the parties, under the Uniform Commercial Code. For example, early termination could be shown to violate a duty of good faith and fair dealing. U.C.C. section 1-203 (1977).

[115] Between 1981 & 1987, 36% (356/971) of all unfair trade practices found by the JFTC were restrictions on handling of competing technology or products. *Guidelines, supra* note 1, Table 2, at 670.

[116] *Id.* pt. 1, § 2(1), at 650, pt. 2, § 2(1), at 659. Some United States courts have held that it is patent misuse to require a licensee to refrain from dealing in competitive products, often citing Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942), for the policy that a patentee may not increase the scope of patent monopoly through a license agreement. *See* Berlenbach v. Anderson & Thompson Ski Co., 329 F.2d 782 (9th Cir.), *cert. denied*, 379 U.S. 830 (1964); McCullogh v. Kamerer Corp., 166 F.2d 759 (9th Cir.), *cert. denied*, 335 U.S. 813 (1948); National Lockwasher Co. v. George K. Garret Co., 137 F.2d 255 (3d Cir. 1943); Krampe v. Ideal Indus., Inc., 347 F.Supp. 1384 (N.D.Ill. 1972). *But see* Naxon Telesign Corp. v. BunkerRamo Corp., 517 F.Supp. 804 (N.D.Ill. 1981), *aff'd* 686 F.2d 1258 (7th Cir. 1982) (provision converting license from exclusive to non-exclusive if the licensee handled competing products upheld).

[117] *Guidelines, supra* note 1, pt. 1, § 3(3), at 655, pt. 2, § 3(3), at 663.

for parties to contract for such a provision in a know-how licensing agreement, where the provision that the licensee may not handle substitutable products or technology is for just a short time following the expiration or termination or the licensing agreement. The JFTC allows such a restriction because it is difficult to prevent unauthorized exploitation of licensed know-how by restrictions on a ban on use after expiration of the licensing agreement.[118] The United States Department of Justice also analyzes these restrictions under the rule of reason.[119]

9. Requirement of selling through the licensor or its designee

A requirement that a licensee sell the licensed products through the licensor or someone the licensor designates, or not to sell to someone the licensor designates, may constitute an unfair trade practice. The JFTC will hold such a restriction invalid where the JFTC feels that the licensee is deprived of an important means of competition, meaning the freedom to select its sales outlets, thus reducing competition in the market for the licensed products.[120] Whether the licensee is in fact deprived of choice of the means of competition depends on the competitive conditions of the markets.

C. Illegal Licensing Practices: the JFTC's "Per Se" Rule

The JFTC's standard of scrutiny for disfavored practices is that of "highly likely to fall under unfair trade practice." These are roughly analogous to the "per se" label in United States antitrust law.[121] The Guidelines state that these business practices will be con-

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[118] *Guidelines , supra* note 1, pt. 2, § 3(3), at 663.

[119] The United States Antitrust Division's analysis proceeds both vertically and horizontally. Vertically,

> the analysis should proceed on the same basis as the analysis of vertical exclusive arrangements outside the patent field. Unless the practice threatens to preempt an entire rung in the distribution ladder, and unless the patentee's advantage is so overwhelming as to make this a credible threat, there is no competitive reason to prohibit exclusive distribution arrangements.

Horizontal effects are also tested for anticompetitive risk. Remarks of Lipsky, *supra* note 97, at 152-53.

[120] *Guidelines, supra* note 1, preamble § 3, at 647.

[121] For the seminal per se case, see United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 223 (1940); *see also* Northern Pacific Railway v. United States, 356 U.S. 1 (1958). Under the per se doctrine, for purposes of avoiding an elaborate inquiry into purpose and effect, and the mountains of evidence that antitrust cases generate, the practice is presumed unreasonable and automatically condemned. The United States per se doctrine is a blanket proscription; under the JFTC Guidelines, however,

sidered unfair trade practices unless "specific, justifiable reasons for them can be presented."[122] Therefore, this category amounts to a very heavy presumption that the business conduct in question is unacceptable. Theoretically, this presumption can be overcome; however, it is very unlikely that a foreign licensor could successfully argue this point.

1. Restricting sales and resale prices in Japan

Sales prices are prices that are set between the manufacturer and the wholesaler. This constitutes price fixing at the first level of distribution.[123] Resale prices are prices that are set between the whole-

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the rule is framed as a heavy presumption, thus leaving some room for justification.

Previous United States Antitrust Division regimes accepted the per se approach in intellectual property as the proper one. *See* The Nine No-Nos, in T. ARNOLD, *supra* note 60, at 312-14. The per se approach, however, has been repudiated by the current Justice Department. *See* Remarks of Andewelt, *supra* note 85, at 319. "The Division takes the position that the nine no-nos never were consistent with the case law and more importantly always represented unsound and counter-productive competition policy." *Id.* at 320. The tilt away from strict antitrust enforcement is premised on creating the strongest incentives for innovation; this in turn creates the greatest benefit to United States consumers. *Id.* at 320-21. "Patent licensing has the potential for significant procompetitive benefits and it therefore is crucial that the antitrust laws not be interpreted in a manner that unreasonably discourages licensing." *Id.* at 321. Unless the intellectual property license is "merely a sham to hide *per se* illegal horizontal restraints, such as an agreement to fix prices on products unrelated to the intellectual property involved," the rule of reason and an examination of procompetitive benefits is called for. *Id.* at 322. *See also* Remarks of Lipsky, *supra* note 97, at 151-52. In 1987 Congress considered bills which would have required the courts to apply rule of reason analysis exclusively in intellectual property licenses. *See* 53 Antitrust & Trade Reg. Rep. (BNA) 630 (Oct. 22, 1987).

122 *Guidelines, supra* note 1, preamble § 3, at 647.

123 Price fixing under a patent grant has an unclear status in the United States. The main case in this area is United States v. General Elec. Co., 272 U.S. 476 (1926), which held that under General Electric's three patents, which "cover[ed] completely the making of . . . modern electric lights," General Electric had the right to limit the method of sale and price. 272 U.S. at 481. But subsequent law and commentary has put into doubt the general proposition that price fixing under patents is off-limits to antitrust regulation. Sullivan notes that the decision is

> [a]nalytically deficient [and] clouded by the criticism which it has evoked and the stinginess with which it has been construed . . . . One cannot rely on it in counselling . . . . The alacrity with which courts have distinguished *General Electric* and the fact that since 1926 no majority of the Supreme Court has been ready to affirm it serves warning that even narrowly read, the case provides no basis for planning a licensing program.

Sullivan, *supra* note 71, at 543. The modern view is probably closer to United States v. Line Material, 333 U.S. 287 (1948) (holding that "when patentees join in an agreement . . . to maintain prices on their several products, that agreement, however saler and the retailer, and between the retailer and the consumer.[124] The Guidelines state that because the licensor's restriction on sales prices restricts the licensee's freedom of pricing, the licensor impedes pricing competition, thereby violating Article 13 of the General Designation.[125] The Guidelines add further that such a restriction cannot be justified on the basis of securing a royalty.[126]

2. Restricting research and development covered by the licensed patent or know-how

The Guidelines state that when the licensor restricts the freedom of research and development activities of the licensee, the licensor thereby restricts an important means of competition in that it limits the business activities of the licensee in a future product or technology market.[127] Such a restriction could have an important and long-term impact on these markets. Therefore, it falls under Article 13 of the General Designation, prohibiting unjust restrictions on business activities.[128] There can be few justifications addressed to the JFTC in terms of public policy for limiting the development of technology in Japan.[129]

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advantageous it may be to stimulate the broader use of patents, is unlawful per se under the Sherman Act" 333 U.S. at 314). Another view is that *Line Material* is merely a qualification of the overbroad approach of *General Electric*. Schwartz, Flynn & First, *supra* note 83, at 987.

In terms of enforcement, the United States Antitrust Division considers this to be a vertical arrangement which calls for the rule of reason, and would "rely upon the same analysis employed with respect to distributional practices, at least where the relationship between the patentee and the licensee is vertical. But where the relationship is horizontal the opportunity to establish a cartel exists." Remarks of Lipsky, *supra* note 97, at 155; *see also* Remarks of Andewelt, *supra* note 85, at 322 (suggesting that any such vertical relationship calls for rule of reason according to Continental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977)).

[124] Under United States law, patent restrictions, including the right to set prices (assuming the validity of *General Electric*—a problematic assumption), are exhausted with the first sale of the patented article. Therefore, price restriction after resale is illegal in the United States. *Compare* Adams v. Burke, 84 U.S. (17 Wall.) 453 (1873); United States v. Univis Lens Co., 316 U.S. 241 (1942).

[125] *Guidelines, supra* note 1, pt. 1, § 3(1), (2), at 654-55, pt. 2, § 3(1), (2), at 663. For Article 13, see *supra* note 36.

[126] *Id.*

[127] *Guidelines, supra* note 1, pt. 1, §3 (5), at 655-56, pt. 2, § 3(5), at 664. For Article 13 see *supra* note 37.

[128] *Id.*

[129] This is an important policy consideration because patents, antitrust and their interaction are the "major means through which public policy affects the level of private R & D investment." Sullivan, *supra* note 71, at 502. The exclusive reference

3. Requirements or obligations which last longer than the term of the agreement

Duties and restrictions must be matched temporally with the legal validity of the license. An obligation not to handle competing products or technologies, or a restriction on use of the licensed product or technology, which extends past the expiration of the patent or secret status of the know-how (where disclosure is not the fault of the licensee), is an unfair trade practice.[130] An exception is made for know-how, where the restriction is for a short period after the expiration or termination of the licensing agreement, and where it is difficult to prevent unauthorized exploitation of licensed know-how by restrictions such as a use ban.[131]

An obligation to pay royalties after the expiration of the patent or secret status of the know-how is an unfair trade practice.[132] The Guidelines state that anyone should be able to use licensed technology freely after the expiration of patent rights, and the licensor has no authority to limit the use of technology concerned, or to compel payment of a royalty after the expiration of the patent rights.[133] The Guidelines make an exception where a royalty is charged for use after licensed know-how has become publicly known for a short period after the term of the agreement.[134] But an agreement to make royalty payments after the expiration of the agreement, where the payments are merely extended payments or installment payments of royalty which accrued before the expiration of the license, is a valid contractual provision.[135] Despite similarities in this area to Japanese law,

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to such a restriction in United States law is in the National Cooperative Research Act of 1984, 15 U.S.C. §§ 4301-4305. This legislation sets forth a rule of reason standard for research and development cooperation between potentially competing firms, but expressly excludes from its scope agreements that restrict a party's participation in other research and development activities. *Cf.* Lasercomb America, Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990) (copyright). Under articles 85(1)(b) and 86(b) of the EEC Treaty, the European Economic Community has, like Japan, declared the imposition of restrictions upon research and development to be unlawful except under a limited set of justifiable circumstances. Treaty Establishing the European Community, March 25, 1957, 298 U.N.T.S. 3.

[130] *Guidelines, supra* note 1, pt. 1, § 3(3), at 655, pt. 2, § 3(3), at 663.

[131] *Guidelines, supra* note 1, pt. 2, § 3(3), at 663.

[132] *Id.*, pt. 1, § 3(4), at 655, pt. 2, § 3(4), at 664.

[133] *Id.* The Guidelines add that such a restriction probably falls under Article 13 or Clause 3 of Article 14 of the General Designation. *See supra* notes 36 & 37.

[134] *Guidelines, supra* note 1, pt. 2, § 3(3), at 663.

[135] *Guidelines, supra* note 1, pt. 1, § 1(11), at 650, pt. 2, § 1(12), at 658. This allowance would seem to create trouble for the JFTC's enforcement capability: how

United States law distinguishes between know-how and patents while Japanese law does not make such a distinction.[136]

D. Comparisons of Japanese and United States Intellectual Property Antitrust Law

After splitting the summary of Japanese and United States antitrust/ licensing law between the text and the notes, a few general comparisons and comments regarding Japanese and United States intellectual property antitrust law should be made here:

The landscape of United States antitrust law has changed a great deal in the last twenty years, especially in its assumptions and enforcement. Currently, the economic approach is strong, and the per

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can the JFTC easily tell the difference between illegal royalty payments occuring after the expiration of the license and legal royalty payments paid after the expiration but which had accrued earlier? Although possibly difficult to enforce, the JFTC believes the provision may nonetheless have a beneficial educational effect. *See* P. MOORE, *Antitrust Aspects of Technology Exploitation in Japan*, PATENT ANTITRUST 1989, at 641 (1989).

[136] In United States law the doctrine of banning restrictions on extended royalty payments is called the Brulotte Doctrine after Brulotte v. Thys Co., 379 U.S. 29 (1964). *Brulotte* held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." 379 U.S. at 32. An Eleventh Circuit case held that hybrid agreements licensing patent rights and trade secrets where royalty obligations remain unchanged after patents expire, are unenforceable beyond the date of the expiration of the patents. Pitney Bowes, Inc. v. Mestre, 701 F.2d 1365 (11th Cir.), *cert. denied*, 464 U.S. 893 (1983).

Although *Brulotte* does not address pre-issuance royalties, the Supreme Court has held that enforcement of a contract for royalties for secret know-how contained in a patent application was not improper where the parties thought that the patent might never issue. However, the case did not go so far as to say that *Brulotte* should never be applied to pre-issuance royalties. Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979).

In United States law, the combined cases of *Aronson*, Boggild v. Kenner Prods., 776 F.2d 1315 (6th Cir. 1985), and Meehan v. PPG Indus., Inc. 802 F.2d 881 (7th Cir. 1986), *cert. denied*, 107 S.Ct. 1301 (1987), stand for the proposition that mixed trade secret/patent agreements which extend past the 17 year patent monopoly—where the licensor has not yet filed for the patent and where the agreement does not reduce fees in the event the patent application is rejected—are invalid. The intelligent approach in such cases is to separate the payments for the know-how from the patent and/or provide for reduced royalties in the case of patent rejection.

The JFTC Guidelines make no particular distinction between know-how or patent licenses on the one hand, and mixed patent/trade secret licenses on the other. The Guidelines merely state that licensing agreements "that licenses both patent and know-how could be regarded as both a patent licensing agreement and a know-how licensing agreement. Therefore, as to restrictive conditions contained in such a hybrid licensing agreement, examining standards in each Part will be applied, depending on which technology any restrictive conditions are related to." *Guidelines, supra* note 1, preamble § 7, at 648.

se rule is in retreat. The Guidelines have changed as well: they too are presently more flexible and more rule of reason oriented than in 1968.[137]

The structure of enforcement regulations shows that Japan is concerned with enforcement values and avoiding exploitation of domestic licensees by foreign licensors. The Guidelines and the reporting system serve as an effective method of regulation, and the substance of the Guidelines is sympathetic to the weaker party. On the other hand, current United States law enforcement values are most concerned with providing effective incentives for inventors and entrepreneurs and allowing them to glean as much as they can from the market for their inventions.

United States law is more complex and detail-oriented. This complexity is probably due to the common law case method and legal training, and the factual orientation of United States lawyers. This includes the enforcement guidelines which the United States Justice Department issues: such, guidelines usually include a series of hypothetical cases analyzed in detail, in model Justice Department manner. The Japanese Guidelines are more ambiguous and flexible. The Guidelines provide less specific guidance than perhaps United States lawyers would be accustomed to. Foreign attorneys would probably feel more comfortable with the Guidelines if they included a model JFTC analysis of a suspect licensing agreement. However, the flexibility and ambiguity is an aid to enforcement; drawing the lines more brightly would just make foreign (and domestic for that matter) contract drafters bolder in approaching such boundaries. Ambiguity keeps drafters from testing those boundaries because they are unsure of their legal position and because they want to avoid review and possible rejection by the JFTC. The ambiguity and flexibility is a part of Japanese legal culture and is even reflected in the Japanese language. One suspects that it is a way of life and not merely a legal quirk.

At the same time, the Guidelines seem more formalistic than United States antitrust analysis. For instance, in the area of grantbacks, the terminology must be balanced *precisely* in order to demonstrate mutual obligations; the language of the clauses must be parallel between the licensor and licensee. The language must be such whether it makes

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[137] *See infra*, section IV.

any sense to the parties wishes or desires.[138] Since current United States antitrust analysis implicitly assumes that the parties can contract for anything short of cartel (an overstatement, but not too far off the mark), the Antitrust Division would be less likely to question a clause, should it happen to review it, without reference to the clause's function in the contracting parties' relationship. Formalistic analysis helps enforcement values by not having to look to the parties' intent (always a difficult matter), the function of the clause in the parties' relationship (also difficult), and the factual situation (which takes time, effort and money, all scarce resources).

This section ends the comparative analysis of Japanese and United States patent and know-how antitrust law. The discussion in this section has been somewhat domestically oriented. The next section critically examines the international and trade effects of the Guidelines.

IV. THE GUIDELINES AND UNITED STATES TECHNOLOGY EXPORTERS: A CRITIQUE OF THE GUIDELINES AND A PROPOSAL

The Guidelines can be characterized in different ways, depending on one's perspective. From the perspective of the JFTC, the Guidelines are a method of enforcing Japanese antitrust law. From the perspective of Japanese licensees, and from a Japanese national welfare perspective, the Guidelines help transfer to Japan technology from the rest of the world on the most favorable terms to Japan. From the perspective of foreign licensors, the JFTC uses its coercive power, through the substance of the Guidelines and the JFTC's procedures, to put foreign licensors at a disadvantage in the negotiation process. Foreign licensors see the Guidelines as playing a subtle but effective role in Japan's international technology policy. To foreigners, the Guidelines are a stacked deck amounting to a functional trade barrier. This section explores the tensions in the Guidelines from both the Japanese and the foreign, mainly United States, perspective. Thus, the analysis now moves from the antitrust arena to the international trade arena.

First, this section will examine the Guidelines from the foreign licensor's perspective and consider the question of whether the Guidelines functionally disadvantage foreign licensors. In particular, the

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[138] *See supra*, Section III. B. 2.

analysis will proceed from the point of view of United States licensors because they sell more technology to Japan than licensors from any other country.[139] Understandably, the Guidelines' fairness is of greatest concern to them. Therefore, this section will begin with a review of the criticisms that United States licensors have raised or could raise. Second, this section will discuss the Guidelines from a Japanese perspective and serve as a rebuttal to the foreign licensors' criticism.

Third, this section will discuss what may be the result, if any, of criticism of the Guidelines. Japan's trading partners may link the Guidelines to other perceived trade grievances. While Japan is a sovereign nation that may use whatever domestic regulations it considers appropriate, the perception of foreign licensors that the Guidelines are unfairly disadvantageous to them may result in some form of response from the licensors' governments. The possible responses, considered below, include: (1) nothing, except more criticism; (2) trade sanctions and retaliation; (3) a bilateral treaty for transfer of technology between Japan and the United States; or (4) some multilateral measures in the form of the *UNCTAD Universal Code of Conduct for Technology Transactions*. This section will examine each response and conclude that the last is the most intelligent option to resolve perceived unfairness in domestic licensing regulation.

A. *The Foreign Licensor's Perspective*

In the foreign licensor's eyes, the Guidelines do not represent antitrust regulation; rather, they are a method of governmental intervention devised to ensure that technology contracts favor Japanese licensees. Indeed, the Guidelines appear to have the effect, probably intentional, of seeking to create the most favorable climate for the smooth transfer of technology to Japanese licensors, and thus to the Japanese economy, rather than merely intending to enforce domestic antitrust standards. Thus, the foreign licensor sees the Guidelines as a cynical ploy to promote local business interests against importers, and to promote technology transfer on terms favorable to Japanese firms by state-coerced contractual provisions through the Guidelines, rather than relying on agreements freely negotiated between the parties.

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[139] Doi, *The Role of Intellectual Property Law in Bilateral Licensing Transactions Between Japan and the United States*, in LAW AND TRADE ISSUES OF THE JAPANESE ECONOMY 158 (G. Saxonhouse & K. Yamamura eds. 1986).

The alleged disadvantages occur in part because of JFTC procedures. This paper has discussed how the JFTC requires the Japanese party to submit each contract, and directs the parties to change the contract to suit the JFTC.[140] As discussed, there is no effective appeal from the JFTC's "recommendations," because the licensee rarely has an incentive to appeal while the licensor effectively cannot. The foreign licensor cannot appeal for lack of standing since it is not the party threatened by sanction.[141] Moreover, the Japanese licensee has little incentive to appeal for three reasons. First, the recommendations of the JFTC usually operate to the licensee's benefit. Second, the licensee might come under sanction if it disregards the JFTC. Third, the licensee probably will not appeal because of the strong tendency in Japan to avoid litigation or confrontation. These procedures have the effect of weakening the negotiating power of foreign licensors and imposing an inflexibility on the parties negotiating an agreement.[142]

Furthermore, the JFTC is apparently more concerned with foreign transactions than domestic ones. While United States antitrust cases involve domestic licensing more than half the time, JFTC requests for modifications have been aimed almost entirely at foreign licensors.[143] One commentator argues that JFTC enforcement is "almost for the ostensible benefit of the Japanese licensee."[144] He goes on to say in frustration that:

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[140] *See supra*, Section II. F.

[141] *See supra*, Section II. G. *But see* Richards, *supra* note 60. The article points out:

> The Japanese themselves are sensitive to the problems which [the appeals process] causes and in one case [Komatsu-Bucyrus, decision to terminate hearing procedure, Fair Trade Commission decision of October 26, 1981] the Fair Trade Commission . . . tried to bring an American licensor before it so as to enable him to reply on the merits of a complaint. Unfortunately, the American party challenged the [jurisdiction] of the Fair Trade Commission over it and thus was precluded from making any arguments on the merits.

Id. at 232 [footnote omitted]. However, the commentator concludes that for procedural reasons the JFTC's procedures are still biased against foreign licensors. *Id.*

[142] Possibly, the lack of effective appeals process is due in part to the Japanese dislike of litigation and confrontation. *See* Shapiro, *Can the Japanese Lack of Litigiousness Continue?*, in LEGAL ASPECTS OF DOING BUSINESS 1983, at 27 (E. Lincoln & D. Rosenthal, eds. 1983).

[143] DAVIDOW, *The New Japanese Guidelines on Unfair Practices in Patent and Know-How Licenses: An American View*, in PATENT ANTITRUST 1989, at 600 (1989); Shibuya, *The Administrative Regulation of Transfer of Technology in Japan*, 1 EUR. INTELL. PROP. REV. 18, 22 (1982).

[144] Davidow, *supra* note 143, at 600; *see also* Note, *The Administrative Regulation*

> [A]lthough the Guidelines could conceivably be applied to Japanese companies licensing abroad, virtually all of the requested modifications of licenses have been used to cause a foreign licensor to impose fewer restrictions on a Japanese licensee.[145]

Thus, foreign licensors see JFTC review as a one way street: help for the licensee, but none for the licensor.

The process is also open to manipulation. A Japanese licensee can convince a foreign licensor to strike a term because it violates Japanese antitrust law and/or the Guidelines.[146] As one commentator notes:

> This appears to be another case in which the lack of knowledge of foreign firms regarding Japan may cause a detriment to their bargaining position. The author questioned numerous engineers and legal personnel involved in licensing negotiations if they ever try to "buffalo" the foreign party on aspects of Japanese law. They predictably claimed that they would not do such a thing, but noted that it would be quite possible because of the ignorance of the foreign parties.[147]

Sometimes this is just the foreigner's blunder in not retaining experienced local counsel to avoid such manipulation. Attorneys claim, however, that in the past JFTC officials have met with the licensees to determine which contractual terms should be modified or stricken for the greatest benefit of the licensee.[148]

Not only does the appeals process deny the foreign licensee effective redress, but the substance of the guidelines can be problematic as well. A good example is the JFTC's requirement in grantback clauses that the terms be precisely balanced in substance. Such a requirement means that the parties (especially the licensor) may not be able to shape the agreement to their own needs. Such a rule is necessary for a fair transaction only in the most egregious situations, and in fact may only frustrate the parties' intent.[149]

Moreover, there is a series of policy arguments that may be mustered to show that the Guidelines are unfair:

First, the use of antitrust laws and procedures in the manner outlined in the Guidelines amounts to a subtle trade barrier.[150] It is

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of Technology Induction Contracts in Japan, 8 N.W.J. OF INT'L L.& BUS. 197, 232 & n.216 (1987).

[145] Davidow, *supra* note 143, at 600.

[146] Note, *supra* note 144, at 232.

[147] *Id.* at 233, n.219.

[148] *Id.* at 233.

[149] *See supra*, Section III. B 2.

[150] Doi, *supra* note 139, at 158.

not a trade barrier which denies complete access to markets in order to protect same-product domestic producers of items such as oranges or beef. Trade here is not cut off entirely or taxed until prohibitive, but rather is filtered and manipulated. Japan wants to import great quantities of industrial technology. But the Japanese policy implicit in the Guidelines is that importation must take place on the most favorable terms possible for the Japanese licensee. The government is compelled to step in and dictate contractual terms to the parties in the name of antitrust. The effect, licensors claim, is to put domestic licensees at an advantage when negotiating with foreign licensors. Such government use of coercive power, however subtle, can only be characterized as a trade barrier.

Second, although the restrictive measures in the Guidelines could be defended as a means whereby a developing country may acquire technology as quickly as possible in order to catch up with developed nations, this is clearly not applicable to Japan which is no longer a developing country, especially in the area of high technology. As one commentator noted generally:

> [A]lthough such a close government-business relationship might perhaps have been justified when Japanese industry was striving to catch up with industry in Western Europe and the United States, it is difficult to justify such a relationship today when Japan has become a major participant in the international economy. It may even be harmful to a competitive international economic order. These problems remain and thus some rules appear necessary to limit the government-business relationship to insure that it does not impair the market economy.[151]

Indeed, the Guidelines were originally "part of a double-barreled system to control foreign investment and licensing and to force a better deal for Japanese industry."[152] The argument that Japan is a developing country is a weak one. Japan's position in industrial technology worldwide is admired, even envied. The coercive effect of the Guidelines cannot be justified on the grounds that Japan is still a disadvantaged country in terms of its economic development. One commentator has noted that Japanese firms obtain foreign technology on favorable terms, use the technology to make export products and then sell abroad without restriction, thus enabling Japan to

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[151] HIROSHI, *Antitrust and Industrial Policy in Japan: Competition and Cooperation*, *in* LAW AND TRADE ISSUES OF THE JAPANESE ECONOMY 61 (G. Saxonhouse & K. Yamamura, eds. 1986).

[152] Davidow, *supra* note 143, at 601.

build up huge balance of trade surpluses.[153] He later goes on to say:

> There is no evidence today that Japan suffers from export suppression, or technological dependence. Japanese companies lead the world in amassing patents. Japan has had a huge export surplus for more than a decade. In light of all this, Japan's major allies have for some time questioned why it still needs to add its weight to technology induction bargaining between its enterprises and those of its trading partners.[154]

Thus, licensors resent the favorable terms by which Japanese companies acquire technology, and the lack of similar barriers in selling the fruits of that technology in such countries as the United States.

Furthermore, critics raise the question of balance. They claim that foreign licensors receive little protection under Japanese law in the application of the Guidelines, and foreign licensees buying technology from Japanese licensors are also unlikely to receive the benefit of the Guidelines: "although Japanese guidelines could conceivably be applied to Japanese companies licensing abroad, virtually all of the requested modifications of licenses have been used to cause a foreign licensor to impose fewer restrictions on a Japanese licensee."[155] The same commentator has questioned whether the Guidelines will, despite the JFTC's claims, apply to licenses from a Japanese firm to a foreign licensee. The new Guidelines are supposed to apply to outward bound as well as inward bound licenses; the "reality, however, may well be otherwise."[156] He further notes that domestic licenses are covered by the Guidelines as well as international agreements, although, significantly, domestic agreements need not be registered.

Third, the Guidelines are really not in the Japanese licensees' or the economy's best interest because the restrictive nature of the Guidelines and its procedures prevent greater technology transfer than is currently taking place. The review process may frustrate and discourage potential licensors who might otherwise sell useful technology to Japanese licensees.

Fourth, the system appears to licensors to be discriminatory, and weakens trust in the application of Japanese law. For example, one critic does not accept as a fair description the Guidelines' claim that the Guidelines apply without discrimination to domestic as well as

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[153] *Id.* at 600.
[154] *Id.* at 601.
[155] *Id.* at 600.
[156] *Id.* at 603.

international licensing agreements. Such a statement would be more believable coming from the United States or the Common Market, but not the JFTC, he asserts.[157] Licensors, as foreigners, should not believe that they will get a fair deal from the JFTC, because the "jurisprudence of protecting opportunities for foreigners" is not well developed in Japan, especially in licensing, "because the purpose of the earlier system clearly was to protect Japan's development and export interests and to assure fairness to the Japanese licensee."[158]

Finally, a free market advocate would fail to understand the theoretical necessity of protecting domestic licensees. From a laissez faire point of view, Japanese licensees should be assumed to possess the sophistication and strength necessary to protect themselves in licensing negotiations. The fact that the Japanese have had a great deal of experience in negotiating with foreign licensors is reason enough to preclude the necessity of government intervention in licensing negotiations to protect and support domestic licensees.

Now that the licensors' perspective has been discussed, the next subsection will give equal time to a more Japanese-oriented perspective.

B. The Japanese Perspective

First, one should note that Japan is a sovereign nation with complete control over its policy choices. The substance and approach of the Guidelines reflect Japan's choice of methods for doing business and solving disputes. Criticism of a foreign country's legal or business system, a nation's policy choices, reflecting traditions, desired norms of behavior, and its own vision of development, should only be made with respect.[159] This section merely analyzes the interests involved without judging the Japanese system or its decisions.

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[157] *Id.*

[158] *Id.* at 604.

[159] To his credit, even the harshest critic of the new Guidelines prefaces his remarks respectfully:

> There are a number of reasons why an American lawyer must be hesitant to offer a critique of the new draft guidelines. First of all, the present translation is tentative and unofficial. Some drafting problems may be solved in a later version or may not exist in the Japanese version. Second, it is not clear that the JFTC is much concerned with whether the rules are appealing to Americans or consistent with methods of antitrust analysis now in favor in the U.S. The JFTC may well believe that it has done a very good job so far in protecting the Japanese national interest. It also relies on the fact that achieving fairness between the parties is an explicit

From the Japanese perspective, what foreign licensors criticize as an unfair review process is merely a mechanism by which the Japanese government prevents foreign licensors from exploiting domestic licensees. Essentially, JFTC review procedures prohibit adhesive contracts for the sale of technology to Japanese licensees. When Japan was poor in high technology, this regulation was a means of self-protection. Now that Japan is a leader in high technology, review merely continues to foreclose any form of exploitation by foreign licensors. The Guidelines are thus in the best tradition of antitrust, only they function at the international level: the Guidelines prohibit the use of market power by a foreign licensor to obtain unfair terms which may exploit domestic licensees.

The argument that the Guidelines are a form of "Trojan Horse" masquerading as antitrust but which are in reality trade barriers designed to manipulate contractual arrangements, and are thus an unfair trade practice, is the product of a sheltered perspective which ignores cultural realities. One should not assume the intent or purpose of a Japanese law from the label: "one should not be deceived by the apparent similarity or even identity of a Japanese law with its 'mother' law in another country, because it may be interpreted, designed or function in a totally different fashion or for a different purpose."[160] Moreover, this fact should not be surprising when one considers that a nearly uniquely American form of legal and economic analysis, antitrust, was simply imposed on the Japanese by a hostile invading force.[161] Any complaint that Japan does not play the antitrust

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> consideration in Japanese antitrust law, even if it is not an essential element of Sherman Act analysis. All this being said, the Japanese have undertaken to rewrite the rules, do intend to liberalize them somewhat, and have obviously been influenced by U.S. and common market approaches. Therefore, it seems best to assume that careful critical analysis by interested U.S. parties is worth the effort.

Id. at 606-07.

[160] P. NORBURY & G. BOWNAS, eds., BUSINESS IN JAPAN: A GUIDE TO JAPANESE BUSINESS PRACTICE AND PROCEDURE 161 (rev. ed. 1980). One United States commentator remarked: "We now realize that transplanted legal institutions usually take on the character of the host nation and often develop in ways which the country of origin would barely recognize." Davidow, *supra* note 143, at 597. For more on this phenomenon of legal development through borrowing, *see generally* A. WATSON, LEGAL TRANSPLANTS (1984).

[161] *See supra*, section II. B. As Davidow notes:

> It was a war aim of the U.S. in World War II that the axis powers should be de-cartelized and compelled to adopt effective antitrust law, to prevent the rise of new industrial oligarchies in those nations. In Japan,

game the same way that the United States does is an ahistorical, acultural argument.[162] Ultimately, antitrust is supposed to be about raising domestic economic welfare through competition; the Japanese merely use the Guidelines as another method of raising economic welfare.

Moreover, one should note differing attitudes toward law between Japan and the United States. While Japan and the United States share the attitude that law protects freedom and equality, the Japanese legal system is also a recognized and even welcome instrument of state control of the economy.[163] Such cannot be said for the United States legal system. In addition, Japanese antitrust laws are generally ambiguous and enforcement depends on administrative policy. In fact, the ambiguity of the law helps ensure that administrative policy will not be hindered by laws which define the agency's powers and responsibilities too clearly. This process is called "administrative guidance" and forms a part of the close government-business relationship which dominates the Japanese economy.[164] There is a strong government role, more so than in the United States, in promoting business by various means, such as: state economic planning, the introduction of foreign technology, the establishment of model factories, the dissemination of technological information, the award of capital and

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> the M[a]cArthur occupation broke up the Zaibatsu and encouraged the adoption of the antimonopoly act and the creation of a Japanese fair trade commission (JFTC).

Davidow, *supra* note 143, at 597 [footnote omitted]. Decartelizing was only applied to Japan, however, as far as this author can tell. The United States did not force antitrust measures on Germany and Italy. Thus, Japan could rightfully claim that it was singled out for special treatment.

[162] There is a sense, in some of the criticism, that Japan has perverted the antitrust principle by using antitrust law to protect licensees. As Davidow notes:

> The purpose of inducing Japan to adopt an antitrust law and create a Fair Trade Commission was to ensure free and open competition, which in turn would benefit consumers and leave international commerce as unrestricted as possible. The Japanese system which developed, however, ultimately serves a quite different rationale. Protecting a licensee from a licensor, or policing the fairness or balance of inward licenses, will correspond to true antitrust policy only on occasion.

Davidow, *supra* note 143, at 612.

[163] Hiroshi, *supra* note 151, at 62.

[164] *See* Edelman, *Japanese Product Standards as Non-tariff Trade Barriers: When Regulatory Policy Becomes a Trade Issue*, 24 STAN. J. INT'L L. 389, 435-37 (1988); HALEY, *Administrative Guidance versus Formal Regulation: Resolving the Paradox of Industrial Policy*, in LAW AND TRADE ISSUES OF THE JAPANESE ECONOMY 107 (G. Saxonhouse & K. Yamamura, eds. 1986).

financial assistance, the grant of special tax incentives, and the cartelization and promotion of mergers and trade associations.[165] This is part of a long tradition tracing back to before the turn of the century. At that time, the Japanese government determined that in order for "Japan to attain the status of an industrial power, positive leadership by a strong government vis-a-vis the public and industry was considered essential."[166]

Therefore, the governmental interest was, and remains, not in promoting economic development through private competition, but through synergistic government-business cooperation. This combination has been very successful, for it may take credit for much of Japan's postwar growth.[167] Advocates of free markets should note that Japan did not grow strong by promoting domestic competition. The emphasis has always been on growth and results, rather than on observing the rules of free markets. Thus, government-business cooperation has resulted in restrictions rather than promotion of competition.[168]

Japan has a great interest in the continued importation of technology on fair terms. Japan's industrial success since 1945 has depended on massive imports of technology from abroad.[169] Japan continues to depend heavily on technology importation, especially from the United States. "Despite the rapid technological advance of Japanese companies, there is still a great trade imbalance in favor of the United States in intellectual property transactions. Certainly, Japan is one of the biggest overseas markets for American intellectual

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[165] Hiroshi, *supra* note 151, at 59.

[166] *Id.*

[167] *See e.g., id.* at 56-61.

[168] *Id.* at 60. The agency that is trusted with the mission of promoting the growth of Japan's economy through industrial policy is the Ministry of International Trade and Industry ("MITI"). MITI is concerned primarily with competition in the international sense of Japan's global economic competitiveness and not with domestic competition between individual firms. In principle MITI supports free market concepts. Yet this support is a relatively recent one, and must weigh lightly against a long history of administrative concern solely for overall development. Indeed, MITI's support of economic development has often come at the *expense* of free market principles. *Id.* at 57-58. In particular, MITI has used technology transfer laws and regulations to promote Japanese economic growth. *See* PECK & TAMURA, *Technology*, in ASIA'S NEW GIANT: HOW THE JAPANESE ECONOMY WORKS 547-52 (H. Patrick & H. Rosovsky, eds., 1976). MITI thus serves as an example of how administrative agencies and their regulatory mandates serve the goal of sharpening economic development.

[169] CAVES & UEKUSA, *Industrial Organization, in* ASIA'S NEW GIANT: HOW THE JAPANESE ECONOMY WORKS 518 (H. Patrick & H. Rosovsky, eds. 1976).

products."[170] And the Guidelines' restrictive approach and operation is consistent with Japan's self-perceived status as a continually developing country, as a country which traditionally needed to acquire technology from other countries which are technologically more powerful than itself.[171] Japan's method for success has made for outstanding results.[172]

Also, the Guidelines are now less restrictive than in the past. In 1968 there were only two categories: "legal" and "probably illegal." The "probably illegal" category had nine items and the "legal" had five.[173] Now an intermediate category has been added to make three categories: presumptively legal, rule of reason and probably illegal. Several practices which were probably illegal now appear in both the probably illegal and the rule of reason categories.[174] There is apparently a trend toward greater flexibility in the current set of Guidelines than in the old ones. Based on interviews with United States and Japanese attorneys in Tokyo, one commentator concluded that the JFTC is less of a factor than it once was, though still a factor in favor of the licensee:

> In the past, [J]FTC guidance had a greater effect on bargaining power than it now does. Previously, the [J]FTC often worked closely with the Japanese licensees in effecting beneficial TIC [technology induction contract] terms. The Japanese party may have met with [J]FTC officials and determined which TIC terms should be modified or stricken in order to benefit optimally the Japanese party. Then, pressure could be applied to the foreign party either by the [J]FTC

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[170] Doi, *supra* note 139, at 158.

[171] Many developing countries regulate international transfers of technology very closely. *See, e.g.*, Brazil, *in* A. WISE, 5 TRADE SECRETS & KNOW-HOW THROUGHOUT THE WORLD § 1.08 (1981). Brazilian licensing regulations, for example, are substantively very much like the regulations in the JFTC Guidelines.

[172] Indeed, some have even said that Japan's methods are too successful: "A major problem of the system [of JFTC review] is that it has been perhaps a little too successfuly, [sic] but yet continues." Davidow, *supra* note 143, at 601.

[173] *See* the 1968 Guidelines *reprinted in* H. IYORI, ANTIMONOPOLY LEGISLATION IN JAPAN 199-200 (1969).

[174] Appearing in both categories now are: export restrictions as to area, price, quantity or exporter; restrictions on using a competitor's technology; obligation to purchase materials from the licensor's designee; obligations to sell through the licensor or his designee; grantbacks; royalty calculations based on goods not using the patented technology; and quality restrictions. *See* the 1968 Guidelines *reprinted in* H. IYORI, ANTIMONOPOLY LEGISLATION IN JAPAN 199-200 (1969). Price fixing was and is still assumed to be illegal under the Guidelines. An important change is that know-how is now covered under the Guidelines.

> or by the Japanese party threatened with [J]FTC intervention. Today, it appears that [J]FTC guidance is quite transparent. The [J]FTC mechanically reviews the post-execution report by the Japanese party to determine whether violative clauses exist. The determinations are said to be very predictable and quite fair. It is also certain that the [J]FTC continues to enforce vigorously its laws and regulations and that this enforcement is almost always for the ostensible benefit of the Japanese licensee.[175]

Such change may have been in response to foreign criticism of the review process. The 1989 revision of the Guidelines was intended as a liberalization.[176]

It may be concluded, after examining both sides of the issue that Japan is justified in its methods of technology regulation. Yet, dissatisfaction over the Guidelines could very well become part of a general grievance about Japan's trade policies. Such dissatisfaction, if acted upon by lobbyists and legislators in the United States, could provoke some form of political or legal response. The next subsection examines these potential responses.

C. *Potential Responses*

1. *Nothing*

The maintenance of the status quo is certainly a possibility. Whether the Guidelines are unfair or not, the enormous amount of technology transfer between the United States and Japan is some evidence supporting the view that perceived unfairness, if any, is perhaps beside the point. However, it is not evidence that no dissatisfaction exists or is not an important future issue. Japan's regulation of technology transfer could indeed become a major trade issue.

2. *Trade Sanctions and Retaliation*

As noted earlier, concerns such as dissatisfaction over the use and content of the Guidelines, combined with other trade grievances, may provoke some form of political response. Such a response would most likely come from the United States.

Unfortunately, the subject of international transfer of technology, and international trade in general, seems lately to have become a combat arena for the supremacy of national interests. Generally,

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[175] Note, *supra* note 144, at 233 [footnotes omitted].
[176] Davidow, *supra* note 143, at 602.

International law attempts to avoid the exploitation of the weak by the strong. This kind of struggle is one which the advocates of an international world order based on legal norms and mutual respect have been striving to avoid and correct for many years.

Moreover, while European colonialism has nearly died out, economic colonialism is foremost in the minds of the representatives of developing nations. Technology, and its transfer, is just the latest, and potentially the most effective, way the developed countries can materially outdistance and exploit the less developed countries. Such countries have a solid interest in avoiding such exploitation.[177]

Some argue that the United States has coerced other countries into creating and enforcing a global regime of intellectual property rights for the betterment of its national interests. They claim, for instance, that the United States often seems to disregard other nations' rights to regulate intellectual property within their borders as they see fit; moreover, the United States approaches the subject with high moral rhetoric, not expecting to have to pay for anything, while characterizing intellectual property rights as "moral" or "fundamental" rights.[178] Speaking in terms of the United States seeking greater protection of intellectual property rights for its nationals generally, one commentator remarks that:

> one might go on to say that a large part of the world views the United States use of this rhetoric as sort of typically self-righteous United States behavior. The United States always has high principles when it pursues its interests. Its interests are never just interests, they are always matters of high principle.[179]

He says, moreover, the United States' credibility is tarnished by its treatment of other countries' nationals' intellectual property rights under United States law.[180] Some argue that the United States refuses to acknowledge that its interests are merely interests and uses a "moral" stand to justify coercive sanctions against other countries, in violation of the GATT.[181] My point is merely that emphasis on "moral" arguments is unlikely to succeed as a negotiating strategy.

A more reasonable view is that the United States has legitimate interests, as long as it admits its interests, and seeks accommodation

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[177] Hudec, *Remarks at the Symposium on Trade-Related Aspects of Intellectual Property*, 22 VAND. J. TRANSNAT'L L. 321, 321 (1989).

[178] *Id.*

[179] *Id.*

[180] *Id.* at 322.

[181] *Id.* at 323.

with frankness. One commentator stated in relation to GATT and intellectual property protection:

> The GATT is a living instrument. Situations change. All the participants of GATT are going to have to be satisfied with the basic workability of the GATT Agreement. I do not think there is anything wrong with saying, "Look, I am sorry. It was once a deal that we were satisfied with, but is not anymore, we'd like to change it. We would like to have our trade obligations now conditioned in addition, on satisfactory intellectual property rules . . . . The point that I would make, however, is that it is not something we are doing as a matter of right, as a matter of moral right, as a matter of legal right, or even as a matter of altruism. We are doing it because we would like to have a better balance for ourselves.[182]

There is nothing wrong with the United States saying that it wants a better balance with respect to another nation's trade or antitrust laws. The United States has interests as a seller, just as Japan has interests as a buyer/consumer of United States intellectual property products. Japan also has the strongest right in regulating business transacted within its territory. At present, when stronger countries such as the United States discover discrimination, they retaliate, even where the other nation should have an acknowledged and recognized right to regulate as it wishes. The rhetoric of "fundamental rights" and threats of retaliation (or actual retaliation) as well as the blocking of or maintenance of barriers in intellectual property markets are the most important problems to avoid.

More importantly, a showdown of interests between Japan and the United States is in neither nations' interests, nor is it in the best interests of the international system of technology transfer. Claims that each side engages in unfair sheltering of its own markets, or engages in other economic misdeeds, may lead to a series of trade sanctions and other retaliatory measures. Through such measures, everyone loses.

Furthermore, weaponry designed for use against one foe may as readily be used against others. Thus, what begins as a dispute between two nations on a number of small issues, can ultimately develop into a trade conflict on a wider scale. Therefore, when one discusses United States dissatisfaction with the Japanese Guidelines, one must view such dissatisfaction in a broader context of trade disputes, trade

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[182] *Id.*

wars, and retaliations. While only two developed nations are at odds here, the dispute is one that is potentially disruptive for parties other than the current disputants. A less wasteful alternative to a system of trade sanctions and retaliations could be either a bilateral or multilateral treaty, or the adoption of a uniform transfer of technology code.

3. Treaties

One approach would be for the United States and Japan to negotiate a bilateral treaty covering the transfer of technology between them. This might be an effective solution between the world's largest exporter and the largest importer of technology. With only two parties, it would be a relatively simple matter to negotiate. Such a treaty, successfully negotiated, might solve many of the United States licensors' complaints. However, there would be a few problems. A bilateral treaty would do little for other foreign licensors. Also, such a treaty might be unacceptable to the Japanese because it would create differences in the laws applying to the United States and other foreign licensors, and thus make more difficult the JFTC's task. Another issue, too complex to treat here, is the status of international law, especially treaties, in the United States. Congressional disregard of international obligations may make continued success of a treaty difficult, however.[183]

4. UNCTAD Universal Code of Conduct

Perhaps the best way to avoid conflict is to agree on a set of licensing guidelines that are acceptable to both parties and preferably to all parties. Such a set of guidelines may constrain nations from manipulating one another over intellectual property rights and from changing domestic laws in order to gain domestic advantage over international licensors. Moreover, because the prospect of trade sanctions are so foreboding, intellectual property rights should perhaps be viewed more from a "world welfare perspective" of international trade and cooperation, rather than a two-sided battle of interests. Professor Jackson advocates avoiding the single-nation welfare perspective:

> I think we need to have a world welfare perspective at least explored along with specific national perspectives, such as the national welfare perspective of the United States, which seems to strongly support

[183] *See* Doernberg, *Legislative Override of Income Tax Treaties: The Branch Profits Tax and Congressional Arrogation of Authority*, 42 TAX LAWYER 173 (1989).

> the spread of intellectual property protection world-wide so that the United States will become richer, so that the United States will get more royalties and more inputs and so on. Also you have to, I think, be a little wary of one-country analysis involving other kinds of countries where those countries can establish and prove that they will become poorer too. I think we need, in addition, a world welfare perspective to think in terms of what this means for the betterment of the world as a whole. Is this really a zero sum game or are there some positive sum aspects whereby we could see how to construct a system where all countries, at least over the somewhat longer run, would come out better? And that, incidentally, is inherently the basis of the policy of international liberal trade. The liberal trade system is based on the belief that it is not a zero sum system, that it is a positive sum system. Liberal trade means a higher degree of welfare for the world—the pie getting larger rather than simply fighting over how to cut the pie up. And so I think there are elements of that in the intellectual property question.[184]

A set of agreed-upon guidelines would promote world welfare at least two ways. First, welfare would benefit by open access and working toward the positive sum benefits of which Jackson speaks. Fairness would then be premised on reciprocity because all licensors and licensees would be subject to the same terms. Second, perhaps it would reduce what will probably be the major tensions in the post cold war world, where nationalistic trade and economic competition, rather than ideological and military competition, threaten to raise global tensions.

Such a set of guidelines may exist in the form of the UNCTAD Universal Code of Conduct for Technology Transactions.[185] The first objective of the present Draft Code of Conduct reads as follows:

> To establish general and equitable standards on which to base relationships among parties to transfer of technology transactions and governments concerned, taking into consideration their legitimate interests, and giving due recognition to special needs of developing countries for the fulfillment of their economic and social development objectives.[186]

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[184] Jackson, *Remarks at the Symposium on Trade-Related Aspects of Intellectual Property*, 22 VAND. J. TRANSNAT'L L. 343, 349-50 (1989).

[185] UNCTAD, *Draft International Code of Conduct on the Transfer of Technology*, U.N.Doc. TO/CODE TOT/33 (1981) [hereinafter Draft Code of Conduct].

[186] *Id.*

Other objectives include promoting mutual confidence between the parties and governments; encouraging the transfer of technology between nations; and facilitating the international flow of information between nations. The emphasis on social values is highlighted by reference to using technology to solve "social and economic problems of all countries, particularly the developing countries, including the development of basic sectors of their national economies."[187] Important for present purposes is the objective of specifying restrictive business practices in technology transactions from which parties should or shall refrain.[188]

Agreement on such principles between two countries such as the United States and Japan would be very helpful in facilitating transfer of technology. Contracts could be written by either party, with clear understanding of what was permissible and not permissible. The problem of understanding national law would not be removed; however, it would probably be lessened significantly.

One criticism of the Draft Code of Conduct is that it makes no reference to procedure and the functioning of the various bureaucracies which oversee licensing agreements in the various nations. It may be that such matters are too difficult and thorny an issue to resolve in a uniform code. Nations may feel that such functions constitute an impermissible interference with their sovereignty. Such matters may be better handled through multilateral treaties between small numbers of nations; however, this would be at least a partial retreat from the purpose of universality.

Of course, there are problems with such a universal code. Such an agreement does not, and cannot, exist without reference to political, social, and ideological values. While the importance of the Draft Code of Conduct lies largely in the hope of increased world trade, some nations would like it to go further; they would like the Code to promote economic development and to reduce the material disparity between nations. The North-South debate dominates the underlying tone of the Draft Code of Conduct. It is also the most controversial issue from the developed nations' point of view.

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[187] *Id.*

[188] The list of restrictive business practices includes many listed in the Guidelines: grantback provisions; challenges to validity; exclusive dealings; restrictions on research (and its application); price fixing; exclusive sales or representation agreements; tying arrangements; patent pooling and cross licensing arrangements; export restrictions; payments after the expiration of the property rights; restrictions after expiration of arrangement.

Currently, there is a deadlock concerning restrictive business practices. Not surprisingly, the developed nations want a uniform rule of reason based on the effects of competition, while the developing countries want to define restrictive business practices based on effects on development.[189] One report concluded: "Although discussions concerning the Code are continuing, it must be recognized that prospects for its adoption continue to be poor."[190] It could very well be that the industrialized and developing nations' conflicting interests and demands may be too difficult to overcome.[191] This would suggest, that a bilateral treaty between the United States and Japan, or a multilateral treaty between industrialized nations, would be more likely to succeed in the short run. Unfortunately, such an agreement would neglect the important concerns of the developing countries.

Nonetheless, either a bilateral treaty on technology transfer between the United States and Japan or the adoption of a uniform code for technology transfer would still have the benefits of reducing tensions between competing national interests in the international transfer of technology.

V. CONCLUSION

This paper has discussed how the Guidelines fit into the scheme of Japanese antitrust enforcement and has compared and contrasted the substance of the Guidelines with the substance of United States antitrust law. Finally, this paper has suggested that while the Guidelines purport to be concerned with domestic antitrust, its international impact is in reality closer to that of a trade barrier. Such a trade barrier functions not to keep technology out, but rather to make sure that technology enters the country on terms most favorable to

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[189] ABA Section of Patent, Trademark and Copyright Law, Annual Meeting, August 1986 (1976SP109-R48) (LEXIS, PATCOP file).

[190] *Id.*

[191] *Id.* One United States Department of State official pessimistically has said:

> For ten years . . . UNCTAD has been negotiating to establish a Code of Conduct on the Transfer of Technology. By restricting the ability of parties to contract freely for technology and to choose applicable law for settling contract disputes, the developing countries' position would change the rules of the game in a way that could reduce—not increase—protection for intellectual property and limit—not expand –technology transfer . . . [T]he United States and other market economy countries will not accept [the developing countries'] version of a code.

Winter, *The Role of the United States Government in Improving International Intellectual Property Protection,* 2 J. L. & TECH. 325, 329 (1987).

Japanese licensees. It is suggested that the solution to any United States dissatisfaction with the Guidelines is not to move toward retaliation, but to move instead toward a bilateral treaty or adoption of something similar to the UNCTAD Universal Code of Conduct for Technology Transactions.