Japan's Anti-trust and IP Policy in the Last Decade

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I. INTRODUCTION

Since the stock market crash in December 1989, Japan has been portrayed as a country struggling with seemingly insurmountable economic difficulties. If the analysts are to be believed, one malaise has followed the next: stock market collapse, bank real estate loan problems, shoddy accounting, budget deficit, ageing society, etc. A lot of this has been reported not without a certain element of *Schadenfreude*. Yet, as a German saying goes, *Totgesagte leben länger* – those who were declared dead live longer. While it is certainly true that banks have been continuing to struggle under their bad loans, very little of the economy in general has been affected. As will be shown below under III, for more than a decade Japan has been an exporter of technology, and in the 1990s has even stabilised its lead in supercomputers and ultra-pure silicon chips. Apart from being a technology exporter, Japan continuously has been an exporter of capital despite an alleged 120% GNP government debt. First, when netted for the Japanese government's financial assets, the national debt only represents 51%; next, Japanese citizens are still such avid savers that only 6% of Japanese government debt is owned by foreigners. If, on the other hand, the Japanese withdrew their financial assets in the U.S., the economy there would immediately collapse. As a matter of fact, between 1993 and 1998, Japan has not run a budget deficit, as was often reported, but a budget surplus that for these six years ran respectively at 6.0, 5.1, 3.5, 3.3, 2.9, and 1.6 per cent of the GDP according to OECD figures – a fairly strong performance for an allegedly ailing country. As one author has put it:

> "As the story of Japan's alleged public spending profligacy indicates, much of the responsibility for the West's misunderstandings must be put down to superficial reporting by the Western press. Few correspondents speak or read Japanese. Moreover, they are blinded by Western ideas that do not apply in Japan. They assume, for instance, that the stock market plays as prominent a role in Japanese finance as it does in say British or American finance. So when the Tokyo stock market crashed, this was seen as comparable to the 1929 Wall Street Crash. In fact the stock market is regarded by the Japanese establishment as a largely irrelevant – and rather dirty – sideshow that can with impunity be neglected for years on end."[1]

The same author also gives a convincing reason why Japanese bureaucrats have an interest in understating the country's performance:

> "Apart from the obvious point that the 'collapsing Japan' myth has bought Tokyo's trade bureaucrats a full decade of undeserved peace, there is the larger point that it is clearly facilitating the transformation of China into a true superpower. Certainly if Westerners…had understood how well the Asian economic system has been doing in the last decade, they would have been far more wary about welcoming China into the world trading system. But surely if Japan's imaginary crisis has facilitated the rise of an unpleasant new superpower on the East Asian continent, Japan would be the first to be concerned. After all, as portrayed in the Western press at least, few nations are as wary of China as Japan – and vice versa. In reality, however, Japan and China are far from daggers down. They share much common ground, most obviously a centuries-old aspiration to rid East Asia of Western influence."[2]

This political and economic view can be complemented by legal aspects. Also here, far from bumbling along, Japan has remarkably transformed many aspects of its system of commercial laws in the past decade. The Patent Act, to cite only one example, was amended no fewer than seven times. The enforcement system of intellectual property laws has been transformed beyond recognition.[3] One trace stands out in this respect that I would call the lean management of rights. Rights and economic position are protected only to the extent necessary, and are curbed where they would impede overall economic

1 E. FINGLETON, The Myth of Japan's Lost Decade, in: The Japan Society Journal 2003, 61, 66.

2 *Ibid.,* 68.

3 First, Art. 6 of the new Japanese Code of Civil Procedure gives additional jurisdiction to the district courts in Tokyo and Osaka for patent infringement suits. In these two courts, the duration of first instance lawsuits has fallen by almost two-thirds from 35.6 months in 1990 to about 12 months today: Y. IIMURA, Current Litigation Practice for IPR Infringement Cases at the Tokyo District Court, in: 2002 AIPPI Japan International Edition, 3.

interests. Particularly in the field of anti-trust, this might look at first glance to be stronger protection of consumer interests. However, interests of individual consumers have never received much interest in the Japanese administration.[4] Rather, individual consumers are used as a vehicle to curb what is considered as undue economic power. The same holds true for the right of users in the field of intellectual property law. Here, the Japanese bureaucracy and the courts have been far more aware of the dangers of overly broad rights than has been the case in Europe and the U.S.

II. Private Anti-trust Enforcement and the FTC

1. *Background of the Anti-Monopoly Act*

The Anti-Monopoly Act (AMA) is meant to protect a bundle of different interests: those of competitors, consumers, and the general public at large. Putting all these interests under one umbrella, one could argue, would only be possible for a disinterested administrative body rather than private individuals.

While it is certainly true that the AMA and its complementary legislation do not protect individual consumer interests, it is certainly also true that the FTC is bound properly to protect public interests and to take appropriate measures. The Act is meant to provide the country with a complete basic law helping to regulate the economy. It puts enforcement in the hands of an administrative body, the Fair Trade Commission. However, with a staff of about 500, the FTC would be hard-pressed to enforce the law, let alone detect all the unfair trade practices that occur in the second largest economy in the world. This gives rise to the question of how far private individuals can rely on the powers the AMA provides for private enforcement. Desirable as these may be, there are a number of difficulties which stand in their way.

According to Art. 90 Civil Code, contracts contravening good business morals are void. However, there is nothing that indicates that every contravention of the AMA is against good business morals and thereby void *per se.* In fact, such a provision would not always benefit those whom the Act is designed to protect: some consumers might be interested in returning goods bought from a trader who used a misleading indication of origin, others might not. Defining all these contracts as void would invariably lead to legal imbroglios.

Whereas German law provides explicit power for damages and injunctive relief to be awarded in cases where there have been breeches of legal statutes outside the civil code, there is no corresponding provision in Japanese tort law. German law explicitly provides that any breach of a statutory duty aimed at protecting the individual rather than only the public at large, would give rise to an action for damages. Given the fact that

4 For details, C. HEATH, The System of Unfair Competition Prevention Law in Japan (Kluwer Law 2001) 35 *et seq.*

preventing further damage is the best way of restoring the status quo, such a breach would also give rise to an action for injunctive relief. Without this provision (§ 823(2), German Civil Code), there would be no link between civil law in general and the specific rules and regulations contained in statutes on particular subjects. Some academics have recently addressed this problem in the context of Japanese law.[5] At the end of 1998, a study group convened by the Fair Trade Commission issued an interim report on providing injunctive relief against antitrust violations.[6] The report very cautiously endorses providing injunctive relief against antitrust violations, yet raises some additional points on matters of jurisdiction and appropriate legal construction:

> "It would be appropriate to introduce a system of private injunction against antitrust violations from the viewpoint of improving the system of remedies for victims, and for deterring unlawful conduct. Yet, in order to make the system of injunctive relief appropriate and effective, further studies should be made on the plaintiff's standing to sue and the jurisdiction of the court."[7]

In the absence of a specific provision, the courts have consistently denied private parties injunctive relief against anti-competitive acts. The leading case in this respect was decided for a by-law of the Anti-Monopoly Act, the Free Gifts and Trade Representations Act. The Housewives Association had tried to gear the FTC into action against the frequently inaccurate or misleading indications on "fruit juice" which very often did not contain much fruit at all. The FTC declined to act and a suit brought against such inaction failed:

> "According to this provision of the Free Gifts and Trade Misrepresentations Act, any person aggrieved by a measure of the Fair Trade Commission under the provisions of Sub-Artt. (1) or (3) [approval of fair competition rules] may lodge an objection. In accordance with other administrative measures, this means that any

5 Particularly the articles by A. NEGISHI, *Minpô to dokusen kinshi-hô* [Civil Law and Cartel Law], in: 46/1 Hôsô Jihô 1 [1994]; M. MATSUSHITA / T. OKADA *Dokkin-hô ihan wo meguru minji soshô ni kan suru hanrei bunkatsu* [Decisions on Civil Actions and Anti-trust Behaviour], in: NBL 370 (1989) 32; K. YOSHIDA, *Fusei na kyôsô ni kan suru ikkanken* [An Opinion on Unfair Competition], in: Jurisuto 1088 (1996) 42; M. AKAMATSU, *Dokkinhô ihan to sashitome seikyûkan* [Contravention against the AMA and injunctive relief], in: *Chiteki zaisan to kyôsôhô no riron* [Writings in Honour of Professor Beier] (Tokyo 1996) 557; M. AKAMATSU, Kartellrechtsverstoß und zivilrechtlicher Unterlassungsanspruch, in: GRUR Int. 1997, 228; K. HIGASHIDE, *Dokusen kinshihô ihankôi ni kan suru shijin ni suru sashitome soshô seidô* [Injunctive relief in a private action based on antitrust violations], in: Kôsei Torihiki 580 (1999) 4; and C. HEATH, Bürgerliches Recht, Wettbewerbsrecht und Kartellrecht in Japan, in: Wirtschaft und Wettbewerb 1995, 93.

6 An annotated Japanese version of the report can be found in K. HIGASHIDE (*supra* note 5) 4 *et seq.* An English summary is available at the Fair Trade Commission's homepage under *www.jftc.go.jp.*

7 K. HIGASHIDE (*supra* note 5) 10.

> objection has to be based upon a legal interest, in other words, an infringement of a personal or legally recognised interest, or else the danger of certain, inevitable damage. Such a legally recognised interest might be one of, *e.g.,* direct competitors, but not consumers at large. With respect to the latter, their interests, according to the Free Gifts and Trade Misrepresentations Act, have to be regarded as the public interest in general, but in the abstract. In other words, the interests protected by the Free Gifts and Trade Misrepresentations Act are protected indirectly and not in a way that would give rise to a claim by any individual whose interests are meant to be protected under the law."[8]

From the end of the 1980s, the number of lawsuits that in some way or other dealt with anti-trust law increased. In most of these cases, the plaintiffs sought remedies against actions they considered as anti-competitive. These decisions are:

(a) *Nomura*.[9] Here, prior to the stock market crash in 1989, some financial institutions had made guarantees to large-scale investors that they would be compensated for any losses in such financial transaction. The financial institutions were interested in a massive volume of financial transactions, and never considered a stock market crash. Offering undue benefits to certain customers is considered anti-competitive according to Artt. 3, 9 General Guidelines on Unfair Business Methods. Four financial institutions were formally warned by the FTC.[10] The civil suit was brought by shareholders of Nomura against the board of directors who had compensated large-scale investors in the amount of 360 million Yen contrary to anti-trust laws. They had thereby committed an unlawful act to the detriment of the company and should pay compensation accordingly. The court rejected the suit: First, compensation of losses could not be considered as contravening anti-trust laws in all cases. Further, pursuing anti-competitive activities was the exclusive task of the FTC and not the courts. Finally, an unfair business method could not be considered a crime.

(b) *New Year's Cards*.[11] It is well known that annually, billions of New Year's cards – *nengajô* – are sent in Japan. The printing and selling of such cards is thus a profitable business in which the defendant, the Japanese postal service, also became involved. The Post sold News Year's cards with the stamp already printed on for the price of the stamp, and thus did not charge for the New Year's card at all. The plaintiff, a producer of New Year's cards, sued for damages and argued that the post was engaging in sales below cost. This is an act prohibited under Art. 6

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8 Decision of the Supreme Court, 1 March 1978, in: 360 Hanrei Taimusu 132, 134 – *"Juice"*.

9 Tokyo District Court, 16 September 1993, in: 827 Hanrei Taimusu 39 – *"Nomura"*.

10 FTC decision of 2 December 1991 against *Nomura, Daiwa, Nikkô* and *Yamaichi*, in: 492 Kôsei Torihiki 82.

11 Osaka District Court, 31 August 1992, in: 1458 Hanrei Jihô 111.

General Guideline on Unfair Trade Methods. The suit was rejected. First, the court argued that normal postcards would also be sold for the price of the stamp, and the additional message printed on New Year's cards would not automatically require a price increase. Furthermore, the modest price would be beneficial to consumers whom the Anti-Monopoly Act was also meant to protect.

(c) *JAL Tickets*.[12] Until April 1994, prices for domestic and international flights were regulated in Japan under the Airport Act. A distinction was made between individual tickets and group tickets. For group tickets, rebates of up to 50% could be given. Most airlines and travel agents flouted these rules by selling group tickets to individual passengers. To maintain the fiction of a group tour, the tickets could only be retrieved at the group tour counter in the airport. The defendant *JAL* had engaged in this scheme and some competitors had sued. They argued that *JAL* thereby contravened the Airport Act, rendering the contracts void. In addition, they contravened the Anti-Monopoly Act by selling below costs stipulated by law. This also meant a contravention of the Unfair Competition Act, as customers were made to believe that they engaged in a lawful transaction, which was not the case. The court dismissed the case, saying that contravention against administrative rules did not automatically render the contract void. Furthermore, the Airport Act did not intend to protect consumers.

(d) *Toshiba Elevator*.[13] The plaintiffs in the *Toshiba* case were entrepreneurs offering repair services for elevators. They offered such repairs for all types of elevators, including *Toshiba* elevators. The defendant *Toshiba*, however, only wanted to sell and deliver spare parts in connection with repair services to be undertaken by an affiliated company. It supplied independent repair services either not at all or only with substantial delay. The plaintiffs sued for damages for lost sales. The court granted the claim in principle: According to the General Guideline on Unfair Business Practices Art. 10, such behaviour amounted to unlawful tie-in sales. In addition, as the defendant supplied about 90% of all spare parts of *Toshiba* elevators, this amounted to a monopolistic position; and the refusal to deal could thus qualify as an abuse of a dominant bargaining position under Art. 15 General Guidelines. Furthermore, there was no reason such as security, etc. why such repairs should not be carried out by independent repair services. The court ordered damages, yet in an almost ridiculous amount – 110,000 Yen for one plaintiff, 73,360 Yen on behalf of the second plaintiff – which was a fraction of what had been requested.

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12 Tokyo District Court, 23 October 1992, in: 810 Hanrei Taimusu 202 – *"JAL Tickets"*.

13 Osaka District Court, 30 July 1990, in: 833 Hanrei Taimusu 68 = 481 Kôsei Torihiki 4; Osaka High Court, 30 July 1993, in: 833 Hanrei Taimusu 62 – *"Toshiba-Elevator"*.

(e) *Construction Steel*.[14] This case concerns a very typical constellation: The plaintiff produced construction steel and required the defendant to refrain from obtaining such steel from other competitors. Such a non-competition clause is quite frequent, but questionable where not required for reasons of quality, etc. A breach of the non-competition clause obliged the defendant to pay a fine. The plaintiff sued for payment of such fine; the defendant counter-claimed certain unpaid bills. The court regarded the non-competition clause as an abuse of a dominant bargaining position (Art. 14 General Guideline),[15] and held that "[a] clause that prohibits the contractual partner from obtaining raw materials for construction material from a source other than the partner contravenes Art. 19 Anti-Monopoly Act and thus good morals. Such a clause is void according to Art. 90 Civil Code." The court thus dismissed the action, and granted the counterclaim.

(f) *Jeans*.[16] The *Jeans* case concerns another typical constellation where the plaintiff was cut off from the delivery chain of the defendant due to the sale of his jeans to discounters. Although the defendants denied this, the court established that "[t]he plaintiff sold the jeans to a discounter called *Topas* that sold the goods cheaply. The defendants had ceased supplying the plaintiff in order to prevent such sale to the discounter and in order to enforce a resale price maintenance. This contravenes fair trade. Refusal of delivery is a contravention against Art. 2 (9) Anti-Monopoly Act in connection with Artt. 2 (refusal to deal), 12(2) (resale price maintenance), 13 (limitation of contractual freedom), and 14 (abuse of a dominant position) General Guidelines and thus a serious violation of the law. The claim for desisting from such behaviour is justified. But while it is correct that the defendant by its behaviour engaged in unfair business practices and thus contravenes Art. 19 Anti-Monopoly Act, it is the job of the Fair Trade Commission under Art. 20 to request the respective enterprise to desist from such behaviour. This provision makes clear that there is no cease and desist claim of the plaintiff. The plaintiff claims that an act contrary to Art. 19 gives a right to request cessation of a boycott to supply. However, systematic considerations make clear that against such unfair acts damages can be requested, but not a cease and desist claim against future acts. But if there is systematically speaking only a claim for damages, cessation cannot be requested under current law." Thus the court rejected the request of future delivery, yet affirmed the defendant's obligation to supply those goods already ordered.

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14 Osaka District Court, Osaka District Court, 5 June 1989, in: 734 Hanrei Taimusu 241 – *"Construction Steel"*.

15 It might have been more appropriate to invoke Art. 11 of the General Guidelines that makes it unlawful to deal with a contracting partner on the condition that such partner does not engage in business with competitors.

16 Osaka District Court, Interim Order of 21 June 1993, in: 829 Hanrei Taimusu 232 – *"Jeans"*.

(g) Yamaha Piano.[17] The facts of the case are rather amusing. The defendant produces and sells pianos in the Nagoya region. He tried to boost sales of his own pianos by announcing the sale of (competing) *Yamaha* pianos with a 30% discount. However, the Yamaha pianos he offered were either used or damaged by fire. Potential customers of those *Yamaha* pianos were then told that these were rather faulty, and that the defendant's own pianos were much better. Although a clear contravention against the FTC Guideline on Bait Advertising,[18] the FTC refused to get involved. The plaintiff *Yamaha* successfully sued under the trademark and Unfair Competition Prevention Law. According to the court, the defendant's behaviour caused undue damage to the reputation of the plaintiff.

The following three cases concern the most prominent battle of discounters in the 1990s: the interest in selling cosmetics at discounted prices, thereby contradicting the cosmetic makers' strategies on keeping prices high and image exclusive. The cases below have been described in all their facets by *Visser t'Hooft* in his dissertation handed in at Leiden University and published in 2002.[19]

(h) Oppen Cosmetics.[20] The defendant *Oppen Cosmetics* required the plaintiff, a cosmetics shop, to sell its cosmetics only by counselling customers face-to-face. The plaintiff sold the defendant's products onto discounters that did not sell face-to-face. Thereupon, the defendant refused further delivery and the plaintiff sued for continuation thereof. It alleged that the obligation to sell face-to-face amounted to a resale price maintenance prohibited under the Anti-Monopoly Act. The obligation was unnecessary, and was only imposed on the plaintiff for the purpose of keeping prices artificially high. The court found that there was a breach of contract, as the plaintiff had sold cosmetics on to discounters. Further, it regarded the obligation of face-to-face sales as no contravention against the Anti-Monopoly Act and dismissed the action. It further held that the defendant only had a market share of 2%, and the plaintiff could easily switch to other suppliers.

(i) Shiseido.[21] The real heavyweight in Japan's cosmetics industry is *Shiseido*. *Shiseido* also requires retailers to sell cosmetics to consumers only face-to-face. The plaintiff had been supplied with *Shiseido* cosmetics since 1962, and sold them mostly via catalogue and without face-to-face counselling. Reprimanded by *Shi-*

17 Nagoya District Court, 29 January 1993, in: 1482 Hanrei Jihô 149 – *"Yamaha Piano"*.

18 FTC Guideline on Bait Advertising of 1982, revised as of 20 April 1994.

19 W. VISSER T'HOOFT, Japanese Contract and Antitrust Law (Routledge Curzon Press 2002).

20 Osaka District Court, 24 July 1992, 39 KTIS 581 = 1046 Jurisuto 241 with comment by M. AKAMATSU.

21 Tokyo District Court, 27 September 1993, in: 833 Hanrei Taimusu 233; Tokyo High Court, 14 September 1994, in: 1507 Hanrei Jihô 43; Supreme Court, 18 December 1998, in: 1664 Hanrei Jihô 3 – *"Shiseido"*.

seido in April 1990, the defendant refused to change its sales policy and *Shiseido* subsequently cut off deliveries. The plaintiff argued that the face-to-face sales clause contravened the Anti-Monopoly Act (thinly veiled resale price maintenance) and demanded delivery within two days of the request. Completely wrong, argued the defendant *Shiseido*: The obligation to sell face-to-face was in order to ensure that customers did not purchase cosmetics they might be allergic to. The Tokyo District Court was sympathetic to the plaintiff's cause. It held that one had to inquire to what extent there was a justifying reason for the face-to-face laws. The defendant *Shiseido* did not prove beyond reasonable doubt that the sale of cosmetics by catalogue or self-service would in any way confuse or endanger consumers. On the other hand, such a method imposed a considerable burden on small retailers, and made large volume sales virtually impossible. There was a likelihood that such a clause contravened the spirit of the Anti-Monopoly Act: "As long as there was no practical necessity for the obligation to sell cosmetics in such a manner, the obligation was comparable to a manufacturer's designation of price, territory or choice of goods and thereby an unfair restriction of trade. Thus, there was no reason to terminate the contract of continued supply." This decision was overturned on appeal. The Tokyo High Court and the Supreme Court regarded personal face-to-face counselling as desirable in order to avoid the dangers of allergy, and also found that the plaintiff had failed to demonstrate that the obligation of face-to-face counselling was intended to uphold a resale price maintenance scheme.

(j) *Kao Cosmetics*.[22] The facts are basically the same as the ones in *Shiseido*, as was the outcome of the court decisions.

2. Evaluation and Subsequent Developments

The above cases highlight a significant uncertainty of the courts in how to deal with anti-trust issues in civil suits. There is an instinctive reaction to ignore anti-trust issues because the Fair Trade Commission should be expected to deal with these issues. This view is inconsistent with prior case law. The Supreme Court has made clear that at least where damage claims are involved, anti-trust violations can be considered as civil wrongs under the general tort clause of Art. 709 Civil Code.[23] The Anti-Monopoly Act in Art. 25 provides for a no-fault civil liability where an anti-trust violation has been confirmed by the Fair Trade Commission. In the absence of such a final FTC decision, victims of anti-trust violations need to establish liability of the perpetrator, yet are not

22 Tokyo District Court, 18 July 1994, in: 1500 Hanrei Jihô 3; Tokyo High Court, 31 July 1997, in: 1624 Hanrei Jihô 55; Supreme Court, 18 December 1998, in: 1664 Hanrei Jihô 14 – *"Kao"*.

23 Supreme Court, 8 December 1989, 36 KTIS 115 – *"Sekiyu Renmei"*.

barred from bringing a suit under general tort law. These inconsistencies in argumentation have not gone unnoticed by Japanese academics.[24] However, no clear pattern has emerged on how to deal with the issue, not least because the Japanese courts have been reluctant to grant injunctive relief beyond the infringement of property rights.[25] However, they might have to in order to uphold the competitive order as envisaged by the Anti-Monopoly Act. This much is acknowledged by Art. 48 *et seq.*: The FTC may take *any* appropriate measures. And to argue that any court orders in this respect would erode into the discretionary powers of the FTC is not particularly convincing: The FTC has discretionary power not in order to tolerate anti-competitive behaviour but rather in order to decide on how to focus its limited resources.[26] This can be likened to criminal law. The discretionary power of prosecution (in some countries) is not given in order to tolerate criminal behaviour, but rather in order to concentrate on causes of particular public interest.

To solve the above quandary, a number of study groups were convened in the mid-1990s to present solutions.[27] Basically, two proposals emerged: One was to implement the catalogue of unfair trade practices under the General Guidelines into the Unfair Competition Prevention Act and thereby allow private suits by competitors (but not consumers).[28] The solution that was actually taken implemented a right of injunctive relief into the AMA, now Art. 24:

> "A person whose interests have been infringed or are likely to be infringed by a violation of Art. 8(1)(v) [acts of trade associations causing entrepreneurs engaged in unfair trade practices] or Art. 19 [unfair trade practices] and who thereby incurs or is likely to incur serious damage, is entitled to request cessation or prevention of such violation from the entrepreneur or trade association engaging in such acts."[29]

Although the provision is limited to unfair business practices, undue restraints of trade as mentioned under Art. 2(5), 3 AMA also often qualify as unfair business practices, *e.g.,* in the case of boycotts. The limitation is thus less serious than it looks at first

24 See the references *supra* at note 5.

25 *E.g.,* Tokyo High Court, 17 December 1991, in: IIC 25 (1994) 805– *"Decorative Veneer".*

26 An in-depth discussion of the issues provided by C. HEATH (*supra* note 5).

27 M. MATSUSHITA (ed.), *Fukôsei na kyôsô kôi to minjiteki kyûsai* [Unfair Trading Acts and Civil Relief], NBL Bessatsu 43 (1997); TSÛSANSHÔ (ed.), *Fukôsei na kyôsô kôi ni tai suru minjiteki kyûsai seido no arikata* [Unfair Trading Acts and How the System of Civil Relief Should Be], NBL Bessatsu 49 (1998); K. HIGASHIDE (ed.), *Dokusen kinshi-hô ihan kôi to minjiteki kyûsai seido* [Anti-competitive Acts and the System of Civil Relief], NBL No. 55 (2000); K. HIGASHIDE, *Dokkin-hô ihan to minji soshô* [Civil Suit and Anti-competitive Acts] (Tokyo 2001).

28 The 1994 Unfair Competition Prevention Act does not protect consumers (unlike the AMA) and grants remedies of injunctive relief and damages only to competitors.

29 The provision was *introduced* by law on 19 May 2000, and came into force on 1 April 2001.

sight.[30] Less clear is the limitation on acts that cause "serious damage," a limitation that is not contained in comparable provisions of Art. 709 Civil Code or the Unfair Competition Prevention Act. One commentator has remarked that "[i]t is impossible to give a logical explanation" regarding this limitation.[31]

Neither is it clear what is exactly meant by "cessation or prevention of violation." The term is certainly more narrow than the one employed in Art. 48. In other words, the courts are not meant to grant plaintiffs the same scope of remedies as the Fair Trade Commission would have had at its hands. Thus, it is clear that the plaintiff can demand cessation such as:

> "The defendant shall not engage in X", or, also "The defendant shall not hinder the plaintiff in engaging in X."

Yet would a right of cessation also include the right to demand performance, *e.g.,* in cases where the supply of goods is concerned? One commentator has expressed doubts about this, not only due to the wording of the provision but also the limitations of the Civil Enforcement Act.[32] He finds it desirable that the courts be more assertive in this respect, however, and on the basis of the current law suggests, *e.g*., in cases of boycott (because of breach of a non-competition clause), that the plaintiffs demand the following:

> "The defendant shall not refuse to deal with the plaintiff because the latter has engaged in business relationships with X" or: "The defendant shall not enforce a clause whereby the plaintiff is prevented from engaging in business relations/ supply with X," or: "The defendant shall not prevent the plaintiff from supplying/ receiving supplies from X."

The above-mentioned author is of the opinion, however, that an order to supply can be issued by the courts on a preliminary basis.[33] Much will depend on how insertion of this provision is interpreted by the courts: as an acknowledgement of the court's freedom to grant appropriate measures against anti-trust infringements or merely as a plaintiff's right to demand injunctive relief under spezial circumstances. Some indications speak for the former. After all, the provision was enacted specifically to counter a social wrong the courts themselves were too timid to tackle in the absence of any provision pointing in this direction.

30 Correctly M. MURAKAMI, *Dokusen kinshi-hô to sashitome, songai baishô* [The AMA and Claims for Injunctive Relief and Damages] (Tokyo 2001) 32.

31 M. MURAKAMI (*supra* note 30) 34.

32 M. MURAKAMI (*supra* note 30) 37/38.

33 M. MURAKAMI (*supra* note 30) 39.

Visser d'Hooft has argued that the Fair Trade Commission itself was sceptical about private enforcement, regarding this as unwelcome competition.[34] The legislature has tried a balancing approach. It allows victims of anti-competitive behaviour to seek remedies against unfair business practices. These are far more uncontroversial than acts of monopolisation or restraint of trade (*e.g.,* bid-rigging schemes or cartels) where the hands of the FTC are often tied by prevailing political interests. And in requiring "serious" damage, the provision apparently tries to exclude "nuisance" lawsuits by elements of the Yakuza trying to find new field of activism. Much will thus depend on how broad or narrow the courts interpret the limitation to injunctive relief. But the provision will certainly make producers more wary of schemes meant to hold retail prices or to enforce other anti-competitive purposes.

III. NEW GUIDELINES FOR LICENSING AND FRANCHISING AGREEMENTS

1. General Remarks

The Fair Trade Commission published its first guideline on anti-trust rules for patent and know-how licensing agreements on 24 May 1968. While Art. 21 (formerly 23) Anti-Monopoly Act exempts "acts that concern the exercise of rights under the Copyright Act, Patent Act, Utility Model Act, Design Act or Trade Mark Act," this is interpreted not much differently from Art. 32 (formerly 36) EC Treaty: Acts are exempt only to the extent that they are justified by the scope of such a right. Acts that use the leverage of the IP right, in order to obtain concessions beyond the scope of the right as such, would not be justified and would thus be impermissible.[35]

The first guidelines of 1968, very short and heavily biased towards a protection of the (presumably) Japanese licensee, were replaced by new ones as of 15 February 1989. These guidelines introduced a distinction between clauses that were always lawful (white clauses), clauses that in certain circumstances would constitute unfair trade practices (grey clauses), and those that were always deemed unlawful (black clauses). Also for the first time, the guidelines clearly distinguished between patent and know-how agreements, and provided for an informal clearing procedure before the agreement was concluded. The 1989 guidelines were subsequently complemented by the 1991 guidelines on the distribution system (see below, 4), the 1993 guidelines on joint research and development (see below, 3), and were finally repealed by the new guidelines of 1998 on patent and know-how licensing agreements (see below, 2).

A strict interpretation of the guidelines can be detected between 1975 and 1980; the most frequently cited clauses were those for grant-back and non-use of competing products.[36]

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34 W. VISSER D'HOOFT (*supra* note 19) 78.

35 H. IYORI / A. UESUGI, *Chiteki shoyûken to dokusen kinshi-hô* [Intellectual Property and Anti-trust], NBL Bessatsu No. 52 (Tokyo 1998) 19.

36 H. IYORI / A. UESUGI, The Anti-Monopoly Laws and Policies of Japan (New York 1994),

Licensing agreements that involved intellectual property rights had to be notified to the FTC under a guideline issued in 1971. The duty of notification concerned only international agreements, was limited in 1992, and completely abolished in 1997.

2. *Patent and Know-How Licensing Agreements*

a) *Court Decisions*

The courts have held clauses unenforceable that oblige the licensee beyond the scope of an intellectual property right (see above for cases where the IP right was licensed at the stage of application and subsequently limited in scope or even denied registration). The reasons for such decisions were not anti-trust considerations, but general aspects of IP policy. To the extent that public policy has limited intellectual property rights to a certain scope, this scope may not be broadened contractually. In the past, the Fair Trade Commission has issued cease and desist orders, basically for three types of anti-trust contraventions in connection with intellectual property rights:

(1) Cases where the licensor imposed sanctions on the licensee for clauses that, due to the above, were unenforceable;
(2) Restrictions on the licensee's research capacity; and
(3) Use of the leverage of the IP right in order to impose other restrictions that are deemed anti-competitive.

Apart from these three types, the Fair Trade Commission has also pursued anti-competitive behaviour on a horizontal level (see below, 3), and attempts to stymie otherwise permissible parallel imports (see below, 4).

- Cases of (1) can best be exemplified by the FTC's *"Nihon Record II"* decision.[37] Here, certain manufacturers of audio discs had tried to prevent shops from renting out these discs to customers. Since the Copyright Act at that time did not provide for any specific rights of rental and lending, the obligation was unenforceable, as the rights over these audio discs were exhausted by the first sale. It was anti-competitive to try to enforce the restriction by way of a boycott against these shops.
- Case (2) concerns limits imposed on the licensee in further developing the licensed technology, or unilateral grant-back clauses, without due remuneration.[38]
- Case (3) concerns other restrictions imposed on the licensee, *e.g.,* tie-in sales[39] or resale price maintenance schemes.[40]

305/306. Complete statistics between 1969 and 1996 by H. IYORI / A. UESUGI (*supra* note 35) 25/26 (Japanese only).

37 FTC, 15 December 1983, in: 389 Kôsei Torihiki 34 – *"Nihon Record II"*.

38 Between 1969 and 1996, the FTC found a contravention against this prohibition in no less than 1,986 contracts: H. IYORI/ A. UESUGI (*supra* note 35) 25/26.

b) FTC Guidelines for Patent and Know-How Licensing Agreements

The above considerations were also the basis for the promulgation of Guidelines for Patent and Know-How Licensing Agreements in 1968, 1989, and 1998. Considerable differences between these guidelines can be explained by two factors: First, the first guidelines of 1968 assumed that the licensee, in principle, was in a weaker bargaining position. Furthermore, the guidelines of 1968, and to some extent those of 1989, did not sufficiently take into account the agreement as a whole, tending rather to focus on individual clauses. This was of particular relevance when determining the lawfulness of grant-back clauses.

The yardstick for the evaluation of vertical restraints is Art. 2(9) Anti-Monopoly Act ("unfair trade practices") and the more specific FTC Guideline on Unfair Trade Practices of 1982.[41] This guideline mentions 16 cases of unfair trade practices, of which the following should be mentioned: concerted refusal to deal; discrimination; tie-in sales; trading on exclusive terms; resale price maintenance; dealing on restrictive terms; abuse of a dominant bargaining position; and interference with a competitor's business transactions. In connection with licensing agreements, particular attention focussed on clauses that were deemed to be a dealing on restrictive terms, or an abuse of a dominant bargaining position.

The 1998 Guidelines[42] take a more balanced view and have considerably reduced those clauses, regarded as unlawful *per se*. For the first time, the guidelines include horizontal restrictions and interpret the above-mentioned Art. 23 Anti-Monopoly Act.
The following vertical restraints are deemed unlawful:

(1) Abuse of a bargaining position by imposing an obligation to pay royalties after expiration of the patent right; licensing more than one patent as a package where unnecessary for the technology involved; requiring the licensee to assign rights over improvement inventions without compensation; or granting exclusive licenses for improvement inventions without corresponding obligations of the licensor.

(2) It is considered an unjust dealing on restrictive terms to prohibit the licensee from challenging the patented technology,[43] from manufacturing competing products or

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39 FTC, 14 December 1998, in: IIC 30 (1999) 478 – *"Microsoft":* "The licensing of a computer program to manufacturers of personal computers with the obligation to license also other programs of the same software maker with a significant market share constitutes an unfair trade practice and is unlawful." The case concerned the bundling of the programs *"Word"* and *"Excel"*.

40 FTC, 13 September 1965, 13 KTIS 72 – *"Yakult"*: resale price maintenance scheme for imported patented products.

41 FTC Notification No. 15/1982, accessible at the FTC's homepage under *www.jftc.go.jp* (English text).

42 Accessible at the FTC's homepage under *www.jftc.go.jp* (English text).

43 Permissible, though, when agreed in a court settlement of an infringement action: FTC, 23 April 1982, in: 381 Kôsei Torihiki 21 – *"Fujisawa"*.

employing competing technology after the expiration of the licensing agreement, or other restrictions to the extent that they have a measurable impact on the market, *e.g.,* to prevent the licensee from asserting his own IP rights against the licensor or to restrict the licensee in sales activities of the patented products.

(3) Retail price maintenance schemes are a violation *per se.*

Know-how licensing agreements are basically judged by the same standards as patent licensing agreements, yet obligations may stretch beyond the period of time specified in the know-how agreement in order to protect the secrecy of the know-how. It is also possible to oblige the licensee not to manufacture competing products "for a short period after the expiration of termination of the know-how licensing agreement to the extent necessary to prevent unauthorised exploitation of the licensed know-how." Strangely enough, the provisions dealing with export restrictions are extremely vague. After all, in a 1995 decision, the Fair Trade Commission held that imposing post-contractual export prohibitions in a know-how licensing agreement was unlawful.[44] The case concerned the licensing of know-how to a Taiwanese company which was not to export its products to Japan. During the contractual time period, the FTC views such a restriction as lawful to the extent that the licensed technology is protected in the country of the export prohibition and the licensor exploits this technology, either directly or through another licensee. It is unclear if this applies both to active and passive sales efforts.[45] After the termination of a licensing agreement, the licensee normally loses the right to use the licensed technology. To that extent it is unclear how the licensee could still produce the epoxy technology even in Taiwan. The distinction must be the following: The know-how was either explicitly or implicitly sold with the termination of the contract, enabling the licensee to freely continue using the licensed technology. To that extent, an export restriction is as unlawful as any other restriction. If the know-how was not sold, the licensee lost the right to use the licensed technology at the end of the agreement, and thereby did not lawfully produce the epoxy in Taiwan. Any restrictions on the licensee would thus be justified. The third possibility is that the licensee should retain the right to use the licensed technology on certain conditions. But then it is difficult to state that the licensing agreement was terminated.[46]

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44 FTC, 13 October 1995, 42 KTIS 163 – *"Asa Denka".*

45 As is noted by Y. ÔHARA, *Hanrei Licence-hô*, Writings in Honour of Kazunori Yamagami (Tokyo 2000) 457.

46 At least it is clear that the FTC had a right to intervene, as the restriction had a measurable effect on the Japanese market.

3. Horizontal Restraints and Patent Pools

While the FTC has been very active in pursuing vertical restraints in technology transfer agreements, horizontal restraints ("undue restraint of trade" under Art. 3 AMA)[47] or attempts of private monopolisation (also, Art. 3 AMA)[48] were rarely subject to the FTC's scrutiny. Private monopolisation concerns unlawful means to exclude others in order to maintain or increase market domination; undue restraints of trade refers to a decrease in competition by mutual agreements.

In its Guideline on Joint Research and Development of 20 April 1993,[49] the FTC addressed the problem of undue restraints of trade in the course of technical cooperation agreements. It particularly identified restrictions regarding research activities – either outside the field of common research or beyond the contractual period of time – as unlawful. The same applies to restraints in research and development for the jointly developed technology, restraints in the grant-back for improvement inventions, and restraints in the sale of the developed products in terms of territory, suppliers, or retail price maintenance.

Restrictions in joint venture agreements may be objectionable when limiting competition between the partners setting up the joint venture. In one instructive case, a foreign and a domestic undertaking founded a joint venture, meant to produce "power shovels" with technology obtained from the foreign partner. The domestic enterprise agreed not to compete with the products developed by the joint venture and not to export certain products to a number of Asian markets. The FTC qualified this as an abuse of a superior bargaining position (unfair trade practice),[50] yet one might well argue that since the restrictions were not imposed on the recipient of the licensed technology, it should have been classified as a case of undue restraint of trade between two potential competitors.[51]

In 1997, for the first time the FTC had an opportunity to rule on an unreasonable restraint of trade by way of a patent pool.[52] The case concerned ten undertakings,

47 FTC, 23 April 1982, in: 381 Kôsei Torihiki 21 – *"Fujisawa":* the parties to a lawsuit used a settlement to agree on a licensing agreement that obliged the licensee not to sell below a certain price. The FTC viewed this as an unlawful restraint of trade, which it is not: it is rather a vertical restriction between licensor and licensee, and thus an unfair trade practice (resale price restriction): H. IYORI / A. UESUGI (*supra* note 35) 40. FTC, 10 September 1993, 40 KTIS 3 – *"Fukuoka Sewage System"*– concerned a joint activity of seven sewage companies, one the patentee, the others licensees, to agree on certain margins for bid-rigging schemes.

48 FTC, 19 September 1951, 3 KTIS 166 – *"Toho Subaru":* one market-dominating cinema tried to bully others out of the market by using its distribution rights for film works.

49 Reprinted in H. IYORI / A. UESUGI / C. HEATH, Das japanische Kartellrecht (Köln 1994) 308 (German only; no English translation seems to have been published).

50 FTC, 26 October 1981, 28 KTIS 79 – *"Komatsu/Bicycrus".*

51 Considered by H. IYORI / A. UESUGI (*supra* note 35) 39.

52 FTC, 20 June 1997, in: Zeitschrift für Japanisches Recht 4 (1997) 148.

engaged in the production and development of pachinko slot machines, with an aggregate market share of 90% and a turnover of around 4 million Euro per year. Over the years, the ten enterprises had held all relevant patents for manufacturing pachinko machines and had set up a trade association for the slot machine industry in Japan, being endowed with the management of licences for such patent rights. Licences were not granted to outsiders. Licensing agreements with members contained a clause whereby the licence could be terminated in case one of the members was bought by an outsider. When the majority of shares of one of the members in 1985 was purchased by an outsider, the association promptly refused an extension of the licence. In 1995, the association refused the grant of the licence on behalf of an ex-member, who had formed a joint venture with an outsider for the joint production of pachinko machines. The Fair Trade Commission found both activities unlawful. The clauses regarding a termination in the case of a take-over were not permissible, nor was the refusal to grant a licence for the reason that it would lead to using the technology by an outsider not bound by the association's restrictive terms.

In the 1998 Guidelines for Patent and Know-How Licensing Agreements, the FTC, for the first time, offered a systematic approach on how to deal with efforts of private monopolisation and undue restraints of trade in connection with intellectual property rights. Acts of prohibited private monopolisation are:

(1) Forming patent pools or cross-licensing agreements and refusing to grant licences without justifiable reasons to new entrants or existing undertakings, or taking other means that have the effect of impeding the market entry of other undertakings;
(2) Acquiring patents and behaving as described in above (1); and
(3) Using licensing terms aimed at the exclusion of outsiders.

The above shall apply in cases where withholding the licence makes it difficult for an undertaking to conduct business activities in a particular field of trade. In other words, the patent as a commercial monopoly must have become a market monopoly. This is more difficult if it is only one patent, and easier if a cluster of patents is involved. And it would constitute an abuse if a licence was withheld under conditions where the patent is deemed an essential facility for market entry.

Undue restraints of trade in connection with intellectual property rights can occur if several enterprises in a cross-licensing or patent pool agreement impose a mutual restriction on the sales price, manufacturing volume, sales volume, sales outlets, sales territories, or other aspects of the patented products. It would be immaterial if these restrictions were directly agreed upon, agreed through a trade association (this would make Art. 8 AMA applicable), or if made in the course of founding a joint venture.

4. Distribution and Parallel Imports

The FTC issued its first guideline on parallel imports in 1987 and slightly revised its position in the 1991 guidelines concerning distribution systems and business practices.[53] According to the FTC, parallel imports facilitate the entry of foreign goods into the domestic market and thus confront the licensed distributors with competitive pressure in setting prices. Under the FTC guidelines, the sole import distributor is considered to have engaged in unfair trade practices under Art. 19 AMA and the general designation of unfair trade practices[54] if he

(1) Prevents parallel importers from purchasing genuine products in overseas markets;
(2) Obstructs retailers in the handling of parallel imports;
(3) Induces wholesalers not to sell to retailers handling parallel imports;
(4) Prejudices the marketing of parallel imports by alleging that they are counterfeit;
(5) Corners parallel imports;
(6) Refuses to make repairs, etc., on parallel imports; or
(7) Obstructs the advertising of parallel imports.

Even before the publication of the above guidelines and in line with the decisions that held the parallel importation of trademarked, copyrighted, and patented products as lawful, the FTC issued a number of warnings to entrepreneurs who tried to obstruct parallel imports.[55] The FTC also views refusal to guarantee maintenance and the supply of spare parts for parallel imported goods as an improper obstruction.[56]

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53 Guideline on Unreasonable Obstruction of Parallel Importing Under the Anti-Monopoly Act, 17 April 1987 as amended by Anti-Monopoly Guidelines Concerning Distribution Systems and Business Practices, 11 July 1991, Part III, Chapter 3, Unreasonable Obstruction of Parallel Imports: reprinted in H. IYORI / A. UESUGI (*supra* note 36) 493.

54 FTC Notification No. 15/1982, accessible at the FTC's homepage at *www.jftc.go.jp*.

55 FTC, formal decision (recommendation) 18 April 1978 against *"Old Bar,"* the sole import distributor of *Old Bar Scottish Whisky*, in: Kôsei Torihiki 330 (1978) 36 and in: Kôsei Torihiki 331 (1978) 45; FTC, formal decision (recommendation), 5 September 1990, 37 KTIS 29, against attempts to prevent parallel importation of French handbags; FTC, informal warning, 25 February 1991 against *Canon*, the sole import distributor of *Apple* computers in Japan, in: Yomiuri Shinbun, 26 February 1991; FTC, formal decision (recommendation), 6 June 1991 against *Arms-Shop Ginza*, the sole import distributor of German *Feinberg airguns*, in: Kôsei Torihiki 489 (1991) 66-67; FTC, formal decision (recommendation), 28 September 1993, 40 KTIS 123: attempts to prevent parallel imports of blood analysis spectrometres; FTC, formal decision (recommendation), 29 February 1996 against *Hoshi Shôji*, KTIS 42, 195 = Kôsei Torihiki 560 (1997) 25; FTC, formal decision (recommendation), 8 May 1996, in: Kôsei Torihiki 552 (1996) 52: attempted obstruction of importing *Steinway* pianos; FTC, formal decision (recommendation), 25 April 1997, in: 1132 Jurisuto 150 = Kôsei Torihiki 562 (1997 74 against *Häagen Dazs* trying to prevent parallel importation of ice cream: comments on these two cases by M. ISHIMOTO / N. KOMURO, in: Kôsei Torihiki 562 (1997) 74; FTC, formal decision (recommendation),

5. *Franchising Agreements*

On 20 September 1983, the Fair Trade Commission issued a "Report on Franchising Agreements."[57] According to this report, a franchising agreement under certain circumstances may contravene Art. 19 AMA, if:

(1) The franchisee has not been sufficiently informed about all material circumstances relevant to the agreement, *e.g.,* conditions of supply, costs and prospective profits, advanced payments and investments, conditions of payment for royalties, etc. (possible inducement by misrepresentation);
(2) Clauses that unduly disadvantage the licensee, *e.g.,* the unilateral possibility of cancelling the contract, the duration of a contract in light of the investments made, or post-contractual non-competition clauses (possible abuse of a dominant bargaining position).

As of 24 April 2002, the legal viewpoint on franchising taken by the FTC was amended. The background of the amendment was the hope that franchising schemes would provide employment opportunities, particularly for less experienced businesspersons.
A concurrent amendment was made to the Small and Medium Enterprise Promotion Act as of 30 April 2002.[58] Under the ministerial order to this act, the franchisor has to furnish certain information in order to obtain permission for the franchising scheme. The scope of such information to be provided has been broadened to include such items as balance sheets of the last three business years, number and change of franchising outlets or payment methods to be required by the franchisee. The FTC guidelines are more concerned with an abuse of a dominant bargaining position by the franchisor. Possible abuses are restraints on the sources of supply, quotas on the amount to be purchased, requirement to offer services outside the franchise agreement, or prohibition to engage in a competing business after the termination of the agreement.

There seem to be no decisions by the FTC on the above principles.

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28 November 1997, in: 1148 Jurisuto 342 against *Hobby Japan*; FTC, formal decision (recommendation), 24 July 1998, in: Kôsei Torihiki 579 (1999) 71, against preventing parallel imports of water filters; FTC, formal decision (recommendation), 28 July 1998, in: 1163 Jurisuto 144, against *Nike* that restricted shoe stores in the supply of shoes if parallel imports were discovered in the shop. H. IYORI / A. UESUGI (*supra* note 35) 25/26 list a total of 97 unlawful attempts of trying to prevent parallel imports where the FTC took formal or informal measures.

56 See the FTC's precedents for consultations on unfair trade practices, published in: 26 FTC/Japan View 37 [1996].

57 Reprinted in H. IYORI / A. UESUGI / C. HEATH (*supra* note 49) 296.

58 English version under *www.unidroit.org/english/franchising/country/japaneselaw2002.pdf* (accessed 4 April 2003).

IV. PATENT RIGHTS AND PUBLIC POLICY

1. *Reform Proposals*

In the last couple of years, the Japanese IP system has seen a number of important changes. Under patent law, apart from an improved exploitation of university inventions and a reform of the rules on employees' inventions, the issue of enforcement was seen as a particularly important issue. The utility model system was reduced to oblivion by the change in 1994. Trademark law was internationalised by adopting the Nice Classification System and by allowing international registrations under the Madrid Protocol. And finally, unfair competition law has become a platform for introducing protection of all sorts of achievements which IP laws cannot properly accommodate.

With respect to legislation, the complete restructuring of Artt. 102-105 Patent Act (infringement) has not only introduced difficult and perhaps controversial provisions of damage calculation, but also given rise to a discussion on the relationship between these provisions and those of the newly reformed Code of Civil Procedure. Further reforms in the above fields may relate to rules for contributory patent infringement, rules for "virtual" trademark infringement, strengthening trade secret protection, broadening the scope of "goods" under the Unfair Competition Prevention Act towards virtual commerce, and introducing moral rights for performing artists. In the same vein, the 2002 amendments of the industrial property laws all related to including acts of "virtual" infringement in the catalogue of forms of use, or to broaden the scope of products so as to include programs.

Developments of the last three years give the impression of an often frantic move towards a "pro-patent" policy, not only in the area of legislation but also case law. There has been no intellectual property law that has not been changed at least once in the last three years, sometimes with very little consideration for the existing structure or system.

Even more dramatic may have been the changes in procedure, both before the Patent Office and the courts. Interviews have become common practice in application procedure, opposition procedures have been streamlined, nullity procedures are currently under review, and time allowed for examination has generally been shortened. The new rule in Art. 105 Patent Act that requires the alleged infringer to "substantively deny" the infringement has speeded up infringement procedures, as have the rules under the new Code of Civil Procedure and the specialised divisions for intellectual property in Tokyo and Osaka. The system of technical advisors dispatched from the patent system to these divisions is currently under review, however. The new rules on damage calculation have made courts more assertive in awarding damages, and the possibility of disregarding an existing patent in infringement procedures has also given them more power. That all these changes have not been without friction is evidenced by a decision of the Tokyo High Court of 19 March 2002 (yet unpublished – *"Pachinko Slot Machine"*). While the court awarded an unheard of damage of 7.4 billion Yen (about 70 million Euro), the Patent Office's Appeal Board invalidated the patent in suit three days later in a concurrent nullity action. Currently, both decisions are under appeal. The rapidly increasing interest and significance of intellectual property rights have already benefited the profession of patent attorneys (increased rights of representation and increasing numbers of successful candidates each year), and may well lead to more specialised IP courses in the "law school system" Japan is going to introduce in 2004. Belatedly, the visionary dream of the Patent Office's first President, *Korekiyo Takahashi*, may come true:

> "We have looked about us to see what nations are the greatest so that we can be like them. We asked ourselves, 'What is it that makes the United States such a great nation?', and we found out that it was patents, and so we will have patents."[59]

2. The Management of Lean Patent Rights

There have been a surprising number of Supreme Court decisions on patent law in the last couple of years. This is surprising because until about 1990, very few Supreme Court cases had dealt with intellectual property rights at all. The mere fact that the Supreme Court decides on the merits of the case means something in Japan where most final appeals are rejected with the laconic remark that "[t]he plaintiff takes a peculiar view that cannot be endorsed." In the case of patents, all four decisions mentioned below have not been decided by interpreting the letter of the law, but rather by interpreting patent law in the light of public policy. Of these four decisions, the first concerns the scope of patent rights and seems to bring Japan more in line with other countries in endorsing the so-called doctrine of equivalents that gives a scope to patents broader than the mere wording of the claims. A closer view reveals, however, that neither in the case at issue nor in most following cases was equivalent infringement actually affirmed. The following two cases concern the limits of patent rights, first through exhaustion, and second through clinical trials. In both cases, a broad limitation of rights was affirmed, despite the fact that there was no international consensus on these issues. Finally, the last case takes a procedural angle and concerns the estoppel of invalidity in infringement procedures. Here, the Supreme Court made clear that it regarded the enforcement of a presumptively invalid right as an abuse that could not be endorsed.

All four decisions deliver a clear message – far clearer than is apparent in comparable decisions of other countries: Patent laws might be monopolies in favour of the patentee, yet their exercise cannot go beyond what is regarded as strictly necessary in

59 Reported in U.S. Department of Commerce/Patent Office, The Story of the United States Patent Office, Washington 1972, 20.

order to maintain the patent's function as an incentive to innovate. Japanese patent law thereby comes far closer to new trains of thought that regard patent monopolies far more critically than the generation of IP specialists that brought about the TRIPS Agreement.

a) Claim Interpretation and Doctrine of Equivalents

The interpretation of patent claims in order to determine the scope of the patent has been one of the most contentious issues in patent law. While the old patent law of 1921 granted a fairly broad scope of protection by applying the German doctrine of the "gist of the invention" rather than literal claim interpretation, this changed with the 1960 Patent Act.[60] The old Art. 36(5) required the claims drafted for a patent to "set forth only the features indispensable for the constitution of the invention for which the patent is sought," thus barring infringement claims for cases where not all the features of the invention were used (so-called incomplete infringement).[61] The equivalents doctrine thus developed by the courts limited equivalents to those that could have been easily anticipated *at the time of filing*.[62] According to a 1998 Supreme Court decision, in cases where the patented invention and the allegedly infringing device are different, equivalents can be affirmed if:

(1) The differences do not concern an essential part of the claimed invention;
(2) The allegedly infringing device, despite the replacement, still retains the same purpose and result;
(3) A person skilled in the art could have easily anticipated the replacement at the time of production;
(4) The allegedly infringing device did not belong to the state of the art nor could it have been easily anticipated therefrom at the time of the patent application; and
(5) In the course of patent application proceedings, the scope of the patent claims was not meant to include the allegedly infringing device.[63]

Subsequent decisions have mostly denied equivalent infringement, particularly because the difference concerned an "essential part" of the invention, a term that finds no interpretation or justification in the current patent law.[64] Equivalents are also excluded

60 See in particular T. TAKENAKA, Interpreting Patent Claims: The United States, Germany and Japan, IIC Studies Series 1995; *e.g.,* Imperial Supreme Court, 29 January 1938 ruled that in interpreting patent claims, courts should consider the nature and purpose of the invention.

61 Tokyo District Court, 26 May 1976, 1056 Torikeshishû 313: "Courts must compare all the elements in the claim to the features of the process in question and find that the patent covers the process only when all the elements of the claim can be read on the process."

62 *E.g.,* Supreme Court, 8 March 1991, in: 1380 Hanrei Jihô 131 – *"ra-Lipase";* Osaka High Court, 25 February 1994, in: 1509 Hanrei Jihô 240 – *"t-PA".*

63 Supreme Court, 24 February 1998, in: 30 IIC 443 [1999] – *"Ball Spline Bearing III".*

64 *E.g.,* Osaka High Court, 1 November 2001, in: Law & Technology 15 (2002) 82: replacement of the patented brush with a filter.

where the allegedly infringing device is already contained in prior art (so-called *Formstein*-defence).[65] The so-called file wrapper estoppel (element (5)) cannot only be invoked where the patent was narrowed in scope in a proceeding between the same parties,[66] but also where limitations were made in the initial application procedure.[67] Still, there are cases where equivalent infringement has been affirmed.[68]

b) International Exhaustion of Rights

Rights for any given product or process covered by a patent are limited to the first act of commercial exploitation (so-called exhaustion). Two questions have been discussed in this respect. First, to what extent marketing a patented product abroad would exhaust the patent rights for this specific product under domestic law in the same way as domestic marketing would, and, second, how the scope of exhaustion should be defined for the repair or reconstruction of products. As to the first question, in 1995 the Tokyo High Court held for the first time that also the marketing of patented products abroad would exhaust the domestic patent right over these products with the consequence that the right of importation could no longer be invoked against parallel importers shipping such goods to Japan.[69] On appeal, the Supreme Court did not endorse this theory. It rather held that marketing of patented products abroad did not automatically exhaust the domestic patent right over these products, but that a solution should rather be sought along the lines of contract: To the extent that the seller (patentee) did not reserve any rights, *e.g.,* importation, when selling the products, the purchaser would receive title without any restriction and was thus free to import these goods to Japan. In other words, absence of any notice to the contrary would imply consent. In order to bring home any such restriction on subsequent purchasers, the limitation would have to be clearly printed on the goods.[70] In other words, unless the goods are clearly marked as not for importation to Japan (though even this language is still unclear), importation is permissible.

Domestic exhaustion would teach that the first commercial marketing of any given patented article does not allow the patentee to control acts of further commercial exploitation. This applies even to cases where the subsequent use of such article by the

65 Tokyo High Court, 28 November 2001, in: Law & Technology 15 (2002) 83.
66 Tokyo District Co[illegible]0 March 2001, in: 1059 Hanrei Taimusu 195: Here, the patentee had narrowed the scop[illegible] the patent in opposition procedures initiated by the defendant to the infringement suit.
67 Osaka District Court, 9 October 2001, in: Law & Technology 15 (2002) 89: Here, the patentee had limited scope of his application during the application procedure and unrelated to the alleged infringer.
68 *E.g.,* Tokyo District Court, 22 May 2001, in: Law & Technology 13 (2001) 71.
69 Tokyo High Court, 23 March 1995, in: GRUR Int. 1995, 417 – *"BBS Car Wheels II"*.
70 Supreme Court, 1 July 1997, in: 29 IIC 331 [1998] – *"BBS Car Wheels III"*.

purchaser is as unwanted as can be.[71] It is not quite clear to what extent the effects of such exhaustion can be limited by contract.[72] In two cases, the courts held it an infringement for third parties to refill one-way cameras, as the exhaustion doctrine did not cover what (according to the court) amounted to a reconstruction.[73]

c) *Clinical Trials and Generic Manufacturers*

Exceptions to the right of exclusive use are always necessary for two purposes: first, for a competitor or any third party to verify that the patented invention is working and can indeed by repeated based on the patent specification (experiment); and second, in order to develop further and ultimately better products or processes (research). One of the most contentious issues in the last couple of years related to experiments by manufacturers of generic drugs aimed at obtaining marketing approval. As even generic manufacturers of drugs have to obtain marketing approval, they normally prove in a simplified procedure that their own product possesses the same characteristics as the one already proved (the so-called bio-equivalency test). These tests are necessary under the Pharmaceutical Act, yet are not or not primarily aimed at improving already existing technology. For that reason, such tests were initially deemed infringing.[74] Subsequent decisions, however, held these tests as not infringing, since Art. 69(1) PA "is not limited to tests conducted with the aim of proving efficacy or technical limits."[75]

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71 In Tokyo High Court, 29 November 2001, in: Law & Technology 15 (2002) 83 – *"Acycrobil,"* the defendant had obtained marketing approval for a generic drug containing the same active formula as the one described in the plaintiff's patent. Marketing approval would expire unless the products were actually brought on the market within six months from the date of marketing approval. The defendant thus purchased the plaintiff's pharmaceuticals containing the active ingredient, distilled the latter and used this basic substance for producing the generic drugs. As the patentee had received the economic benefits deriving from the patent by the act of first marketing, he could no longer control further acts of commercial exploitation by the purchaser. The action was thus dismissed.

72 Osaka High Court, 1 December 2000 (unreported): Here, the plaintiff and patentee had supplied hospitals with tissue paper in patented dispensers. The patentee retained title in the dispensers and obliged hospitals to have the dispensers refilled with tissue paper only through the patentee. The defendant was a company that had refilled the dispensers with tissue. According to the first instance court (Osaka District Court, 3 February 2000), the plaintiff has validly retained title and refilling by third parties thus amounted to an infringement. The High Court found that the retention of title was invalid (as not clearly expressed) and refilling was permissible under the exhaustion doctrine, as the paper as such was not patented.

73 Tokyo District Court, 6 June 2000, in: 1712 Hanrei Jihô 175 – *"Konica";* Tokyo District Court, 31 August 2000 (unreported) – *"Fuji Film".* The patent in question was for the mechanism to transport the film behind the lens from one storage chamber to the other.

74 Tokyo District Court, 10 July 1987, in: IIC 20 (1989) 91 – *"Monsanto";* Nagoya High Court, 16 March 1996, in: IIC 28 (1997) 398 – *"Clinical Trials".*

75 Tokyo High Court, 31 March 1998, in: IIC 30 (1999) 545 – *"Procaterole",* and ultimately,

d) *The Estoppel of Invalidity in Infringement Procedures*

One of the major recent developments of IP infringement procedure is the relationship between infringement and the estoppel of invalidity. It has always been clear that only the Japanese Patent Office has jurisdiction over invalidating a registered IP right, either by request of an interested party (patent law) or the public at large (trademarks). In the case of trademarks, the courts have long refused enforcement in cases where the trademark should not have been registered in the first place[76] or was prone to cancellation.[77] Things were far more complicated for patents. Here, a decision of the Imperial Supreme Court of 1917 had held that the estoppel of patent invalidity would give the court discretion to stay procedures, yet not to regard the patent as invalid.[78] Invalidation procedures before the Patent Office were not only slow, but both parties could even supply the Tokyo High Court with completely new facts on appeal.[79] In circumstances where the patent was presumably invalid, the courts sometimes tried to narrow the patent's scope,[80] or grant the defendant a prior user right.[81] In order to speed up infringement procedures and presumably put some pressure on the Patent Office, the Supreme Court in a 2000 decision explicitly allowed the estoppel of invalidity to be considered by the

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Supreme Court, 16 April 1999, in: IIC 30 (1999) 448 – *"Clinical Trials III" :* exception of clinical trials limited to what would be required under the Pharmaceuticals Act. "Extending such protection to cover also clinical trials conducted by generic drug makers carried out for the purpose of obtaining governmental approval would effectively prolong the life span of a patent, a benefit that cannot be said to be intended by the Patent Act."

76 *E.g.,* Kobe District Court, 21 December 82, 14-3 Mutaishû 813 – *"Dorothee Bis".* Here, a former distributor of the French fashion designer *"Dorothee Bis"* had registered the mark while still distributing *Dorothee Bis* goods. The court held that the goodwill rested only in the French fashion undertaking, not the registered trademark owner, and thus refused enforcement of the mark.

77 Supreme Court, 20 June 1990, in: IIC 25 (1994) 118 – *"Popeye Scarves III".* Here, the Supreme Court held that the registered mark even at the time of registration conflicted with an existing copyright and should thus be cancelled. Cancellation procedures at the Patent Office seemed to take forever as the Patent Office apparently was unable to make up its mind about the cancellation request already filed years earlier.

78 Imperial Supreme Court, 23 April 1917, 23 Minroku 654: "If a new commercial model has been registered as a utility model ..., it is not permissible to deny the validity unless the right has been declared null and void in nullity procedure."

79 Supreme Court, 4 April 1968, 22-4 Minshû 816. The invalidation procedure has two further disadvantages. First, the Patent Office and the courts would only examine the reason of invalidation as argued by the petitioner, rather than make a general assessment of patentability (Supreme Court, 10 March 1976, 30-2 Minshû 79 – *"Knitting Machine").* Second, the patentee can almost endlessly prolong invalidation procedure by requesting an amendment of the patent before the end of the invalidation trial, as this trial would then have to be repeated in light of the amended patent (Supreme Court, 9 March 1999, 53-3 Minshû 303 – *"Rectangular Steel Pipe",* and Supreme Court, 22 April 1999, in: 1675 Hanrei Jihô 115 – *"Calendar").* Should the amendment not be accepted, the patentee can of course appeal against this decision, too.

80 *E.g.,* Osaka District Court, 25 March 1993, in: Patent 11/1994, 121.

81 *E.g.*, Nagoya District Court, 31 July 1991, in: 15 Tokkyo Kenkyû 3.

courts in circumstances where the patent was "obviously invalid."[82] Subsequent decisions affirmed that the grounds for holding a patent invalid could relate to a lack of novelty,[83] of inventive step,[84] of insufficient disclosure,[85] or of misappropriation.[86] The new approach towards invalidity may have speeded up procedures, but it is not necessarily beneficial to the patentee. According to recent statistics, the patentee's success rate in infringement procedures was a mere 24% of the 70 cases where the estoppel of invalidity was raised after the Supreme Court's decision.[87] The Patent Office is currently trying to come up with solutions that would partly restore its function of determining a patent's validity. The only chance to do so would be a system that is far quicker than the current one.

V. THE INTELLECTUAL PROPERTY BASIC ACT

The above clearly indicates that the Japanese legislature in the last decade has contentiously followed a policy of promoting intellectual property and competition for the general benefit of Japanese society. The examples given in the field of anti-trust law reveal certain inefficiencies and/or shortcomings, mainly in Japan's distribution sector. The introduction of a right to claim injunctive relief is meant to curb abuse and improve efficiency without leading to an unwanted amount of litigation. A precedent in this respect can be found in the introduction of derivative lawsuits by shareholders trying to reign in the almost feudal powers of the board of directors. Also in this field, improved rights of action have not led to companies becoming inundated with suits.[88]

In the field of intellectual property rights, the approach has been more complex. First, enforcement of rights has been significantly strengthened, while on the other hand the possibility of patentees to enforce their presumptively invalid rights has been limit-

82 Supreme Court decision, 11 April 2000, in: 1710 Hanrei Jihô 68 – *"Kilby's Patent III"*. The principle is perhaps laudable, yet the example could not be worse: after all, the patent (covering the basic technology for semiconductors) not only took about 30 years to get granted, but also survived no less than 12 (!) oppositions and invalidation requests. It looks as if the courts tried to find reasons for unburdening Japanese semiconductor chip makers from the significant amount of royalties Texas Instruments had demanded for its technology.

83 Tokyo District Court, 14 July 2000 (unreported); Osaka District Court, 5 September 2000 (unreported).

84 Tokyo District Court, 27 September 2000 (unreported).

85 Tokyo District Court, 25 April 2001 (unreported).

86 Tokyo District Court, 30 January 2001 (unreported).

87 In: 111 Japan Patents and Trademarks 12 [February 2002].

88 While derivative suits by shareholders have been possible since the reform of the Commercial Code in 1950 (Art. 267), only a lowering of the court fees to a uniform 8,200 Yen in 1993 made such suits financially possible. Between 1993 and 1995, 174 suits were raised. Abusive actions seem to be few and far between: T. TAKAHASHI, Aktionärsklagen in der japanischen Rechtssprechung, in: Zeitschrift für Japanisches Recht 6 (1998) 101.

ed. In order to balance the legitimate interests of right owners with those of the public, patent claim interpretation has been broadened, as have the limits of patent rights.

On a macro-political level, the above tendencies have been bundled and focussed by the enactment of the Intellectual Property Basic Act of 2002.[89] The Act has no precedent in other countries, and tries to identify the general political goals of an intellectual property system in a country that always had to rely on man-made achievements in the absence of natural resources. The basic purposes of the Act are intensifying the international competitiveness of Japanese industry, proper protection and exploitation of intellectual property, and establishment of an intellectual property policy headquarters within the Prime Minister's office (Art. 1). The creation of intellectual property is to be stimulated within universities and business enterprises by, *inter alia*, ensuring proper treatment of inventors and researchers, creating an attractive and suitable working environment, and guaranteeing the independence of researchers (Artt. 7, 8).[90] The exploitation of intellectual property rights shall be strengthened by technology transfer centres at universities,[91] and by an increased cooperation between the state, local governments, universities, and business enterprises (Artt. 10, 13). Both the grant and enforcement procedures for intellectual property rights are to be streamlined and strengthened. Effective remedies shall be available against all acts of infringement (Artt. 14 through 16). The Japanese government is furthermore called upon to engage in political discussions with foreign nations that fail to properly protect the intellectual property rights of Japanese enterprises (Art. 17). It shall become easier to set up start-up companies and to find ways of evaluating intellectual property (presumably to obtain better financing) (Art. 19). Knowledge of the system of intellectual property protection shall be increased (Art. 21). The intellectual property policy headquarters shall formulate basic policies to achieve the above-mentioned goals, and shall be headed by the Prime Minister.

Finally, the public policy prospective of intellectual property rights is stressed by the most important provision of Art. 10:

> "In promoting measures for the creation, protection and exploitation of intellectual property, attention shall be paid to public interests and the fair use of intellectual property, and the promotion of free and fair competition."

89 Law No. 122/2002 of 4 December 2002, in force since 1 March 2003.

90 The Act falls short of advocating proper remuneration for employed inventors, which at the moment is a very contentious issue in Japan, at least since a 1999 decision held that company guidelines providing for a usually low remuneration have no binding effect and are overruled by Art. 35 Patent Act that requires remuneration in accordance with the success of an invention: Tokyo District Court, 16 April 1999, in: AIPPI Japan International Edition 1999, 255 – *"Olympus Pickup Apparatus";* upheld by Tokyo High Court, 22 May 2001, unreported.

91 For details, see C. HEATH, Commercialising University Inventions in Japan, in: Zeitschrift für Japanisches Recht 12 (2001) 199.

Of course it remains to be seen how these policies will be implemented, and results will presumably take some time to materialise. Yet, if the creation of intellectual property rights is anything to go by, Japan has been remarkably successful in setting up out of nothing an intellectual property system that by now can be considered one of the world's most dynamic.

VI. CONCLUSION

Both anti-trust and intellectual property policy in the last ten years show fairly clear goals and their circumspect implementation. This is consistent with the policies in the field of economics that according to this paper are anything but confused or clueless. Both legal and economic policies show long-term strategies that will make Japan an even more important competitor in the future than it is now.

ZUSAMMENFASSUNG

Der Beitrag analysiert die Gesetzgebung und Rechtsprechung im Bereich des Kartellrechts und des Rechts des geistigen Eigentums innerhalb der letzten zehn Jahre, und setzt diese Entwicklungen in den wirtschaftlichen und wirtschaftspolitischen Kontext Japans. Obgleich Japan in den letzten zehn Jahren gerne so dargestellt wurde, als sei der Kollaps nahe, geben die Wirtschaftsdaten keinen Anlaß für dergleichen Zweckpessimismus (I). Im Gegenteil läßt sich die Wirtschaftspolitik in Richtung eines "vorsichtigen Verbraucherschutzes" interpretieren, bei dem nicht zuletzt das byzantinische Vertriebssystem Japans mit den Mitteln des Kartellrechts aufgelockert werden soll (II). Obgleich die Durchsetzung des Kartellrechts aufgrund der Vermischung verschiedener politischer Interessen eher schwach ist, hat die Politik der Kartellbehörde im Hinblick auf gewerbliche Schutzrechte und Lizenzverträge breite Unterstützung in Rechtsprechung und Literatur erfahren, wo eine enge und zweckgerichtete Auslegung von Schutzrechten seit langem befürwortet wird (III). Obgleich Japan seit etwa zehn Jahren eine aktive Patentpolitik betreibt, bedeutet dies nicht notwendigerweise auch eine weite Auslegung von Patentansprüchen und Patentrechten. Es geht vielmehr um eine richtige Abgrenzung privater und öffentlicher Interessen bei der Durchsetzung von Patentrechten (IV). Besondere Bedeutung mißt die japanische Gesetzgebung in letzter Zeit der Förderung von Hochschul- und Grundlagenerfindungen zu (V). Insgesamt hat sich die Patent- und Kartellpolitik der letzten zehn Jahre um eine Aufweichung monopolistischer Positionen mit der Ziel der maximalen Wohlstandsallokation bemüht – nicht unbedingt zum Vorteile der Rechtsinhaber allerdings.