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REFUSALS TO LICENSE INTELLECTUAL PROPERTY

*by Tadashi Shiraishi**

I. Introduction

I would like to focus on refusals to license intellectual property, because they are genuine and transparent forms of exercising those rights. In other words, if ancillary restrictions added into a licensing agreement are to be condemned in light of antitrust law, the right holder can simply say, "If so, I would refuse to license". Thus, refusal to license is the most important and easiest tool with which we can discuss the IP/AT interface.

The discussion paper distributed in advance refers mainly to Professor Barton's article¹ and Professor Jorde's paper². I generally agree with Barton. Because Jorde's paper is well-organised enough to represent those who are against the idea that some kinds of refusals to license should be prohibited by antitrust law, I am going to comment on Jorde's points.

II. Comments on Professor Jorde's paper

1. *"Many" is different from "all"*

First of all, those who are against the idea of prohibiting some kinds of refusals to license, including Jorde, tend to emphasise that in many cases such prohibitions would have negative welfare effects and then conclude that *all* refusals to license should be permitted³. If, by any chance, the former is correct, that would not logically bring us to the latter. Jorde himself refers to the First Circuit decision in *Data General* where the court cautioned that there might be rare cases where antitrust law should bar refusals to license⁴. We are talking about those 'rare cases'.

I do not believe that those in favour of the essential facility doctrine are going to punish all refusals to license 'essential intellectual property'. Rather, as the 1996 US FTC Staff Report clearly pointed out, this doctrine facilitates rapid screening of situations unlikely to pose competitive concerns⁵ i.e. almost all antitrust enforcers would abstain from applying the essential facilities doctrine where a refusal to license is grounded in legitimate business justifications. Fewer enforcers believe that such justifications are present in every case involving IPR.

2. *Enforcement difficulties?*

Jorde also argues that "Application of the doctrine to intellectual property is also unwise because the remedy -- compulsory licensing -- would require on-going regulation"⁶. This calls for two comments.

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First, this argument might apply to US antitrust law which is mainly enforced by the courts. But, this contention would never justify any policy of a country as a whole. In other words, this argument would not apply even to other laws of US and its states which might deal with refusals to license intellectual property, to say nothing of antitrust laws and other laws of other countries. A competition policy can be realised not only by judicial orders but also by regulatory agencies' activities, *ex post* monetary damages, rejecting injunctive relief against alleged intellectual property infringement, and so on.

Second, even in the field of US antitrust law, consent decrees play a very important role in enforcement. Did AT&T, BT/MCI, Sprint/FT/DT and Microsoft consent decrees come without 'on-going regulations'?

3. *All or nothing?*

Jorde correctly points out that "[p]roblems associated with the breadth of intellectual property should be addressed within intellectual property law"⁷. But, antitrust law could undertake some tasks, too. Otherwise, the conclusions would have to be 'all or nothing'.

Good examples which might not fit the 'all or nothing' formula include intellectual property which is indispensable for taking advantage of standardisation. Some inventors might have to refrain from making any legal claims. In other cases, however, inventors should be permitted to collect 'reasonable' royalties, provided that they do not discriminate against anyone and abuse a dominant position.

One of the most famous cases of standardised intellectual properties is Dell Computer Corp.⁸ Japan Fair Trade Commission (JFTC) has another example, Hinode Suido Kiki, which is related to standardised intellectual property, although it is not a refusal to license case but a quota restriction case⁹. Hinode, which owned a patent on manufacturing covers for manholes, licensed the patent to competitors with restrictions on their quotas. Those restrictions seem to be permitted because a licensee's breach of the restriction would be a patent infringement, the situation of which is similar with refusals to license. In that case, however, Hinode's patent was indispensable for selling covers to the civic government of Kitakyushu, because the government had adopted Hinode's patent as an unavoidable requirement. JFTC declared those quota restrictions illegal, although it did not argue so much about IP/AT interface.

Another example which does not fit the 'all or nothing' paradigm might be intellectual property pools, although even Jorde might support antitrust intervention against multilateral refusals. On August 6, 1997, JFTC issued a cease and desist order to those who manufacture pachinko machines, the Japanese equivalent of pinball. The ten manufacturers have excluded outsiders by accumulating patents for pachinko machines to make an unavoidable patent pool and refusing to license them. JFTC did not require royalty-free licenses but intermediate solutions.

III. Conclusion

Like other commentators, I do not believe that every refusal to license essential intellectual property would be antitrust violation. Nor do I believe that every refusal to license essential intellectual property should be out of the reach of antitrust law. We should discuss the appropriate criteria for distinguishing illegal refusals to license and lawful ones, without giving up debating due to the difficulties.

*Appendix***UNFAIR COMPETITION LAW TO BE ADJUSTED BY COMPETITION POLICY⁰***by Tadashi Shiraishi***I. Introduction**

The law of unfair competition is an important tool to make sound competition policy. For that purpose, however, prohibition of unfair competition should not be enforced to the extent of promoting monopolies. This essay will focus on this topic, with some cases and arguments including those in Japan.

II. The legal framework prohibiting unfair competition in Japan

There are at least two ways of describing the framework of unfair competition law. Starting from 'what to be prohibited' and starting from 'how to be enforced'. The latter method seems to be better for outlining Japan's framework¹¹.

The Anti-Monopoly Act (AMA) authorises the Fair Trade Commission (JFTC) to issue cease and desist orders to some categories of unfair competition. Those are listed as kinds of 'unfair trade practice', the concept of which is much broader than so-called 'unfair competition'¹². Those categories of unfair competition include deceptive representations, premiums which detrimentally affect consumer choice, and so-called business torts which exclude competitors. With respect to misrepresentations and premiums, the Unfair Premium and Unfair Representation Act strengthens the enforcement power of JFTC and also authorises governments of prefectures to deal with regional matters.

The Unfair Competition Act (UCA) enables a private plaintiff to get an injunctive relief. UCA's concept of 'unfair competition' includes free-riding representations, identical copy of tangible products of others, misappropriations of trade secrets, deceptive representations, and falsely speaking ill of competitors. Misrepresentations could be criminally punished pursuant to UCA.

UCA also provides monetary relief. But even for practices not covered by UCA, monetary damages could be sought pursuant to the general tort clause of the Civil Act section 709. There are a number of court decisions in favour of private plaintiffs¹³.

In addition to those, there are not a few industry-by-industry regulations which, mostly administratively, handle unfair competition. And, taking a broader look at the legal system, intellectual property law is an important part of unfair competition law.

III. Adjustments from the viewpoint of competition policy

Japan has some examples in which the law of unfair competition has been adjusted from the viewpoint of competition policy.

1. *Sanyo -- free-riding misrepresentation*

In Sanyo Electric Co.¹⁴, Sanyo sued an alleged free-rider pursuant to UCA section 2-1-1. Sanyo manufactured and sold a series of electronic goods for singles, such as small rice-cookers, small refrigerators and so on. The colour of those commodities was all navy blue. They became so well-known that many consumers could identify navy blue small electronic goods as those of Sanyo. One day, the defendant began to manufacture and sell small electronic goods with the colour of navy blue.

The judgement of the Osaka District Court was in favour of the defendant, saying “If we authorised the plaintiff to enjoy monopoly on a very popular colour, competitors would have fewer choices for their own products, with a result that the last starters would have no choice. An exclusive use of a colour, distinguished from that of a combination of some colours, would unreasonably restrict competition in a market. Thus, even if the colour of navy blue, not a combination of some colours, is well-known enough to indicate that the products are from the plaintiff, it cannot rely on UCA 2-1-1 to seek any remedies.”¹⁵

The decision itself may be controversial because an exclusive use of a colour does not eliminate all competitors but a few of them. But, the case is very interesting in accepting the general principle that the law of unfair competition should be adjusted by competition policy.

2. *UCA section 2-1-3 -- identical copy of tangible products of others*

The 1993 amendment of UCA admitted a new category of prohibition against identically copying tangible products of others (‘dead-copy’ in Japanese English). Form and shape of a newly introduced tangible product will be protected for three years. This clause, which has yet to be frequently used because it is still new, explicitly accepts adjustment by competition policy.

Suppose hypothetically that automobiles were invented and introduced last year. Should the first producer of tires be entitled to prohibit others from manufacturing and selling round tires?

UCA 2-1-3, which adds identical copies to the list of ‘unfair competition’ for the purpose of the Act, explicitly excludes copying “form and shape which such a product should normally have”.

While this is similar with the Sanyo case of UCA 2-1-1, this is an illustration of legislative adjustment to the law of unfair competition.

3. *Adjustment to the expected database protection*

A database, electronic or not, can be copyrighted if the selection and/or arrangement of data is original. But, copyright law protects only the originality itself. If one extracts all the data from the database, excludes some data, adds other data, and shuffles the arrangement, he or she does not infringe the copyright of the database maker because the new database does not feature the same selection and arrangement¹⁶. In other words, ‘sweat of the brow’ or investment itself is not protected by copyright law.

Desiring protection for investment in databases, often cited as a *sui generis* right, the EC adopted a Directive in March 1996¹⁷. Following that, in August of the same year, WIPO (World Intellectual

Property Organisation) unveiled a committee proposal for database protection to be argued at the diplomatic conference of the Organisation¹⁸.

The expected law of database protection is definitely among the law of unfair competition. Thus, in parallel with what has taken place to limit the effects of Japanese UCA 2-1-1 and 2-1-3, there are a number of supporters world-wide for adjusting database protection in light of competition policy. Actually, the EC Commission Proposal for the Directive included an explicit exception in its Article 8¹⁹, a kind of 'compulsory licensing clause'. The final Directive does not have such a clause, but its Recital 47 makes it clear that "the provisions of this Directive are without prejudice to the application of Community or national competition rules". The WIPO proposal is silent as to the issue.

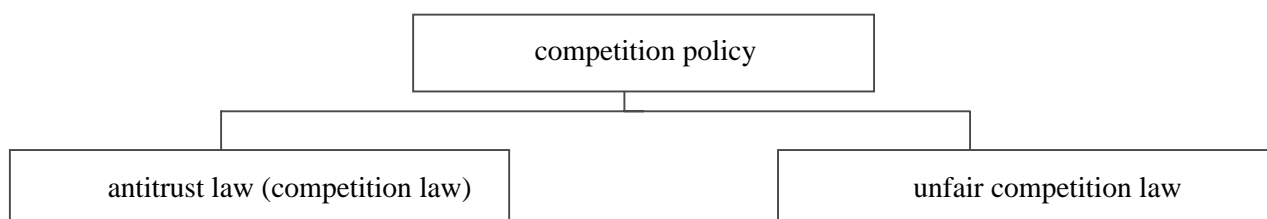
It is fair to speculate that the EC is relying on its competition laws. The reason why the EC Directive dropped the 'compulsory licensing clause' is said to be the appearance of the Magill case in April 1995 at the Court of Justice of the European Communities²⁰. The Court affirmed the Commission decision that a refusal to license 'copyright' violated Article 86 of the Rome Treaty. The 'copyright' in this case, which was given to a compilation of TV program data pursuant to the Irish and the UK copyright laws, does not seem to exist in other countries including Germany, US and Japan²¹. In that sense, Magill is an important leading case of adjusting database *sui generis* right from the viewpoint of competition policy.

The Government of Japan, especially MITI, is studying whether to introduce such a right, listening to various opinions of database makers and users. One of the hot issues is whether and how to make adjustments in light of competition policy. Alternatives include a proposal that the expected database protection law (likely UCA) should have a built-in adjustment like the cases in UCA 2-1-1 and 2-1-3. Although it is not impossible to rely solely on AMA, many people argue that built-in adjustment is indispensable especially in Japan.

IV. Conclusion

Competition policy consists of, among others, unfair competition law and antitrust law (or, competition law). The former assures a sound basis for competition on the merits, and the latter condemns restricting competition on the merits. Unfair competition law is surely a complement to antitrust law.

Taking that for granted, it would be contradictory if unfair competition law promoted detrimental monopolies. We have to adjust unfair competition law from the viewpoint of competition policy. Those adjustments can be realised by antitrust law, well-designed unfair competition law, or both.



NOTES

1. John H. Barton, "Patents and Antitrust: A Rethinking in Light of Patent Breadth and Sequential Innovation", 65 Antitrust L.J. 449 (1997).
2. Thomas M. Jorde, "Issues in the Antitrust -- Innovation Interface", presented at the ABA Antitrust Section Program "The Changing Nature of Competition" (Washington, DC, November 7-8, 1996).
3. Jorde's paper, II, D-1 a, b, d, D-2 c. *See also* Richard J. Gilbert and Carl Shapiro, "An Economic Analysis of Unilateral Refusals to License Intellectual Property", prepared for the conference on "Competition Policies for an Integrated World Economy" (Oslo, June 13-14, 1996).
4. "Wary of undermining the Sherman Act, however, we do not hold that an antitrust plaintiff can never rebut this presumption [that an author's desire to exclude others from use of its copyrighted work is a valid business justification for any immediate harm to consumers], for there may be rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act." *Data General Corp. v. Grumman Systems Support Corp.*, 36 F. 3d 1147, n.64 (1st Cir. 1994).
5. *Anticipating the 21st Century: Competition Policy in the New High-Tech, Global Marketplace* (1996), reprinted in: *Antitrust & Trade Reg. Rep. (BNA)* vol.70 no.1765, Chapter 9, II-C.
6. Jorde's paper, II D-2 d.
7. Jorde's paper, II E.
8. *Dell Computer Corp.*, File No. 931-0097 (consent agreement accepted for public comment (FTC November 2, 1995)).
9. JFTC Decision on September 10, 1993, *Shinketsushu* vol. 40 p. 29.
10. This essay is originally for the meeting of "Comparative Competition Law", Bruges, July 3-5, 1997.
11. Not a few Japanese scholars believe that the intersection of AMA and UCA should be talked from the viewpoint of 'what to be prohibited'. They try to follow German arguments on the interface of GWB and UWG. At least for the purpose of describing the current law in Japan, however, the viewpoint of 'how to be enforced' is a far better tool, especially taking account of the fact that AMA, along with UCA, covers some categories of unfair competition, as explained right away.
12. The rest of 'unfair trade practice' in AMA covers, among others, refusal to deal, predatory pricing, tying arrangement, exclusive dealing, and resale price maintenance. To be sure the number of cases is pretty small in the category of 'private monopoly' of AMA, which is the seeming equivalent of the Sherman Act section 2, this fact provides no basis for criticism of the alleged weakness of Japan's AMA. 'Unfair trade practice' is substantially the most important equivalent of the Sherman Act section 2.
13. Foreign watchers may be familiar with the notion that the requirements for private plaintiffs are too harsh to be satisfied in Japan. This is very misleading. First, the most famous case of the Supreme Court in the Tsuruoka Oil case (December 8, 1989, *Minshu* vol. 43 no. 11 p.1259) did not require impossible proof of the plaintiff, the decision of which was in favor of the defendants just because the plaintiff did not try to prove it at all. Second, common arguments in Japan, which are often exposed to foreigners, have been

concerned almost exclusively with *consumer*-plaintiff *antitrust* suits. Japan has some antitrust cases in favor of *competitor*-plaintiffs and quite a few private cases against *unfair competitions*.

14. Judgment of the Osaka District Court on May 30, 1995, Hanrei Jiho no. 1545 p. 84.
15. This decision apparently followed the articles of Professor Yoshiyuki Tamura of Hokkaido University, the young leader of intellectual property jurisprudence in Japan. See Yoshiyuki Tamura, *Fusei Kyoso Ho Gaisetsu [Unfair Competition Law]* (Yuhikaku Publishing Co., 1994) pp.101-104.
16. See *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349 (1991).
17. Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, [1996] O.J. L 77/20.
18. Basic proposal for the substantive provisions of the treaty on intellectual property in respect of databases to be considered by the diplomatic conference, prepared by the Chairman of the Committees of Experts on a Possible Protocol to the Berne Convention and on a Possible Instrument for the Protection of the Rights of Performers and Producers of Phonograms (CRNR/DC/6, August 30, 1996). This document can be easily and hopefully lawfully extracted from the WIPO website of <http://www.wipo.int/>.
19. Proposal for a Council Directive on the legal protection of databases (submitted by the Commission on 15 April 1992), [1992] O.J. C 156/4.
20. *Radio Telefis Eireann and Independent Television Publications v. Commission*, [1995] E.C.R. I-743, [1995] 4 C.M.L.R. 718 (1995).
21. See the Opinion of the Advocate General (Mr. Gulmann) paras. 118-127.