

JFTC Market Research on Know-How and IP subject to Abuse of Superior Bargaining Position under the Anti-Monopoly Act

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The Japan Fair Trade Commission (“JFTC”) periodically conducts market research to review and investigate business activities that may violate abuse of superior bargaining position (“ASBP”) regulations. For the first time in its history, the JFTC has focused its market research on manufacturer “know-how” and intellectual property (“IP”) after it received multiple complaints from manufacturers who claimed that their know-how and IP were exploited by parties in a superior bargaining position.

ASBP is a type of prohibited single firm conduct (*e.g.*, private monopolization or unfair trade practices). These rules are not unique to Japan but they are unusual, and only a few jurisdictions (*e.g.*, Germany and Korea) have similar prohibitions. ASBP is somewhat analogous to “abuse of a dominant position” but unlike prohibitions on behavior by dominant firms, ASBP does not require market power. ASBP exists when a party in a relative superior bargaining position – as opposed to a dominant position – engages in abusive conduct that runs the risk of being an “impediment to competition” (as this latter term is defined under Japanese law).

The JFTC’s market research was comprised of a combination of (i) written inquiries and (ii) interviews. The JFTC sent written inquiries to 30,000 manufacturers and received 15,875 responses (the response rate was 52.9%). In addition, the JFTC conducted 122 interviews, including interviews with 101 manufacturers, 13 business organizations and 8 experts, including lawyers. The period covered by the research was October 2013 to September 2018. The JFTC issued their report (“Report”) in June 2019.

The Report organized the research into eight broad categories of cases with a total of 30 examples. Summaries of these examples follow.

- 1. Coerced transactions (a) without a non-disclosure agreement (“NDA”) or (b) without an agreement to prohibit an unintended use**
 - Case 1: A metal ware manufacturer was coerced into continuing transactions with a business partner without an NDA, even though it repeatedly asked the business partner for an NDA.
 - Case 2: A manufacturer of machinery and business equipment was coerced into an agreement whereby the manufacturer was required to strictly maintain confidential information, while its business partner was free to use technical information from the manufacturer for various business purposes, without any compensation to the manufacturer.

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- Case 3: A manufacturer of production tooling was rejected in its efforts to enter into an NDA with its business partner. Further, the manufacturer was coerced into entering into an agreement whereunder its business partner was authorized to disclose technology to the business partner's affiliates and customers in its sole discretion.

2. Coerced into disclosing trade secrets

2.1 Coerced to disclose confidential information, including technical information

- Case 4: A food manufacturer was coerced into disclosing its national brand recipe by a retailer who outsourced the manufacturing of its private brand's food products to the manufacturer. The retailer ultimately used the food manufacturer's confidential information to improve its own private brand food products.
- Case 5: A food manufacturer was coerced into disclosing its recipes and manufacturing processes in order to conclude a transaction with a new business partner.
- Case 6: A textile manufacturer was coerced by a business partner into disclosing its know-how for a special textile. The textile manufacturer was forced to provide this information for free.
- Case 7: A textile manufacturer was coerced by a business partner into disclosing trade secrets (specifically, technical information for dyeing chemicals) in addition to providing certain technical information as part of the terms and conditions of the transaction.
- Case 8: A metal ware manufacturer was coerced by a business partner into divulging a trade secret (specifically know-how about processing) without compensation.
- Case 9: A manufacturer of electrical machinery and equipment was coerced by a business partner into disclosing the source code for a control application (*i.e.*, disclosing some of its know-how) without a justifiable reason (*e.g.*, no problems with defects were found).
- Case 10: A metal ware manufacturer was coerced by a business partner into accepting terms and conditions that included requiring the manufacturer to transfer all of its business secrets, including its production methods, to the business partner. The manufacturer was required to do so without any compensation when the contract was due to be terminated, even if such termination was at the request of the manufacturer's business partner.
- Case 11: A chemical manufacturer was coerced into applying for a patent jointly with its business partner. The partner's intention was to make a defensive patent application. The application was made without adequate consultation with the manufacturer and despite the manufacturer's intention not to file a patent.

2.2 Coerced to provide drawings, etc. for free that were not agreed in the contract

- Case 12: A manufacturer of production tooling was coerced by a business partner to provide drawings for molds and other technical data for free. This was not agreed in the underlying contract.

2.3 Coerced plant tour and/or photographing inside of the plant

- Case 13: A metal ware manufacturer was coerced by a business partner to allow anyone to visit the manufacturer's plant at the business partner's sole discretion.
- Case 14: A manufacturer of electronic components, devices and electronic circuits was coerced by a business partner to make a video of its manufacturing process (including any trade secrets that were part of the manufacturing process) and to provide that video to the business partner, even though the business partner has refused to enter into an NDA and/or an agreement to prohibit unintended use.

3. “Abuse of buying power” of drawings, etc. that contain know-how

- Case 15: A metal ware manufacturer was prevented by its business partner from increasing the consideration after the terms and conditions of its contract with the business partner were amended. Under the revised terms and conditions, the manufacturer was to deliver technical materials, including drawings of molds (*i.e.*, know-how), whereas under the previous terms and conditions, it was only required to deliver the molds themselves.

4. Coerced to provide technical training and/or prototypes for free

4.1 Coerced by a competitor to provide a skilled worker’s special technical skills for free

- Case 16: A manufacturer of production tooling was coerced by a business partner, who outsourced production to a foreign manufacturer, to provide technical training by a skilled worker for free, because the foreign manufacturer was unable to properly manufacture the particular products in accordance with a provided drawing.

4.2 Coerced to provide prototypes for free in a course of “continuous” transactions

- Case 17: A manufacturer of transport equipment was instructed by a business partner with which it had an ongoing (so-called “continuous”) transactional relationship, to research and study technical questions presented by the business partner. This responsibility was not included in the contract. The manufacturer was further repeatedly coerced to manufacture prototypes and to conduct experiments for the business partner, with costs to be borne by the manufacturer, in order for the manufacturer to continue its transactions with the business partner.

5. Coerced to enter into a “hollow” joint R&D contract

- Case 18: A rubber manufacturer was coerced by its business partner to sign a contract whereby the business partner was to be given access to new technologies without any consideration, regardless of how little the business partner contributed to the invention, where the invention was the result of “hollow” joint R&D (*i.e.*, R&D where the manufacturer provides its technology but the business partner provides neither funds nor know-how). Later, the business partner switched to manufacturing on its own, using the technology it gained as a result of the efforts of the rubber manufacturer.

6. Interference with a patent application

6.1 Coerced to report and/or amend content of patent application

- Case 19: A manufacturer was required by its business partner to report on the content of its patent application to the business partner, even though the application was irrelevant to its transaction with the business partner. The manufacturer was also forced to revise the patent application, without any benefit in return, when the manufacturer was so instructed.

6.2 Coerced to make a joint application with a business partner for a project where the business partner was not a meaningful contributor

- Case 20: A manufacturer of production tooling was coerced by a business partner to make a joint application for a patent, even though the business partner was not involved in the invention.
- Case 21: A manufacturer of transport equipment was required by a business partner to make a joint application for a patent, even though the related technology was invented solely by the manufacturer. The manufacturer was also coerced to enter into a contract requiring that the manufacturer obtain the business partner’s consent when the manufacturer gave a license to a third party.
- Case 22: A chemical manufacturer was coerced by a business partner into changing the manufacturer’s solo application for a patent into a joint application without any

consideration in return, and the manufacturer was further restricted as to which customers it could sell those products that were manufactured using the patent.

7. Coerced to transfer IP for free or provide license for free

7.1 Coerced to transfer IP for free

- Case 23: A chemical manufacturer was coerced by a business partner to transfer half of its interest in the patent to the business partner without consideration. The chemical manufacturer was further coerced to enter into a contract that required the business partner's consent when the manufacturer licensed the patent to a third party.
- Case 24: An electric equipment manufacturer was coerced to sign a contract, after it had already made delivery that required it to transfer all technologies created in the course of the transaction to the business partner without consideration.

7.2 Coerced to provide license for free

- Case 25: A manufacturer of petroleum products and coal products was coerced by a business partner to accept certain terms in a license agreement. Under these terms, the manufacturer's business partner was authorized to use the manufacturer's IP, which was to be provided to the business partner without consideration.
- Case 26: A plastic manufacturer was coerced by a business partner to accept terms and conditions in a license agreement, including that all IP created solely by the manufacturer in the course of the transaction be transferred to the business partner.
- Case 27: A manufacturer of pulp, paper and paper coating products was coerced by a business partner, despite its contrary intentions, to give a license to the manufacturer's competitor at only a minimal fee because the business partner wanted to be able to procure from multiple suppliers.

7.3 Coerced to provide license at "most favored treatment"

- Case 28: A metal ware manufacturer was coerced by a business partner to accept a contract that was beneficial to the business partner in a unilateral way, and to license it at "most favored treatment" for the business partner.

8. Transfer a risk of IP litigation

- Case 29: A metal ware manufacturer was coerced by a business partner to accept terms and conditions whereby the manufacturer would be entirely responsible in the event that a legal case was filed with respect to the product, even though the manufacturer only processed the relevant products in accordance with the business partner's instructions.
- Case 30: An information communication equipment manufacturer was coerced by a business partner to accept terms and conditions whereby the manufacturer was to be entirely responsible when a dispute with regards to IP arose, even when the business partner designed the product and outsourced its production to the manufacturer.

The Report indicates that in many of the reported cases there were contractual terms and conditions that could constitute ASBP violations. In addition, it suggests that there were complaints from both large companies and small-and-medium sized companies. The Report notes that an ASBP issue could arise even in a situation where a small-and-medium sized company in a superior bargaining position engaged in abusive conduct against a large company.

The JFTC continues to collect information about potential ASBP violations with regard to manufacturers' know-how and IP, and will use its enforcement authority when it finds a violation. The JFTC will disseminate the Report in cooperation with Japan's Ministry of Economy, Trade and Industry ("METI") and Japan Patent Office ("JPO") to encourage companies to comply with the law.

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