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# LEVELING THE PLAYING FIELD: HARMONIZATION OF ANTITRUST GUIDELINES FOR INTERNATIONAL PATENT LICENSING AGREEMENTS IN THE UNITED STATES, JAPAN, AND THE EUROPEAN UNION

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## INTRODUCTION

The friction between antitrust and patent policy traces back to the origins of the patent system in the United States.<sup>1</sup> A patent confers onto

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1. See Paula Dwyer, *The Battle over 'Intellectual Property'*, BUS. WK., May 22, 1989, at 78 (reporting on the tension between the economic incentive premise of the patent system and basic antitrust concerns); see also Lawrence G. Kastriner, *The Revival of Confidence in the Patent System*, 73 J. PAT. & TRADEMARK OFF. SOC'Y 5, 6 (1991) (observing that from early this century until the mid-1970s, a widespread antitrust, antimonopoly public sentiment strongly influenced government policy toward the patent system); Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813, 1816-21 (1984) (describing the patent-antitrust conflict and arguing that the conflict is more deeply rooted than originally thought).

Both antitrust and patent law, however, have the same economic objective. Thomas C. Meyers, *Field-of-Use Restrictions as Procompetitive Elements in Patent and Know-How Licensing Agreements in the United States and the European Communities*, 12 NW. J. INT'L L. & BUS. 364, 364 (1991). They both strive for the maximization of wealth by facilitating the production of goods at the lowest cost possible. *Id.* The framers constructed patent law to encourage competition among inventors by awarding a patent to the person who wins the race to discovery. 1 ERNEST B. LIMPSCOMB III, LIMPSCOMB'S WALKER ON PATENTS § 1:8, at 54 (3d ed. 1984). The introduction of a new patented product on the market stimulates development for a competing product. *Id.* Patent law, thereby, increases overall economic activity by compelling both established firms seeking to remain competitive and new enterprises attempting to enter the market to develop inventions. See SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS OF SENATE COMM. ON THE JUDICIARY, THE PATENT SYSTEM AND THE MODERN ECONOMY, S. DOC. NO. 22, 85th Cong., 1st Sess. 4-17 (1957) (providing examples of how competition spurs economic growth). Anti-

the patent owner the right to exclude others from making, using, or selling the patented invention for a limited time,<sup>2</sup> thereby granting the patent owner a monopoly.<sup>3</sup> The purpose of antitrust law, on the other hand, is to prevent monopolies.<sup>4</sup> Thomas Jefferson, the first patent ad-

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trust law, on the other hand, promotes production by prohibiting monopolization. Meyers, *supra*, at 364.

2. 35 U.S.C. § 154 (1988) (providing that "[e]very patent shall contain a grant to the patentee, his [or her] assigns, for the term of seventeen years the right to exclude others from making, using, or selling the [patented] invention throughout the United States"). The term "patentee" refers to the party or parties receiving the patent grant as well as any successors in title. 35 U.S.C. § 100(d) (1988). This temporary right of exclusivity affords patentees an opportunity to receive a fair return on their investment of labor and capital. *See* ROBERT A. CHOATE ET AL., CASES AND MATERIALS ON PATENT LAW INCLUDING TRADE SECRETS-COPYRIGHTS-TRADEMARKS 71 (3d ed. 1987) (justifying the reasons for granting patent privileges).

To obtain a patent, a patent applicant must submit an application containing a written description of the invention to the Patent and Trademark Office. 35 U.S.C. § 111 (1988). The applicant must also show that the invention is new, useful, and nonobvious. 35 U.S.C. §§ 101-103 (1988).

3. NATIONAL RESEARCH COUNCIL, COMMITTEE ON JAPAN, CORPORATE APPROACHES TO PROTECTING INTELLECTUAL PROPERTY—IMPLICATIONS FOR U.S.-JAPAN HIGH-TECHNOLOGY COMPETITION: REPORT OF A WORKSHOP 7 (1994) [hereinafter CORPORATE APPROACHES TO PROTECTING INTELLECTUAL PROPERTY REPORT]; *Blonder-Tongue Labs, Inc. v. University of Illinois Found.*, 402 U.S. 313, 343-44 (1971); *contra* Otto A. Stamm, *GATT Negotiations for the Protection of New Technologies*, 73 J. PAT. & TRADEMARK OFF. SOC'Y 680, 681 (1991) (arguing that a patent does not confer a monopoly onto its owner because the public may solve the problem faced by the inventor in another way). As an illustration, Dr. Stamm notes the number of pharmaceutical drugs in the market that are available for the same indication. *Id.*

4. *See* Sherman Act, 15 U.S.C. §§ 1, 2 (Supp. 1992) (condemning agreements or conspiracies to restrict interstate and international trade or commerce); Department of Justice Antitrust Guidelines for International Operations, 53 Fed. Reg. 21,584, 21,584 (1988) [hereinafter DOJ Guidelines] (stating that U.S. antitrust laws represent the legal form of the American commitment to a free market economy). *See generally* Kastriner, *supra* note 1, at 6 (noting that courts weakened the patent system through their decisions in antitrust cases because of their concern for restraints of competition).

Although once disfavored as temporary monopolies, patent rights in the United States have gained high regard in recent years. *See* Roger B. Andewelt, Antitrust Perspective on Intellectual Property Protection, Remarks to the American Bar Association (July 16, 1985) *reprinted in* 30 PAT. TRADEMARK & COPYRIGHT J. (BNA) 319, 319 (1985) (describing a shift in the position of the Antitrust Division of the Department of Justice toward expanding intellectual property protection); CHOATE ET AL., *supra* note 2, at 71 (commenting on the modern trend of recognizing the patent right of exclusivity as different from the "odious monopoly" because it does not deprive

ministrator of the United States,<sup>5</sup> recognized this tension between the need for an incentive to spur innovations and discoveries, and the abhorrence of a monopoly.<sup>6</sup>

The conflict between antitrust law and patent law plays out quite dramatically in the context of patent licensing.<sup>7</sup> A patent owner may decline to license the right to exploit the patented invention without legal consequence.<sup>8</sup> Antitrust liability immediately arises, however, when the patent owner decides to license that right to others.<sup>9</sup>

Today, this tension plays out in another context: international patent licensing agreements. There are various antitrust regulations dealing with

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the public of any existing right to the patented invention). Patent licensing benefits consumers by expanding access to technology in the quickest and most efficient manner. DOJ Guidelines, *supra*, at 21,593. In effect, licensing allows the patent owner to combine the owner's technological assets with the manufacturing and distribution assets of others. *Id.*

5. P.J. Federico, *Operation of the Patent Act of 1790*, 18 J. PAT. OFF. SOC'Y 237, 238 (1936).

6. See *id.* at 239-41 (explaining that Thomas Jefferson initially detested all forms of monopolies, but upon reflection, favored limited monopolies as a reward for inventions); see also CHOATE ET AL., *supra* note 2, at 72 (arguing that the American patent system is the only instrument that the government can use to promote invention and discovery). The patent system offers the possibility of a financial reward to inventors and their supporters who devote time and capital to developing technology. S. Chesterfield Oppenheim, *A New Approach to Evaluation of the American Patent System*, 33 J. PAT. OFF. SOC'Y 555, 555 (1955).

7. See generally DOJ Guidelines, *supra* note 4, at 21,593 (observing that the traditional view of intellectual property rights as monopolies created the conflict between antitrust policy and intellectual property rights and the licensing of those rights).

A patent license is a conveyance of a right under a patent that does not amount to an assignment. *Waterman v. MacKenzie*, 138 U.S. 252, 255 (1891). An assignment passes title in the patent, and the right to sue infringers, to the assignee. *Id.* A license, on the other hand, does not transfer title of the patent, nor confer the right to sue infringers, onto the licensee. *Id.* In essence, the patent license is a contract transferring to the licensee the right to make, use, or sell the licensed technology.

8. David H. Marks, *Patent Licensing and Antitrust in the United States and the European Economic Community*, 35 AM. U. L. REV. 963, 966 (1986); see *United States v. Masonite Corp.*, 316 U.S. 265, 277 (1942) (observing that a patentee has the power to refuse to license the patented invention).

9. Marks, *supra* note 8, at 966; see 35 U.S.C. § 211 (1988) (providing that a patent holder is not exempted from civil or criminal liability under any antitrust law); STAFF OF SUBCOMM. OF THE HOUSE COMM. ON THE JUDICIARY, 84TH CONG., 2D SESS., ANTITRUST PROBLEMS IN THE EXPLOITATION OF PATENTS 2 (Comm. Print 1957) (reporting on the antitrust problems that arise from the exploitation of patents).

international patent licensing agreements in the United States, Japan, and the European Union (EU),<sup>10</sup> with the United States promulgating the least restrictive rules.<sup>11</sup> The discrepancy in the licensing standards of these territories creates an adverse impact on the American patent system and, in turn, its overall economy.<sup>12</sup> Specifically, the difference in licensing guidelines diminishes the value of the patent rights of U.S. licensors and raises the cost of acquiring foreign technology for U.S. licensees.<sup>13</sup> The negative effects on American licensors and licensees translate into a decrease in technological innovation and economic growth in the United States.<sup>14</sup>

Given the present state of the U.S. economy and the impending demise of its technological leadership position in the world,<sup>15</sup> the United States can ill-afford to allow the current difference in patent licensing guidelines to stand. It should take corrective measures immediately.

Part I of this Comment sets out the current antitrust laws and patent licensing guidelines of the United States, Japan, and the EU. Part II

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10. Treaty on European Union, Feb. 7, 1992, 31 I.L.M. 247 (amending Treaty Establishing the European Economic Community, Mar. 25, 1957, 298 U.N.T.S. 3). The "European Community," formally known as the European Economic Community, changed its name to the "European Union" following the signing and entry into force of the Maastricht Treaty on European Union in November of 1993. *Id.*

11. See *infra* notes 97-131 and accompanying text (analyzing the differences in the patent licensing guidelines of the United States, Japan, and the EU).

12. See *infra* notes 132-50 and accompanying text (examining the adverse effects that liberal patent licensing guidelines have on the patent system and the economy of the United States). Achieving comparable intellectual property protection internationally becomes more important in view of the increase in intellectual property export from the United States in recent years. Thomas McCarroll, *Creativity-Whose Bright Idea?*, TIME, June 10, 1991, at 45. Intellectual property currently accounts for more than 25% of total U.S. exports compared to 12% just nine years ago. *Id.*

13. See *infra* notes 132-42 and accompanying text (detailing the adverse impact on American licensors and licensees due to more liberal patent licensing guidelines in the United States as compared to those in Japan and the EU).

14. See generally Clyde H. Farnsworth, *In the Market Place of Ideas, Americans Ask for Protection*, N.Y. TIMES, Nov. 20, 1988, § 4, at 24 (examining the relationship between the condition of the American economy and the level of patent protection); Oppenheim, *supra* note 6, at 555 (discussing the interdependence between the patent system and private competitive enterprise in the United States).

15. See 2 REP. OF THE PRESIDENT'S COMM'N ON INDUS. COMPETITIVENESS, GLOBAL COMPETITION: THE NEW REALITY 8-19 (1985) [hereinafter COMMISSION REPORT ON INDUSTRIAL COMPETITIVENESS] (presenting persuasive evidence illustrating the decline of the economic competitiveness of the United States in the world); Kastriner, *supra* note 1, at 7 (commenting on the decline of the United States in the international economic and technological markets).

separates the patent licensing guidelines of these three territories into two categories, substantive and procedural. Part II then compares the advantages and disadvantages of these different approaches to regulating international patent licensing agreements. Part III analyzes the impact of a more liberal regulatory regime on the patent system and the economy of the United States. Finally, Part IV recommends that the United States lead an effort to harmonize the international patent licensing guidelines of the United States, Japan, and the EU to remedy the adverse impact that currently exists. Part IV further suggests that Japan and the EU adopt the regulatory scheme presently in effect in the United States.

### I. THE ANTITRUST LEGAL FRAMEWORK GOVERNING INTERNATIONAL PATENT LICENSING AGREEMENTS IN THE UNITED STATES, JAPAN, AND THE EU

Antitrust laws in the United States, Japan, and the EU are remarkably similar.<sup>16</sup> Their application to patent licensing agreements, however, has given rise to quite divergent guidelines. The following sections describe the antitrust laws of these territories and set forth the patent licensing guidelines that have developed from those laws.

#### A. U.S. ANTITRUST LAW

Two provisions of the Sherman Act<sup>17</sup> are applicable to patent licensing agreements in the United States: (1) section 1 forbids contracts or conspiracies in restraint of trade or commerce;<sup>18</sup> and (2) section 2 prohibits attempts and conspiracies to monopolize trade or commerce.<sup>19</sup> Violators of the Sherman Act face criminal or civil prosecution.<sup>20</sup> Pur-

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16. See *infra* notes 17-19, 36-38, 65-68 and accompanying text (discussing the antitrust laws of the United States, Japan, and Europe).

17. Sherman Act, ch. 647, 26 Stat. 209 (1890) (codified as amended at 15 U.S.C. §§ 1-7 (1988)).

18. 15 U.S.C. § 1 (Supp. 1992). The literal terms of section 1 of the Sherman Act prohibits all concerted activities that restrict trade. *Id.* Through judicial interpretation, however, section 1 applies only to unreasonable restraints of trade because almost all productive activity involves a cooperative effort among persons or firms that restrict trade to some extent. DOJ Guidelines, *supra* note 4, at 21,587; *contra* Business Elec. Corp. v. Sharp Elec. Corp., 485 U.S. 717, 724-25 (1988) (observing that cooperative activity often increases productive efficiency and thereby benefits American consumer welfare).

19. 15 U.S.C. § 2 (Supp. 1992).

20. DOJ Guidelines, *supra* note 4, at 21,585. Criminal violations of the Sherman Act are punishable by fine of up to \$10 million and imprisonment of not more than

suant to the Sherman Act, the Antitrust Division of the Department of Justice (DOJ) promulgated antitrust guidelines for international trade activity.<sup>21</sup> These guidelines apply to international patent licensing agreements.<sup>22</sup> The following subsections discuss these guidelines and describe their requirements as they relate to international patent licensing agreements.

### 1. Substantive Licensing Standards

On June 8, 1988, the DOJ issued guidelines that currently apply to international patent licensing agreements.<sup>23</sup> The guidelines focus upon anticompetitive activity that affects U.S. consumer welfare.<sup>24</sup> The DOJ analyzes all international licensing agreements and their restrictive provisions by first determining whether the underlying transfer of technology is a sham<sup>25</sup> or restricts competition between the parties, and bears no relationship to the restrictions in the license.<sup>26</sup> If the DOJ finds that the license is a sham, the restrictions accompanying the license may be *per se* unlawful.<sup>27</sup>

If the agreement is not a sham, the DOJ applies the rule of reason analysis to the licensing agreement.<sup>28</sup> The rule of reason analysis considers licensing restrictions unlawful if they are collusive or dampen competition, and if their anticompetitive effects outweigh their beneficial

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three years. 15 U.S.C. §§ 1, 2 (Supp. 1992).

21. DOJ Guidelines, *supra* note 4, at 21,584-617.

22. *Id.* at 21,593.

23. *Id.* at 21,584-614. Although the DOJ believes that the analysis stated in the guidelines is economically and legally correct, these guidelines are not intended to be a restatement of the law. *Id.* at 21,585.

24. *Id.* at 21,584. The prohibited anticompetitive activities include artificially restricting output and fixing prices. *Id.* at 21,586. For example, a cartel of producers holding meetings outside the United States cannot escape antitrust liability if it imposes higher prices on U.S. consumers. *Id.* The DOJ, however, would not instigate an antitrust enforcement action against the parties involved unless the anticompetitive effects of their activity on U.S. commerce are direct, substantial, and reasonably foreseeable. *Id.* at 21,584.

25. *Id.* at 21,593. A sham usually arises when the parties are demonstrably not interested in conveying and receiving patent rights, but rather are using the license as a pretext to restrict output, raise prices, or both, in some other market. *Id.* at 21,593 n.98.

26. *Id.* at 21,593.

27. *Id.* at 21,593 n.98. In addition, the offending parties may be subject to criminal prosecution by the DOJ. *Id.* at 21,592 n.89.

28. *Id.* at 21,593.

competitive aspects.<sup>29</sup> Under this analysis, the DOJ considers the cumulative effects of all restrictions in the license.<sup>30</sup> If, on balance, the license has no anticompetitive effects, or if such effects are present but do not outweigh the beneficial competitive results, then the DOJ will not challenge the legality of the license.<sup>31</sup>

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29. *Id.*

30. *Id.* The DOJ does not normally inspect a particular restriction to determine if the restriction advances DOJ competitive goals, or whether a less restrictive alternative exists. *Id.*

31. *Id.* The DOJ Guidelines note that licensing agreements may contain, depending on the relationship between the parties, horizontal restraints, vertical restraints, or both. *Id.* at 21,593-594. Horizontal restraints are restrictions that affect competition between the licensor and licensee in any relevant technological market. *Id.* at 21,594. For example, a license might restrict the price and output decisions of the parties for the technology that the parties market in competition with one another. *Id.* at 21,594 n.99; see Roger B. Andewelt, *Analysis of Patent Pools Under the Antitrust Laws*, 53 ANTITRUST L.J. 611-14 (1964) (providing examples of horizontal restraints in patent licensing agreements). In contrast, vertical restraints are restrictions that affect competition between the licensee and other licensees who are not parties to the license, or the licensor and other licensors. DOJ Guidelines, *supra* note 4, at 21,594.

The DOJ analyzes both horizontal and vertical restraints under the rule of reason. *Id.* at 21,593. Two principles guide the DOJ's analysis: (1) antitrust laws do not proscribe efforts by the licensor to appropriate the full inherent value of the patented technology; and (2) the creation of competition is not a requirement for licensors. *Id.*

Under the rule of reason analysis, the DOJ first examines the effects of the questioned restrictions and classifies them as either horizontal or vertical. *Id.* The DOJ, next, performs a separate analysis depending on the type of restriction present. *Id.* If the questioned license contains a horizontal restraint, the DOJ identifies the technology that is an economic and competitive substitute for the technology being licensed and the markets that are affected by the license. *Id.* After defining the relevant technology and markets, the DOJ determines whether the elimination of competition between the licensor and licensee in that market would be anticompetitive. *Id.* If this determination reveals the license as anticompetitive, it is not necessarily unlawful. *Id.* The DOJ would then examine the nature and extent that the license restriction eliminates price and output decision-making. *Id.* If these results are also anticompetitive, the DOJ would weigh the competitive benefits of the restriction against its anticompetitive effects. *Id.* The DOJ would challenge the license if there is an imbalance favoring anticompetitive effects. *Id.*

Vertical restraints, on the other hand, are accorded enormous deference. See *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 54-55 (1977) (noting that vertical restraints may promote intrabrand competition and induce investment of labor and capital into the distribution and promotion of publicly unknown products, as well as service and repair); DOJ Guidelines, *supra* note 4, at 21,593 (stating that such restrictions are challenged only in rare circumstances because vertical restraints in patent licensing agreements produce significant competitive benefits); see also Lee E.



## 2. Procedural Requirements

Antitrust laws of the United States have no mandatory filing or review procedure for international patent licensing agreements.<sup>32</sup> The DOJ, however, does allow for a "business review" of the licensing agreement.<sup>33</sup> Thus, if the DOJ decides to challenge a particular international patent licensing agreement, it must do so in court.<sup>34</sup> In order to successfully eliminate restrictive provisions from a suspect licensing agreement, the DOJ must prove that the agreement produces monopolistic effects, unreasonable restraints on trade, or unfair competition.<sup>35</sup>

### B. JAPANESE ANTITRUST LAW

On March 31, 1947, Japan enacted the Law Relating to Prohibition of

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Preston, *Restrictive Distribution Arrangements: Economic Analysis and Public Policy Standards*, 30 LAW & CONTEMP. PROBS. 506, 511 (1965) (identifying ways in which vertical restrictions promote competition). The DOJ would still examine vertical restraints, however, by applying the rule of reason analysis to determine the anticompetitive effects, if any. DOJ Guidelines, *supra* note 4, at 21,594. Vertical restrictions are deemed anticompetitive only if they would facilitate collusion in the sale or licensing of competing technologies, or exclude such technologies from the market by tying up so much of the potential manufacturing capacity that no competing technologies could enter the market. *Id.* at 21,609. On the rare occasion that the restraint raises a significant anticompetitive risk, the DOJ, before challenging the legality of the license, would consider the countervailing competitive benefits to determine whether they outweigh the anticompetitive effects. *Id.*

32. See Joel Davidow, *The New Japanese Guidelines on Unfair Practices in Patent and Know-How Licenses: An American View*, PAT. ANTITRUST 1989, at 595, 596 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 270) (stating that while the United States has a filing and review procedure for export trading and joint research ventures, it does not for patent licensing agreements).

33. Department of Justice Antitrust Division Business Review Procedure, 28 C.F.R. § 50.6 (1993). The business review procedure provides licensing parties the opportunity to discover the specific enforcement intentions of the DOJ on a particular transaction. *Id.* To obtain a business review, the parties must submit a request in writing to the DOJ Antitrust Division. *Id.* § 50.6.1. A copy of the agreement and all other relevant data must accompany the request. *Id.* After reviewing the agreement, the DOJ may either state its enforcement intentions, decline to act on the request, or take another action that it considers appropriate. *Id.* § 50.6.8.

34. Roger D. Taylor et al., *A Comparison of International Intellectual Property Licensing Guidelines in the United States and Japan*, 9 UCLA PAC. BASIN L.J. 104, 114 (1991).

35. *Id.* at 109.

Private Monopoly and Methods of Preserving Fair Trade (the Antimonopoly Act or the Act).<sup>36</sup> The Antimonopoly Act is similar to U.S. antitrust laws<sup>37</sup> and prohibits several forms of anticompetitive activity.<sup>38</sup> Section 6(1) of the Act governs international licensing agreements.<sup>39</sup> Section 6(2) requires notification of any international patent licensing contract to the Japanese Fair Trade Commission (JFTC) within thirty days of the contract's formation.<sup>40</sup> The JFTC promulgated the Guidelines for International Licensing Agreements<sup>41</sup> and Rules for Filing Notification of International Agreements<sup>42</sup> to implement these anti-

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36. Shiteki Dokusen no Kinshi Oyobi Kosei Torihiki no Kakuho ni Kansuru Horitsu, [Act Concerning Prohibition of Private Monopoly and Maintenance of Fair Trade], Act No. 54 of April 14, 1947, 2 EHS No. 2270-79, *reprinted in* HIOSHI IYORI AND AKINORI UESUGI, *THE ANTIMONOPOLY LAWS OF JAPAN* 213-65 (1983) [hereinafter *Antimonopoly Act*].

37. Taylor et al., *supra* note 34, at 109.

38. See *Antimonopoly Act*, *supra* note 36, § 1, at 214 (prohibiting activities such as private monopolization, unreasonable restraints of trade, and unfair trade practices).

39. *Id.* § 6(1), at 217.

40. *Id.* § 6(2), at 217-18. The Antimonopoly Act established the JFTC to achieve the Act's goals. *Id.* § 27(1), at 237. Some of the JFTC's most important responsibilities include (1) investigating suspected violations of the Antimonopoly Act, (2) handing down decisions on such investigations through a formal hearing or recommendation procedure, (3) determining behavior constituting unfair trade practices, and (4) recommending corrective measures to parties that have violated the Antimonopoly Act. *Id.* § 2(9), at 217, § 35-(5), at 241, §§ 45-46, at 243-45, § 48, at 245. The JFTC is also responsible for ensuring that unlawful restrictive provisions are removed from licensing agreements. 3 STEVEN Z. SZCZEPANSKI, *ECKSTROM'S LICENSING IN FOREIGN AND DOMESTIC OPERATIONS* § 31.01[3], at 31-37 (Release #38, 1993).

The JFTC's authority to conduct hearings and make recommendations is commonly referred to as quasi-judicial power. *The Antimonopoly Act in Foreign Trade*, 1 Econ. Reg. Foreign Trade (CCH) ¶¶ 37-160 (1988). The JFTC may initiate a quasi-judicial proceeding upon notification of a violation of the Antimonopoly Act by a private party, or when the JFTC gains evidence of a violation. *Antimonopoly Act*, *supra* note 36, § 45(1)-(2), at 243. In a quasi-judicial proceeding, the JFTC may conduct a hearing, make a recommendation to the alleged violator to cease-and-desist from unlawful conduct, or issue a consent decision. *Id.* § 49(2), at 246-47, § 53(3), at 249. A consent decision requires that the respondent to the proceeding admit the facts and suggest an acceptable solution. *Id.* § 53(3), at 249. Failing to obey a JFTC decision may result in a fine or imprisonment. *Id.* § 90, at 258. The respondent, however, may challenge the JFTC decision in a judicial proceeding by filing suit against the JFTC in the Tokyo High Court. *Id.* § 77, at 256, § 86, at 258.

41. Guidelines for the Regulation of Unfair Trade Practices With Respect to Patent and Know-How Licensing Agreements (Executive Bureau, Fair Trade Commission, Feb. 15, 1989), *reprinted in* Taylor et al., *supra* note 34, at 142-62 [hereinafter *JFTC Guidelines*].

42. Rules on Filing Notification of International Agreements or Contracts (Fair

trust provisions. These two administrative regulations are discussed below.

### 1. Guidelines for International Licensing Agreements

On February 15, 1989, the JFTC promulgated the current rules governing restrictions in international patent licensing agreements.<sup>43</sup> The JFTC Guidelines contain three lists of licensing terms. The first list, commonly referred to as the "white list,"<sup>44</sup> addresses licensing terms that the JFTC considers as acceptable trade practices.<sup>45</sup> The second list, the "black list,"<sup>46</sup> enumerates licensing terms that are considered as unfair.<sup>47</sup> The third list, the "gray list,"<sup>48</sup> contains licensing terms that fall in between the terms of the white and black lists, and "may be" considered as unfair.<sup>49</sup>

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Trade Commission, as amended July 23, 1982), reprinted in Preston Moore, *Antitrust Aspects of Technology Exploitation in Japan*, PAT. ANTITRUST 1989, at 629, 675-76 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 270) [hereinafter JFTC Rules on Filing Notification].

43. JFTC Guidelines, *supra* note 41, at 145.

44. Davidow, *supra* note 32, at 604.

45. JFTC Guidelines, *supra* note 41, pmb., ¶ 3, at 146. The white list includes a restriction on the licensee to less than the full life, scope, field of use, or production level of the patented invention. See Davidow, *supra* note 32, at 604 (summarizing guideline restrictions that are not considered unfair trade practices). The list grants to the licensor the right to (1) require nonexclusive grantback of improvements when each party's obligations are balanced; (2) specify use of certain components that are crucial to the invention's quality and effectiveness; and (3) restrict export to areas where the licensor has patents, has developed markets, or has granted an exclusive license to a third party. *Id.*

46. Davidow, *supra* note 32, at 605.

47. JFTC Guidelines, *supra* note 41, pmb., ¶ 3, at 146. The black list includes (1) restricting sale or resale prices of patented goods in Japan, (2) requiring that the licensee not handle competing goods, (3) restricting the use of licensed technology even after termination of the patent agreement, (4) restricting the licensee's research and development ability, and (5) requiring exclusive grantback of improvements. Davidow, *supra* note 32, at 605.

48. Davidow, *supra* note 32, at 605.

49. JFTC Guidelines, *supra* note 41, pmb., ¶ 3, at 146. The JFTC will judge situations falling in the gray list under a "rule of reason" analysis. Moore, *supra* note 42, at 629, 638-39. The gray list includes licensing practices such as (1) export restrictions in areas where the licensor is not active, (2) tying, (3) controlling export prices, (4) requiring sales through the licensor, and (5) establishing quality requirements on components. Davidow, *supra* note 32, at 605. The JFTC usually treats these licensing provisions as acceptable unless complaints are made, or the provisions arise

## 2. Rules for Filing Notification of International Agreements

The Antimonopoly Act contains a filing requirement to ensure that international licensing agreements do not contain illegal restrictive provisions.<sup>50</sup> As a result, Japanese licensees must file a notification<sup>51</sup> and a copy of the agreement with the JFTC within thirty days of the agreement's execution.<sup>52</sup> Although the JFTC does not require the filing of all international licensing agreements,<sup>53</sup> the JFTC does require the filing of technology-based licensing agreements, which include patent, utility right, know-how, trademark, and copyright-related licenses.<sup>54</sup> Failure to file the agreement results in a fine of not more than five million yen.<sup>55</sup> After the licensee files the agreement, the JFTC reviews it for possible violations of licensing rules and antitrust laws.<sup>56</sup> The JFTC, however, does not provide notice to the parties when it completes the review.<sup>57</sup> If the JFTC does not act within ninety days, any inquiry or challenge is unlikely to occur.<sup>58</sup>

## 3. The Clearance System

As an alternative to the notification procedure, and in addition to enumerating specific licensing terms that are permissible or prohibited, the JFTC Guidelines provide a "Clearance System" which permits for-

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in a dominated market context. *Id.*

50. Antimonopoly Act, *supra* note 36, § 6(2), at 217-18; Taylor et al., *supra* note 34, at 122-23. The filing requirement, however, does not prevent consummation of the licensing agreement. Moore, *supra* note 42, at 642. The filing requirement applies to both imports and exports of patented technology, but scrutiny is more likely when the Japanese party is the licensee. *Id.* The JFTC will generally limit scrutiny to agreements that affect the Japanese domestic economy. *Id.*

51. JFTC Rules on Filing Notification, *supra* note 42, § 2, at 675-76. The notification is a form that sets forth certain information about the transaction. Moore, *supra* note 42, at 642.

52. Antimonopoly Act, *supra* note 36, § 6(2), at 217-18.

53. Taylor et al., *supra* note 34, at 123; see JFTC Rules on Filing Notification, *supra* note 42, § 2, at 675-76 (specifying the categories of international licenses in which the notification requirement applies).

54. JFTC Regulation No. 3 of 1982, cited in Taylor et al., *supra* note 34, at 123 n.135.

55. Antimonopoly Act, *supra* note 36, § 91, at 260.

56. JFTC Rules on Filing Notification, *supra* note 42, § 2, at 675-76.

57. Moore, *supra* note 42, at 642.

58. *Id.*

eign licensors and Japanese licensees<sup>59</sup> to confirm with the JFTC that no provision in their licensing agreement constitutes an unfair trade practice.<sup>60</sup> The Clearance System is optional and is designed to assist the licensing parties in constructing a lawful agreement.<sup>61</sup> Before binding themselves, the licensing parties can determine the legality of specific licensing provisions in the agreement by submitting the agreement to the JFTC under the Clearance System.<sup>62</sup> A JFTC clearance ensures the licensing parties that their agreement would not be subject to a legal challenge.<sup>63</sup> The JFTC, however, may withdraw this clearance if the circumstances surrounding its decision change.<sup>64</sup>

### C. EU ANTITRUST LAW

Articles 85 and 86 of the Treaty of Rome<sup>65</sup> are the primary antitrust provisions that govern patent licensing agreements in the EU.<sup>66</sup> Article

59. JFTC Guidelines, *supra* note 41, pmb., ¶ 5, at 146.

60. Fact Sheets about Filing System for International Agreements under the Antimonopoly Act, § 3(1) (International Transaction Division, Executive Bureau, Fair Trade Commission, Feb. 15, 1989), *reprinted in* Moore, *supra* note 42, at 629, 666-70 [hereinafter Fact Sheets].

61. Taylor et al., *supra* note 34, at 138.

62. *Id.* Once the JFTC determines that the agreement does not contain any unlawful restrictions, the JFTC will provide notification of such determination to the requesting party. Fact Sheets, *supra* note 60, § 3(2), at 668.

63. Fact Sheets, *supra* note 60, § 3(2), at 668.

64. *Id.* The JFTC Guidelines do not specify the types of circumstances that would lead the JFTC to withdraw its clearance. Moore, *supra* note 42, at 638. They might, however, include changes in the overall business relationship between the parties, the concentration of market share, or other factors material to the original clearance grant. *Id.*

The option to withdraw a prior clearance is an important JFTC power because valid licensing agreements, which can span many years, may become invalid over time and create unfair trade practices that necessitate a change in the JFTC position on the clearance. Taylor et al., *supra* note 34, at 120 n.121.

65. TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY [EEC TREATY] arts. 85-86, *quoted in part in* Michael L. Coleman & Dieter A. Schmitz, *The EEC Patent Licensing Regulation-Practical Guidelines*, 42 BUS. LAW. 101, 101 nn.3-4 (1986).

66. See Salem M. Katsh & Douglas A. Nave, *Introduction to the Licensing of Intellectual Property Rights under the Completion Laws of the European Community: An Outline of Primary Sources*, TECHNOLOGY, LICENSING AND LITIG. 1990, at 369 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 287) (outlining the EU's antitrust provisions that are applicable to intellectual property licensing). Articles 30 through 34 of the Treaty of Rome ensure the free

85(1) of the Treaty prohibits agreements and concerted practices between two or more enterprises that restrict competition within the EU.<sup>67</sup> Article 86, although sparingly used, prohibits any enterprise or group of enterprises from abusing a dominant position within the EU.<sup>68</sup> The fol-

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movement of goods within the EU. *Id.* at 370. Article 36, however, justifies prohibitions or restrictions on imports and exports of goods on intellectual property grounds. *Id.* As a result, EU regulatory bodies have recognized the valid exercise of intellectual property rights as commanded by article 36, but they have also narrowly construed such rights when the free movement of goods is restricted. *Id.* at 372.

67. EEC TREATY, *supra* note 65, art. 85(1), at 101-02 n.3. Article 85(1) provides as follows:

The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:

- (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
  - (b) limit or control production, markets, technical development, or investment;
  - (c) share markets or sources of supply;
  - (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- or
- (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

*Id.*

68. *Id.* art. 86, at 102 n.4. Article 86 provides as follows:

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between Member States. Such abuse may, in particular, consist in:

- (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
- (b) limiting production, markets or technical development to the prejudice of consumers;
- (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; or
- (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

*Id.*

lowing subsections outline instances in which article 85(1) applies to a particular licensing agreement, and the administrative remedies or exemptions available.

### 1. *The De Minimis Exception*

As construed by the European Court of Justice (ECJ), article 85(1) applies only to licensing agreements that appreciably restrict competition and affect trade between EU member-states.<sup>69</sup> The determination of when a specific agreement appreciably restricts competition and affects trade requires an analysis of the entire economic sphere in which the agreement operates.<sup>70</sup> The EU Commission (the Commission) interpreted the ECJ's concept of appreciability in its "De Minimis Notice" (the Notice).<sup>71</sup> The Notice specifies the types of agreements that create only a negligible effect on competition and, thus, do not infringe article 85(1).<sup>72</sup>

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In contrast to article 85(1), article 86 does not allow for any exemptions. *Id.* Discussion of article 86 in this Comment is limited for two reasons. First, article 86 is the least used general antitrust provision relating to intellectual property licensing. Katsh & Nave, *supra* note 66, at 379. Second, European Court of Justice precedent indicates a trend toward reading article 86 narrowly when patent rights are implicated. *See id.* at 379-80 (citing Case 238/87, A.B. Volvo v. Erik Veng (U.K.) Ltd., 1988 E.C.R. 18,685, [1987-1988 Transfer Binder] Common Mkt. Rep. (CCH) ¶ 14,498 (holding that refusing to license is not an abuse of a dominant position); Case 53/87, Consorzio Italiano della Componentistica di Ricambio per Autoveicoli (CICRA) & SpA Maxicar v. Regie Nationale des Usines Renault, 1990 CEC (CCH) 267 (concluding that the acquisition of exclusive intellectual property rights is not an abuse of a dominant position); Parke Davis & Co. v. Probel, 1968 E.C.R. 55, [1967-1970 Transfer Binder] Common Mkt. Rep. (CCH) ¶ 8054 (finding that pricing patented products higher than non-patented products is not an abuse of a dominant position); *but see* Comm'n Press Release, IP (78) 111 (June 9, 1978), Common Mkt. Rep. (CCH) ¶ 10,055 (stating that a dismissal of patent infringement suits after defendants entered into restrictive covenants is an abuse of a dominant position)).

69. Coleman & Schmitz, *supra* note 65, at 101.

70. *Id.* at 102. The analysis is based on a number of factors which include the nature and quantity of the licensed product, the relative positions of the parties in the market, and the number of parties to the agreement. *Id.* Both the actual and potential restrictions on competition are considered. *Id.*

71. Commission Notice of 3 September 1986 on Agreements of Minor Importance Which Do Not Fall Under Article 85(1) of the Treaty Establishing the European Economic Community, 1986 O.J. (C 231) 2 [hereinafter De Minimis Notice].

72. *Id.* art. 2, at 2-3. According to the Notice, article 85(1) does not apply to agreements between firms engaged in production or distribution where (1) the products subject to the agreement, and any substitute products produced by the parties, do not

In the event that the *de minimis* exception does not apply, the exclusive patent licensing agreement would violate the antitrust prohibition of article 85(1).<sup>73</sup> Unless the Commission individually exempts the agreement pursuant to article 85(3), the agreement is voidable by the Commission, or by a court of a member-state, at any time.<sup>74</sup>

## 2. Individual Exemptions

According to article 85(3), an agreement that infringes article 85(1) may receive an individual exemption if the agreement is generally procompetitive.<sup>75</sup> Only the Commission has the authority to grant exemptions under article 85(3).<sup>76</sup> Due to limited staffing and resources, the Commission is unable to review all submitted agreements and evalu-

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represent more than five percent of the total market for such products in the EU territory affected by the agreement; and (2) the combined annual gross revenues of the parties do not exceed 200 million European Currency Units. *Id.* In addition, the Notice provides that the agreement remains outside the scope of article 85(1) even if the parties' aggregate market share, combined annual gross revenue, or both increase up to 10% during two consecutive fiscal years. *Id.* art. 2, at 3.

73. Coleman & Schmitz, *supra* note 65, at 107. There are three possible consequences for violating article 85(1). First, the infringing license becomes voidable. EEC TREATY, *supra* note 65, art. 85(2), at 103 n.8. Second, the Commission may fine the licensing parties. *Id.* art. 87(2)(a), at 103 n.9. Third, the licensing parties are potentially liable to third-party claims for damages. Coleman & Schmitz, *supra* note 65, at 103.

74. Coleman & Schmitz, *supra* note 65, at 103.

75. See EEC TREATY, *supra* note 65, art. 85(3), at 104 (providing that an individual exemption is appropriate where the agreement meets the following four conditions: (1) improves the production or distribution of goods or promotes technological or economic progress; (2) reserves to consumers a fair share of the resulting economic benefits; (3) contains only indispensable restrictions; and (4) does not eliminate competition in a substantial part of the product market).

76. Coleman & Schmitz, *supra* note 65, at 103. A party who is denied an article 85(3) exemption, however, may appeal to the ECJ. *Id.* at 104.

Typically, licensing parties seeking an article 85(3) exemption must notify the Commission of the substance of their agreement. Council Regulation 17/62: First Regulation Implementing Articles 85 and 86 of the Treaty, 1959-62 O.J. Spec. Ed. arts. 4(1), 5(1) [hereinafter Council Regulation 17/62]. Notification confers valuable privileges. The licensing parties would not be subject to a fine for conduct during the period between the agreement's notification to the Commission and the Commission's decision, if the notification was full and accurate. *Id.* arts. 4, 5, 15(5). Additionally, if an exemption under 85(3) were granted, a third party cannot later challenge the granted exemption even if that party had not been heard previously. Marks, *supra* note 8, at 971-72.



ate them for possible exemptions under article 85(3).<sup>77</sup> In response to the large number of agreements pending review and the length of time required for formal decisions,<sup>78</sup> the Commission developed several procedures for disposing of agreements that are either not covered by article 85(1) or should receive an exemption under article 85(3).<sup>79</sup> These alternative procedures are discussed below.

### 3. *The Comfort Letter*

The Commission may issue an administrative statement, commonly referred to as a "comfort letter," which informs the licensing parties that article 85(1) does not apply to their agreement, or that an exemption under article 85(3) is available.<sup>80</sup> If the licensing parties receive a comfort letter, they can expect no further Commission action.<sup>81</sup>

### 4. *The Negative Clearance*

In addition to the comfort letter, patent licensing parties may seek a "negative clearance."<sup>82</sup> The negative clearance is a formal Commission

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77. Coleman & Schmitz, *supra* note 65, at 105; Marks, *supra* note 8, at 968; see Katsh & Nave, *supra* note 66, at 372 (concluding that the lack of meaningful deadlines under article 85 contributed to the delay of exemption decisions by the Commission). Since 1962, the Commission has formally ruled on only five to 20 article 85(3) exemption applications per year out of the 4,000 submitted agreements. Coleman & Schmitz, *supra* note 65, at 105. The Commission acknowledges that although it has issued a formal decision in as little as 10 months after receiving an agreement, complex cases can require up to four years. Commission Answer to Parliamentary Question 173/85, 1985 O.J. (C 255) 27, 28 [hereinafter Commission Answer 173/85]. The average time for formal decisions is about 24 months. *Id.*

78. See *supra* note 77 (describing the number of patent licensing agreements filed for review each year and the amount of time required to process such agreements by the Commission).

79. See *infra* notes 80-96 and accompanying text (discussing the procedures developed by the Commission to expedite the processing of licensing agreements that are submitted for review).

80. See Joined Cases 253/78 and Ito 3/79, *Procureur de la Republique v. Bruno Giry & Guerlain S.A.*, 1980 E.C.R. 2327, 2371-74, 2 Common Mkt. Rep. (CCH) ¶¶ 99, 133-35 (1981) (discussing the legal status of comfort letters); see also Commission Answer 173/85, *supra* note 77, at 27-28 (outlining the Commission's informal decision-making process for issuing comfort letters).

81. See Katsh & Nave, *supra* note 66, at 376 (stating that the Commission does not contemplate additional administrative action on a licensing agreement that has received a comfort letter).

82. Council Regulation 17/62, *supra* note 76, art. 2; Katsh & Nave, *supra* note

decision that the blanket prohibitions of article 85(1) do not apply.<sup>83</sup> The clearance, therefore, implies that an exemption under article 85(3) is unnecessary.

### 5. The Block Exemptions

Finally, the Commission has the authority to promulgate block exemptions for certain categories of licensing agreements.<sup>84</sup> Under this authority, the Commission designates types of agreements that fall within article 85(1) because of their anticompetitive effects, but are automatically exempted from antitrust laws under article 85(3).<sup>85</sup> One type of agreement that qualifies for a block exemption is the patent licensing agreement.<sup>86</sup>

The current regulation conferring a block exemption to patent licensing agreements took effect on January 1, 1985.<sup>87</sup> Patent licensing agreements that satisfy the criteria of Regulation 2349 are exempted from the antitrust rules of the EU.<sup>88</sup> Article 1 of Regulation 2349 identifies licensing provisions that fall within the scope of article 85(1), but are exempted pursuant to article 85(3).<sup>89</sup> Article 2 lists restrictions that

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66, at 376-77.

83. Council Regulation 17/62, *supra* note 76, art. 2. The Commission grants a negative clearance when (1) there is no legally cognizable agreement between the parties, (2) the notified conduct does not affect trade between member-states, or (3) the notified conduct does not appreciably restrict competition in Europe. Katsh & Nave, *supra* note 66, at 376.

84. Coleman & Schmitz, *supra* note 65, at 106 n.22.

85. *Id.*

86. Commission Regulation 2349/84 of 23 July 1984 on the Application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing Agreements, 1984 O.J. (L 219) 15, art. 1, at 18-19 [hereinafter Regulation 2349]; *see also* Commission Regulation 1983/83, 1983 O.J. (L 173) 1 (establishing a block exemption for exclusive distributorship agreements); Commission Regulation 418/85, 1985 O.J. (L 53) 5 (providing a block exemption for research and development agreements).

87. Regulation 2349, *supra* note 86, art. 14, at 24.

88. *Id.* art. 1, at 18-19. There are two important limitations on the block exemption under Regulation 2349. First, the block exemption only applies to two-party licensing agreements. *Id.* art. 1, at 19. Thus, parties to a three-party licensing agreement must seek an individual exemption under article 85(3), instead of under the block exemption. *See supra* note 75 (describing the requirements of an article 85(3) exemption). Second, the Commission reserves the right to withdraw the block exemption when it finds that an exempted agreement has certain anticompetitive effects. *See* Regulation 2349, *supra* note 86, art. 9(3)-(4), at 23 (describing two particular situations where the withdraw of the block exemption is appropriate).

89. Regulation 2349, *supra* note 86, art. 1, at 18-19. Article 1 of Regulation

may limit competition, depending on the particular legal and economic circumstances in which they arise.<sup>90</sup> Article 3 of Regulation 2349 ex-

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2349, commonly referred to as the "white list," enumerates seven licensing provisions that ordinarily constitute restrictions of trade within the meaning of article 85(1), but are exempted under article 85(3). *Id.* Recital (11), at 16. As a prerequisite to imposing the permissible restrictions upon a licensee, the licensor must obtain valid parallel patents in the territory in which the licensee is excluded. *Id.* arts. 1(1), 1(3)-(6), at 19.

The white list contains two permissible restrictions upon a licensor and five upon a licensee. *Id.* art. 1(1)-(7), at 19. The list restricts a licensor from exploiting the licensed invention, or from granting licenses to others to exploit the invention, in the licensee's territory as long as one of the licensed patents remains enforceable. *Id.* art. 1(1)-(2), at 19.

The permissible restrictions upon a licensee include an agreement by the licensee not to make, use, or sell the licensed invention in the territories reserved for the licensor. *Id.* arts. 1(1), 1(3), at 19. Similarly, a licensor may prohibit a licensee from manufacturing or using the licensed product in the territories reserved for other licensees. *Id.* arts. 1(1), 1(4), at 19. A licensor also may require a licensee to use the licensor's trademark provided that the licensee may identify itself as the manufacturer. *Id.* arts. 1(1), 1(7), at 19.

A licensor may further restrict the licensee from an "active sales" policy in territories licensed to other licensees. *Id.* arts. 1(1), 1(5), at 19. Particularly, restrictions on the licensee may include advertisements specifically aimed at territories licensed to other licensees, or the establishment of a branch or the maintenance of a depot in such territories. *Id.* arts. 1(1), 1(5), at 19.

Finally, a licensor may impose a "passive sales" restriction on a licensee under which the list requires the licensee to refuse unsolicited orders from intermediate distributors or end-users in other EU licensees' territories for five years. *Id.* Recital (12), at 16-17. The five-year period begins to run as soon as the licensor or its licensees introduce the product anywhere in Europe. *Id.* arts. 1(1), 1(6), at 19. The five-year period for passive sales restrictions is in contrast to an active sales restriction which may last for the life of the licensed patent. *Id.* art. 1(6), at 19.

90. *Id.* art. 2, at 19-20. Article 2, the "gray list," identifies 11 licensing provisions that are exempt from article 85(1). *Id.* art. 2(1), at 19-20. The exempted provisions include (1) a requirement that the licensee procure goods or services from the licensor or its designees if the products or services are required to exploit the licensed product in a technically-satisfactory manner; (2) a requirement that the licensee pay a minimum royalty or produce a minimum amount of the licensed product; (3) a restriction on the licensee's technical field of use of the licensed technology; (4) a restriction on the licensee not to exploit the patent after the termination of the agreement while the licensed patent is still in force; (5) a restriction on the licensee not to sublease or assign the license; (6) a requirement that the licensee mark the licensed goods with the patentee's name; (7) a requirement to maintain confidentiality regarding knowledge communicated by the licensor; (8) an obligation to help stop and prosecute infringements by informing the licensor of patent infringements, by taking legal action against an infringer, and by assisting the licensor in any legal action

cludes certain licensing provisions from the block exemption as anticompetitive.<sup>91</sup> For licensing restrictions that are not covered by articles 1 and 2, and are not prohibited by article 3, article 4 provides an expedited procedure for notification and exemption of licenses containing such restrictions.<sup>92</sup>

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against an infringer; (9) an obligation on the licensee to maintain a minimum quality of the licensed product, provided that such an obligation is necessary to exploit the licensed invention in a technically-satisfactory manner; (10) an obligation on the parties to exchange knowledge obtained through exploitation of the licensed invention and to grant mutual licenses for improvements and new applications on a nonexclusive basis; and (11) an obligation on the licensor to provide the licensee with terms as favorable as that which the licensor later may grant to another licensee. *Id.* art. 2(1)-(11), at 19-20. In addition to the eleven exempted provisions, article 2 exempts restrictions that are more limited in scope than those listed. *Id.* art. 2(2), at 20.

If a licensing agreement only contains restrictions listed in articles 1 and 2, the filing of the agreement with the Commission is not necessary to receive an exemption. *Id.* Recital (27), at 18.

91. *Id.* art. 3, at 20-21. Article 3 of Regulation 2349, the "black list," sets forth 11 licensing provisions that preclude an exemption under article 85(3), absent a specific evaluation of the overall economic facts in each particular license. *Id.* art. 3(1)-(11), at 20-21. The black list contains the following prohibited patent licensing practices: (1) prohibiting the licensee from challenging the validity of licensed patents; (2) automatically extending the license beyond the expiration of the licensed patents initially licensed; (3) restricting the parties from competing with each other in research and development, manufacturing, use, or sales; (4) requiring the licensee to pay royalties on unpatented products or for the use of knowledge that has entered the public domain; (5) restricting the licensee's output; (6) limiting the licensee from determining prices or discounts; (7) restricting the licensee from selecting customers; (8) obligating the licensee to grant back to the licensor new-use or improvement patents; (9) forcing the licensee to use other patents, products, or services which are not necessary for a technically-satisfactory exploitation of the licensed invention; (10) limiting passive sales beyond the five years permitted under article 1(1)(6); and (11) requiring either party (a) to refuse, without good reason, to supply users or resellers within its territory who would market the goods to other members within the EU, or (b) impede users or resellers from obtaining the goods from other resellers within the EU. *Id.*

The eleventh prohibition forbids licensors and licensees from preventing users or resellers from buying or selling products that are put into the market by the patentee or with the patentee's approval. Coleman & Schmitz, *supra* note 65, at 115-16. Consequently, while the list prohibits the licensee from exporting for up to five years, it does not restrict the licensee from selling to a "parallel importer," an intermediary who intends to export. *Id.*

A patent licensing agreement may contain a restriction listed in article 3. Regulation 2349, *supra* note 86, art. 3, at 20-21. It is unlikely, however, that such a license would receive an individual exemption under article 85(3). Marks, *supra* note 8, at 968 n.53.

92. Regulation 2349, *supra* note 86, art. 4(1), at 21. Article 4 of Regulation

Even though Regulation 2349 grants a blanket exemption to a group of restrictive licensing provisions,<sup>93</sup> the Commission has reserved the power to withdraw the exemption in certain situations.<sup>94</sup> Article 9 outlines instances in which the Commission may withdraw an exemption.<sup>95</sup> A withdrawal is appropriate where the exempted agreement has anticompetitive effects overall and is inconsistent with article 85(3).<sup>96</sup>

## II. A COMPARISON OF THE THREE APPROACHES TO REGULATING INTERNATIONAL PATENT LICENSING AGREEMENTS

Notwithstanding the similarities in the antitrust laws of the United States, Japan, and the EU,<sup>97</sup> the guidelines promulgated under these laws relating to international patent licensing agreements differ in two significant respects. First, the guidelines in the United States employ a rule of reason approach, while those in Japan and the EU incorporate a *per se* approach.<sup>98</sup> Second, the American regulations have no mandatory

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2349 provides a notification procedure to address licensing agreements that are not covered by articles 1 or 2, and do not fall within article 3. *Id.* These licenses may receive an automatic exemption if the Commission does not object to them within six months after their notification. *Id.* In order to obtain an article 4 exemption, the parties must file full and accurate information about their agreement, and must notify the Commission that they are filing under article 4. *Id.* art. 4(3), at 21.

93. *Id.* arts. 1-2, at 18-20.

94. *Id.* art. 9(1)-(5), at 22-23.

95. *Id.*

96. *Id.* art. 9, at 22-23. These particular instances include (1) an arbitration award; (2) a lack of substitutes for the licensed product; (3) the licensor does not maintain the right to terminate the agreement if the licensee fails to exploit the licensed patent adequately; (4) the licensee refuses to fill unsolicited orders; and (5) the licensee or licensor refuses to sell to users or resellers, or makes it difficult for users or resellers to obtain the licensed product from other resellers within the EU. *Id.* art. 9(1)-(5), at 22-23.

97. See Marks, *supra* note 8, at 967 n.35 (analogizing articles 85 and 86 of the Treaty of Rome with sections 1 and 2 of the Sherman Act); Taylor et al., *supra* note 34, at 114 (pointing out that the antitrust laws of the United States provided the framework for the Antimonopoly Act of Japan).

98. See Taylor et al., *supra* note 34, at 119 (arguing that the JFTC Guidelines have a pronounced *per se* quality). The "*per se*" approach refers to the use of black, gray, and white lists for determining whether a particular patent licensing restriction violates antitrust law. See *infra* notes 107-11 and accompanying text (discussing the use of the *per se* approach by Japan and the EU). The black, gray, and white lists employed in Japan and Europe evince a *per se* character because they determine the legality of specific licensing restrictions without actually weighing the restrictions'

filing or review requirement for international patent licensing agreements.<sup>99</sup> This is in direct contrast to the regulations of Japan and the EU.<sup>100</sup> The following sections elaborate on these differences and examine their respective advantages and disadvantages.

#### A. RULE OF REASON VERSUS *PER SE* ANALYSIS

##### 1. *The Rule of Reason Approach*

The principal advantage of the rule of reason approach is that the approach provides the licensing parties with a broad range of licensing provisions from which to select.<sup>101</sup> Some licensing provisions that have been successfully defended in the United States under the rule of reason are specifically prohibited in Japan and Europe.<sup>102</sup>

The primary disadvantage of the rule of reason approach lies in its legal uncertainty.<sup>103</sup> Licensing parties under this approach cannot accurately predict the validity of their agreement under the antitrust laws.<sup>104</sup>

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competitive and anticompetitive effects in the particular factual circumstance in which the restrictions were adopted. See *supra* notes 44-49, 89-91 and accompanying text (setting forth the substance of the black, white, and gray lists of Japan and the EU).

99. Davidow, *supra* note 32, at 599.

100. See *supra* notes 50-58 and accompanying text (outlining instances in which licensing parties must comply with a mandatory filing requirement under Japanese and European law).

101. See *infra* note 102 and accompanying text (providing examples of licensing terms permitted under the rule of reason analysis, but prohibited under the *per se* approach of Japan and the EU).

102. See Taylor et al., *supra* note 34, at 122-24 (observing that some licensing terms that are legal in the United States are illegal in Japan). For example, Japan and the EU black-list exclusive grantback clauses. JFTC Guidelines, *supra* note 41, pt. 1(3)(6), at 154; Regulation 2349, *supra* note 86, art. 3(8), at 22. On the other hand, grantback clauses are legal in the United States. *Transparent-Wrap Machine Corp. v. Stockes & Smith Co.*, 329 U.S. 637, 644 (1947). Exclusive grantback clauses are arrangements whereby the licensor receives an exclusive license to any new use or improvement patents that the licensee receives based on the originally-licensed patent. See L. SULLIVAN, *HANDBOOK OF THE LAW OF ANTITRUST* § 160, at 464 (1977) (defining grantback requirements in patent licenses).

Also, Japan and the EU black-list a clause prohibiting the licensee from handling competing goods. JFTC Guidelines, *supra* note 41, pt. 1(3)(3), at 153; Davidow, *supra* note 32, at 605. In contrast, an exclusive dealing restriction would substantially lessen competition and thereby violate the antitrust laws of the United States only when a high percentage of outlets are foreclosed. Davidow, *supra* note 32, at 611.

103. See Marks, *supra* note 8, at 969 (commenting on the unpredictability of the rule of reason).

104. See *id.* (stating that the unpredictability of the rule of reason adds to patentee

This is because, under the rule of reason, a court ultimately determines the legality of the agreement.<sup>105</sup> The ability of licensors to defend practices that would otherwise fail under the EU's block exemption or Japan's licensing guidelines, however, counter-balances the uncertainty of the rule of reason approach.<sup>106</sup>

## 2. *The Per Se Approach*

In direct contrast to the rule of reason approach, the *per se* approach adopted in Japan and the EU is advantageous because it provides some degree of legal certainty.<sup>107</sup> Licensing parties under the *per se* approach are assured that their licensing agreement would not violate antitrust laws if an exemption applies.<sup>108</sup>

The ability of the JFTC or the Commission to withdraw the exemption at anytime, however, tempers the legal certainty afforded by the *per se* approach.<sup>109</sup> An exemption under the Japanese or EU licensing guidelines is not permanent.<sup>110</sup> If the JFTC or the Commission determines that previously-exempted licensing provisions are illegal under their antitrust laws, the JFTC or the Commission can revoke its prior exemption and strike the offending provisions.<sup>111</sup> Accordingly, the *per se* approach provides a limited degree of legal certainty to the licensing parties.

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concerns).

105. See Taylor et al., *supra* note 34, at 137 (noting that, in the United States, challenges to the legality of a patent licensing agreement must occur in court).

106. See *supra* note 102 (detailing licensing terms that are illegal in Japan and Europe, but are legal under the rule of reason analysis in the United States).

107. See Meyers, *supra* note 1, at 386 (concluding that the EU patent licensing guidelines are more predictable than those of the United States).

108. See Coleman & Schmitz, *supra* note 65, at 116-17 (commenting favorably on the EU's block exemption as providing certainty to the licensing drafting process).

109. Fact Sheets, *supra* note 60, § 3(2), at 668; see *supra* notes 94-96 and accompanying text (examining when an exemption is revocable under EU competition law).

110. Fact Sheets, *supra* note 60; see *supra* notes 94-96 and accompanying text (examining when an exemption is revocable under EU competition law).

111. Fact Sheets, *supra* note 60, § 3(2), at 668; see *supra* notes 94-96 and accompanying text (examining when an exemption is revocable under EU competition law).

## B. MANDATORY FILING REQUIREMENT VERSUS NO MANDATORY FILING REQUIREMENT

The mandatory filing requirement of the international patent licensing guidelines in Japan and the EU further distinguishes their regulatory schemes from that of the United States. Such a requirement conditions the legality of a patent licensing agreement on a favorable administrative review.<sup>112</sup> The following subsections set out the different positions of the United States, Japan, and the EU with respect to the filing requirement and discuss the requirement's impact on licensing parties.

### 1. No Mandatory Filing Requirement

The United States has no mandatory filing or review procedure, although a similar voluntary procedure exists.<sup>113</sup> The lack of a mandatory filing and review requirement provides the patent licensing regulatory scheme of the United States with two essential benefits. First, parties to a patent licensing agreement may proceed with little or no governmental oversight after agreeing on the licensing terms.<sup>114</sup>

Second, licensing parties in the United States receive an accurate rule of reason analysis and, thus, may structure an agreement with any provision that they believe can withstand judicial review.<sup>115</sup> If the DOJ or another challenger to the agreement<sup>116</sup> suspects that a licensing restriction is illegal, all competitive and anticompetitive effects from the restriction should be apparent at the time of the challenge.<sup>117</sup> The DOJ or a court, therefore, can effectively apply the rule of reason balancing

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112. See *supra* notes 50-58, 80-96 and accompanying text (outlining the administrative review process for international patent licensing agreements in Japan and the EU).

113. See *supra* note 33 (outlining the DOJ's business review procedure). The DOJ's optional business review procedure is similar to the filing and review requirements of the EU and Japan in that the DOJ is merely representing its current enforcement intentions. 28 C.F.R. § 50.6.9 (1993). The DOJ explicitly reserves the right to challenge the agreement in the future. *Id.*

114. See Taylor et al., *supra* note 34, at 124 (noting that the DOJ gets involved in the transaction only after the parties sign and implement the agreement).

115. *Id.* at 114, 120-21 (observing that licensing parties may employ more restrictive licensing terms in the United States given that a challenge to their licensing agreement must occur in court).

116. See *id.* at 114 (reporting that competitors, consumers, and state prosecutors also have standing to challenge international licensing agreements in American courts).

117. *Id.* at 124.



test and accurately determine whether a restrictive provision is anticompetitive overall.

## 2. Mandatory Filing Requirements

The mandatory filing requirements in Europe differ slightly from those in Japan. The EU notification procedure applies only to patent licensing agreements involving more than two parties or containing provisions other than those listed in articles 1 and 2 of Regulation 2349.<sup>118</sup> Patent licenses falling into one of these two categories must undergo an individual exemption review process.<sup>119</sup> The process involves filing the licensing agreement and all relevant information related to the agreement with the Commission.<sup>120</sup> In contrast, the JFTC Guidelines require all international patent licensing agreements to be filed with the JFTC.<sup>121</sup> While the Japanese filing requirement is more stringent than that of the EU, both filing requirements have the same effects on licensing parties.

A mandatory filing and review procedure is beneficial because it prevents the licensing parties from contracting illegally.<sup>122</sup> The licens-

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118. See *supra* notes 76, 92 and accompanying text (detailing the situations in which the Commission requires notification).

119. Regulation 2349, *supra* note 86, art. 4, at 21-22; see *supra* note 92 (examining the provisions of article 4 of Regulation 2349).

120. See *supra* note 92 and accompanying text (specifying the documents required under the EU's notification requirement).

121. See *supra* notes 50-58 and accompanying text (describing the JFTC's filing requirement). The Japanese notification requirement is more restrictive than the EU's in two respects. First, the JFTC Guidelines fail to provide for a *de minimis* exception. Cf. *De Minimis Notice*, *supra* note 71, art. 2, at 2-3 (setting forth the EU's *de minimis* exception). Second, the JFTC Guidelines do not waive the notification requirement for licensing agreements that only contain white or gray list restrictions. Compare Antimonopoly Act, *supra* note 36, § 6(2), at 218-19 (requiring the filing of all international patent licensing agreements with the JFTC) with Regulation 2349, *supra* note 86, Recital (27), at 18 (providing that the Commission excuses licensing agreements that only contain restrictions listed in articles 1 and 2 of Regulation 2349 from the notification requirement). The JFTC's more restrictive filing and review requirement tends to exacerbate the effects of the requirement, causing longer delays and more renegotiation of licensing terms. *Infra* notes 125-26 and accompanying text.

122. See *supra* notes 56, 80-83, 92 and accompanying text (reporting that patenting licensing agreements in Japan and Europe are pre-screened for antitrust violations before the agreements become effective); see also Taylor et al., *supra* note 34, at 121 (opining that the Japanese Clearance System affords the licensing parties an opportunity to determine the legality of their agreement before committing to it).

ing parties, therefore, save the potential litigation costs of defending an antitrust enforcement action or a claim of antitrust violation by a private party.<sup>123</sup>

A mandatory filing and review requirement, however, has three major drawbacks.<sup>124</sup> First, the requirement interjects bureaucratic delays into the licensing process. In Japan and the EU, licensing parties undergoing a filing and review procedure must wait anywhere from three months to several years before their agreement is cleared of antitrust violations.<sup>125</sup> Second, the licensing parties risk renegotiation of the offending provisions of their agreement in light of the objections made by the JFTC or the Commission.<sup>126</sup>

Third, the mandatory notification requirement renders inaccurate results under the rule of reason analysis. The JFTC applies the rule of reason to gray list clauses,<sup>127</sup> while the Commission uses the test in determining whether to grant an individual exemption.<sup>128</sup> The JFTC and the Commission, however, are hard pressed to effectively conduct the rule of reason balancing test. Both the JFTC and the Commission are under time constraints to conduct the test and render a decision.<sup>129</sup> These time constraints limit their ability to identify latent beneficial

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123. See *supra* notes 40, 73 (discussing the potential criminal and civil liability of violating antitrust laws in Japan and the EU); see also Marks, *supra* note 8, at 967 (detailing the risk of an antitrust counterclaim whenever patent owners instigate enforcement of their rights).

124. See *infra* notes 125-31 and accompanying text (outlining the three principal drawbacks of a mandatory filing requirement for patent licensing agreements). In addition to the three major disadvantages of a notification requirement discussed in the text, one cannot overlook the time and effort involved in completing the notification application and collecting supporting information. See Coleman & Schmitz, *supra* note 65, at 110-11 (noting the disadvantages of EU's article 4 notification procedure).

125. See *supra* notes 56-58, 77-78 and accompanying text (commenting on the lengthy waiting periods in Japan and the EU for patent licensing approval).

126. See Coleman & Schmitz, *supra* note 65, at 117 (noting that the licensing parties may amend their agreement in response to a Commission objection); Taylor et al., *supra* note 34, at 118-19 (outlining the process that the licensing parties must undergo in order to bring their agreement into compliance after a rejection by the JFTC).

127. See JFTC Guidelines, *supra* note 41, pmbl., ¶ 3, at 146 (stating that the legality of "may be" violations is determined after a consideration of the relative positions of the licensor and licensee in the relevant market, the current status of that market, the duration of restrictions imposed, and other relevant factors).

128. See EEC TREATY, *supra* note 65, art. 85(2), at 103 (defining the circumstances in which an individual exemption is justified under EU antitrust law).

129. *Supra* note 125.

competitive or harmful anticompetitive effects of a particular licensing provision.<sup>130</sup> Moreover, the licensing agreement must operate for some time before evidence of these effects becomes apparent.<sup>131</sup> Consequently, the JFTC and the Commission cannot conduct a rule of reason balance effectively.

### III. THE IMPLICATIONS OF DIFFERING PATENT LICENSING GUIDELINES IN THE UNITED STATES, JAPAN, AND THE EU

As discussed above, antitrust regulations of international patent licensing agreements in the United States differ from those in the EU and Japan in two aspects. First, the substantive licensing guidelines of the United States are more liberal. Second, the United States has no mandatory filing requirement. The differences in these regulatory schemes create a detrimental impact on the patent system and the economic competitiveness of the United States. The next two sections examine the negative impact caused by the differing patent licensing regulations in the United States, Japan, and Europe.

#### A. THE EFFECTS OF LIBERAL PATENT LICENSING GUIDELINES

The use of the rule of reason approach in the United States for all licensing provisions, as compared to the black, white, and gray lists employed in the EU and Japan, implies that restrictive licensing terms are more likely to exist in licensing agreements in the United States than in Europe and Japan.<sup>132</sup> This difference places American licensors and licensees at a comparative disadvantage in relation to their foreign counterparts in Japan and the EU.

While foreign licensors may negotiate for a broad range of restrictive licensing terms in the United States,<sup>133</sup> Japan and the EU limit American licensors to restrictions enumerated in the white and, possibly, gray lists.<sup>134</sup> This disparity creates an adverse effect on the dynamics of the

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130. Taylor et al., *supra* note 34, at 123.

131. *Id.*

132. See *supra* note 102 and accompanying text (providing examples of licensing terms permitted under the rule of reason analysis, but prohibited under the *per se* approach of Japan and the EU).

133. *Supra* note 132.

134. See *supra* notes 45, 89-90 and accompanying text (discussing restrictive licensing terms that are permissible under Japanese and European antitrust law).

U.S. patent system.<sup>135</sup> Restricting U.S. licensors to certain licensing provisions reduces the economic value of their intellectual property rights.<sup>136</sup> Because the grant of intellectual property rights provides the economic incentive for investment into research and development,<sup>137</sup> the decrease in market value of these rights would lead to a reduction in innovation and discovery in the United States.<sup>138</sup>

U.S. licensees, on the other hand, face the opposite problem. They are the recipients of the more restrictive licensing clauses that foreign licensors legally impose.<sup>139</sup> The ability of foreign licensors to impose more restrictive licensing provisions raises the cost of acquiring patented technology from abroad.<sup>140</sup> This translates into less inbound patented technology transfer.<sup>141</sup> As a consequence, the technology transferred

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135. See *infra* notes 136-38 and accompanying text (examining how more liberal patent licensing guidelines in the United States adversely affect the balance between reward and innovation).

136. See DOJ Guidelines, *supra* note 4, at 21,593 (noting that permitting the patent owner to fully exploit the intellectual property would increase the perceived value of the property); Wilbur L. Fulgate, *Antitrust Aspects of International Patent and Technology Licensing*, 5 J.L. & COM. 433, 438-39 (1985) (commenting that patent owners should not be prevented from earning the maximum reward by licensing their right to exclude in the most efficient manner possible); RICHARD A. POSNER, *ANTI-TRUST: CASES, ECONOMIC NOTES, AND OTHER MATERIALS* 287 (1974) (arguing that forbidding patentees from setting minimum-price restrictions in licenses might discourage licensing, thereby reducing the patent reward and productive efficiency). See generally Stamm, *supra* note 3, at 682 (noting that investments made in research and development in one country are recoverable through international sales of the patented technology). The DOJ Guidelines further note that certain restraints in patent licenses, such as exclusive use, encourage efficient development and use of the licensed technology. DOJ Guidelines, *supra* note 4, at 21,593.

137. See DOJ Guidelines, *supra* note 4, at 21,593 (observing that intellectual property rights provide the incentive for innovative effort).

138. See *id.* (suggesting that the patent owner should benefit from the full value of the patent in order to perpetuate innovative effort); see also Stamm, *supra* note 3, at 681 (opining that clearly defined intellectual property rights promote investment and innovation).

139. See *supra* note 102 and accompanying text (reporting on licensing restrictions that are legal in the United States such as exclusive grantback clauses and exclusive dealings requirements, but are black-listed in Japan and Europe).

140. See generally Stamm, *supra* note 3, at 682 (noting that investment costs made in one country are recoverable through international sales of the patented technology); Fulgate, *supra* note 136, at 439-40 (commenting on the relationship between the value of the patent right to exclude, and the ability to license that right, in the most efficient manner possible).

141. See DOJ Guidelines, *supra* note 4, at 21,593 (stating that "licensing of intel-

from other nations will cost more to U.S. consumers.<sup>142</sup>

#### B. THE EFFECTS OF A MANDATORY NOTIFICATION REQUIREMENT

The bureaucratic delays caused by the mandatory notification requirements of the JFTC and the Commission effectively reduce the patent term of U.S. licensors.<sup>143</sup> The waiting period between the notification of the agreement and its approval shortens the amount of time in which U.S. licensors may exploit their patent rights in Japan and the EU.<sup>144</sup> A shortened patent term decreases the economic value of the exclusive rights of U.S. licensors,<sup>145</sup> and thereby diminishes the incentive to research and develop new technology.<sup>146</sup>

Moreover, the regulatory delays in the licensing approval processes of Japan and the EU create time lags in other vital areas.<sup>147</sup> For instance, licensed technology often gives rise to additional innovations and discoveries.<sup>148</sup> Thus, delaying the transfer of the licensed technology would produce a concomitant delay in the innovations and discoveries

lectual property benefits consumers by expanding access to technology and bringing it to the market place in the quickest and most efficient manner").

142. See *supra* notes 140-41 and accompanying text (asserting that liberal licensing standards in the United States permit foreign licensors to impose more restrictive licensing terms on U.S. licensees, thereby raising the cost of purchasing patented technology originating from overseas). The increased costs borne by U.S. licensees are inevitably passed onto retail purchasers in the U.S. market. See Stamm, *supra* note 3, at 681-82 (discussing the connection between patented technology and consumers).

143. See *infra* note 144 and accompanying text (expanding on how a lengthy patent licensing approval process cuts into the limited time in which a patent owner has to exploit the invention).

144. See Michael W. Thomas, *Inbound Transfers of Japanese Technology Rights: Some Practical Considerations*, 7 SANTA CLARA COMPUTER & HIGH TECH. L.J. 357, 363 (1991) (enunciating that the patent term in Japan extends for 15 years from the date of publication, but no more than 20 years from the filing date of the patent application). Thus, any delay between this date and the date the licensing contract takes effect reduces the length of time in which the patent is enforceable.

145. See generally Fulgate, *supra* note 136, at 439-40, 443 (emphasizing the relationship between the value of patent rights and the extent to which they are exploitable most efficiently).

146. See Oppenheim, *supra* note 6, at 555 (observing a direct relationship between the value of patent rights and the degree of innovation).

147. See *infra* notes 148-50 and accompanying text (asserting that bureaucratic delays due to a mandatory filing requirement slow the rate of innovation and adversely impact consumer welfare).

148. See SULLIVAN, *supra* note 102, § 160, at 464 (stating that licensed technologies give rise to subsequent improvement patents by the licensee).

based on that technology.<sup>149</sup> In addition, a lengthy approval process would slow the rate at which newly patented products would enter the market.<sup>150</sup>

Hence, the overall impact of maintaining a more liberal and *laissez-faire* antitrust regulatory regime with respect to international patent licensing agreements in the United States is three-fold: (1) fewer innovations and discoveries; (2) decreased international technology transfers; and (3) reduced economic activity.

#### IV. RECOMMENDATIONS

In view of the adverse impact that differing patent licensing guidelines in the United States, Japan, and the EU have on Americans, the United States has compelling reasons to lead an effort to harmonize the patent licensing guidelines of the three territories. The remaining sections of this Comment focus on how the United States should proceed in harmonizing its antitrust guidelines for international patent licensing agreements with those of Japan and the EU, and what the uniform guidelines should contain.

##### A. ACHIEVING HARMONIZATION OF PATENT LICENSING GUIDELINES IN THE UNITED STATES, JAPAN, AND THE EU

To harmonize the antitrust guidelines for international patent licensing agreements, the United States must exercise one of its two bargaining chips, if not both. First, the United States should condition the resumption of the global patent harmonization talks<sup>151</sup> on the Japanese and

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149. See generally *id.* (discussing the relationship between the licensed technology and improvement patents that are based on that technology).

150. See Coleman & Schmitz, *supra* note 65, at 111 (insisting that a notification requirement delays the formation of the licensing agreement).

151. See U.S. Dept. of Commerce, *US Says "Not Now" To Resumption of Patent Harmonization Talks*, NEWS, Jan. 24, 1994 (announcing that "the United States would not seek to resume negotiations of a treaty harmonizing the world's patent laws"); *Observations of the International Bureau Following the First Part of the Diplomatic Conference*, U.N. WIPO, Diplomatic Conference for the Conclusion of a Treaty Supplementing the Paris Convention as far as Patents are Concerned, U.N. Doc. PLT/DC/69 (1993) (providing the proposed text of the Patent Law Treaty). The World Intellectual Property Organization initiated the effort to harmonize substantive patent laws of the world in 1985. *Request for Comments on Patent Law Harmonization*, 1153 OFF. GAZ. PAT. & TRADEMARK OFF. 113, 113 (1993). This effort began with a series of meetings of patent experts and culminated in the Treaty Supplementing the Paris Convention as far as Patents are Concerned. *Id.*

European adoption of uniform antitrust guidelines for international patent licensing contracts.<sup>152</sup> Because of the close relationship between patent and antitrust law,<sup>153</sup> linking the willingness of the United States to resume the negotiations for substantive patent law harmonization with the Japanese and European adoption of such guidelines would be sound policy.

Second, the United States should compel Japan and the EU to adopt uniform antitrust guidelines by threatening to close the American market to their technology.<sup>154</sup> The imposition of trade sanctions is a drastic

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Aside from the treaty's development under the auspices of WIPO, the patent offices of Japan, Europe, and the United States are currently in trilateral negotiations to achieve uniform patenting standards and procedures. William S. Thompson, *Equitable Defenses in a Harmonized Patent System*, 75 J. PAT. & TRADEMARK OFF. SOC'Y 757, 758 (1993). These negotiations offer an ideal forum for the United States to propose the harmonization of national antitrust guidelines for international patent licensing agreements with Japan and the EU for two reasons. First, the necessary parties are already assembled. Second, this topic fits into the general theme of the trilateral discussion, which is the harmonization of patenting standards and practices in the United States, Japan, and the EU. *Id.*

In a separate forum, the United States pressured other foreign countries into strengthening their national intellectual property laws in an effort to provide greater protection of American intellectual property in foreign countries at the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) conference. *Report Outlines President's Agenda and Review of U.S. Trade Policy*, BUS. AM., Mar. 26, 1990, at 8-10. The Uruguay Round produced the first-ever agreement on intellectual property rights in a trade-related context (TRIPS). See *Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods*, GATT Doc. MTN/FA II-A1C (Dec. 15, 1993) (setting forth the provisions of the agreement). Curiously, article 40 of TRIPS authorizes member-states to regulate particular licensing practices through national legislation, but does not attempt to establish substantive standards. *Id.* art. 40. This is in direct contrast to the other provisions of TRIPS, which set forth minimum standards for intellectual property rights. *E.g.*, *id.* arts. 9-21, 27-39.

152. See CORPORATE APPROACHES TO PROTECTING INTELLECTUAL PROPERTY REPORT, *supra* note 3, at 3 (opining that if the United States makes changes to its patent system in order to promote global harmonization, it should receive something significant in return).

153. See *supra* notes 1-9 and accompanying text (elaborating on the interplay between antitrust and patent policy).

154. See McCarroll, *supra* note 12, at 44 (commenting on the pressure exerted by the United States on foreign governments through threats of trade barriers in order to curb piracy of American intellectual property abroad); see also Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 1301, 102 Stat. 1107, 1164-176 (1988) (codified as amended at 19 U.S.C. § 2411 *et seq.* (Supp. 1992)) (stating that the U.S. Government, for example, could impose trade sanctions against countries that

measure. But, it is justified because the stakes are high. At risk is the international economic and technological competitiveness of the United States.<sup>155</sup> In addition, the current difference in patent licensing guidelines among the trading partners threatens the interests of U.S. licensors and licensees, and the stability of the U.S. patent system.<sup>156</sup>

A major drawback to harmonization of the guidelines for Japan and the EU is that each would lose some autonomy. Japan and the EU have employed antitrust law as a vehicle to achieve policy objectives other than competition.<sup>157</sup> Japan framed its licensing guidelines to equalize the bargaining positions of what it saw as weak domestic licensees and domineering foreign licensors.<sup>158</sup> The EU, on the other hand, structured its patent licensing block exemption with the goal of market integration.<sup>159</sup> Japan and the EU, however, should refrain from using antitrust law as a means of imposing fairness or achieving market integration, respectively, because these policy objectives are ancillary and remote to the purpose of antitrust law, which is to ensure competition in the market place.<sup>160</sup>

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do not provide adequate protection for, or deny fair market access to, U.S. intellectual property under the "Special 301" provisions of the Trade Act of 1974, as amended in 1988); Theodore H. Davis, Jr., *Combating Piracy of Intellectual Property in International Markets: A Proposed Modification of the Special 301 Action*, 24 VAND. J. TRANSNAT'L L. 505 (1991) (providing a thorough discussion of the background and operation of the "Special 301").

155. See COMMISSION REPORT ON INDUSTRIAL COMPETITIVENESS, *supra* note 15, at 8-19 (presenting persuasive evidence that the economic competitiveness of the United States in the world has declined); see also Kastriner, *supra* note 1, at 7 (commenting on the decline of the United States in the international economic and technological markets).

156. See *supra* notes 132-50 and accompanying text (describing the adverse effects of the current discrepancy among the patent licensing regulations of the United States, Japan, and the EU on American interests).

157. See *infra* notes 158-59 and accompanying text (articulating the ulterior goals incorporated into the patent licensing guidelines in Japan and Europe).

158. See Taylor et al., *supra* note 34, at 122-40 (delineating the protectionist effects of the 1968 JFTC Guidelines). Realistically, Japan no longer needs to protect its licensees. See Thomas, *supra* note 144, at 357 (announcing that Japan is rapidly becoming a technology exporter instead of an importer as evidenced by its research and development efforts).

159. See Fulgate, *supra* note 136, at 444 (observing that the Commission has adopted a strict view of intellectual property rights where the exercise of those rights affect competition in Europe); Marks, *supra* note 8, at 992 (concluding that the difference between the licensing guidelines of the United States and the EU stem from the EU's goal of market integration).

160. See Meyers, *supra* note 1, at 364 (asserting that antitrust law is a vehicle to



## B. THE UNIFORM PATENT LICENSING GUIDELINES

Once Japan and the EU become receptive to the notion of uniform antitrust guidelines concerning international patent licensing agreements, the United States should propose that they adopt its system of regulation. The rule of reason approach, with no mandatory notification requirement, is superior to the *per se* approach with a mandatory review procedure for two principal reasons. First, the lack of a mandatory notification or prior approval procedure would eliminate the detrimental effects of a bureaucratic delay.<sup>161</sup> More importantly, the value of a mandatory filing requirement is negligible because a clearance from the JFTC or Commission does not prevent an enforcement proceeding at some point in the future.<sup>162</sup>

Second, the rule of reason approach draws the proper balance between the competing policies of antitrust law and patent law. This approach satisfies patent policy because patent owners could obtain the full economic value of their patent rights by legally demanding more restrictive licensing terms. The rule of reason approach also achieves antitrust objectives by limiting restrictive licensing terms to those that do not unreasonably restrict competition.<sup>163</sup>

As for the deficiencies of the rule of reason approach, the legal uncertainty and corresponding litigation costs that inherently engender this approach<sup>164</sup> should not be major concerns. Court precedent should provide sufficient guidance for drafters to feel confident about the legality of their licenses.<sup>165</sup> Furthermore, savings from not adhering to a notifi-

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achieve wealth maximization and expansion). Moreover, the EU should favor more liberal patent licensing guidelines. *Id.* Because licensors/patentees have the right not to exploit their inventions, liberalizing the guidelines would provide more economic incentive for licensors/patentees to make, use, or sell their inventions. *Id.* Liberalization of its patent licensing guidelines would thereby increase the movement of goods among member-states of the EU. *Id.*

161. See *supra* notes 125, 143-46 and accompanying text (noting that the filing requirements in Japan and the EU cause delays from three months to several years).

162. See *supra* notes 64, 93-96 and accompanying text (discussing the possibility of an exemption withdrawal by the JFTC or Commission).

163. See *supra* notes 28-31 and accompanying text (defining the elements of the rule of reason approach).

164. See *supra* notes 103-06 and accompanying text (analyzing the disadvantages of the rule of reason approach).

165. See Taylor et al., *supra* note 34, at 120-21 (noting that courts would make the ultimate decision on the legality of any patent licensing agreement under the rule

cation requirement should offset potential litigation costs.<sup>166</sup>

Accordingly, harmonizing the international patent licensing guidelines of the EU and Japan with those of the United States would eliminate the current bias against American licensors and licensees.<sup>167</sup> Harmonization would also promote international exchange of new technology, deliver the latest innovations to consumers, and create stronger economies.<sup>168</sup>

### CONCLUSION

The differences between the antitrust guidelines for international patent licensing agreements in the United States and those in Japan and Europe significantly affect the patent system, the transfer of technology, and the economy in this country. These differences tend to reduce innovations and discoveries, technology exports, and overall economic activity. Thus, the current situation demands that the United States lead an effort to harmonize the international patent licensing guidelines of the United States, Japan, and the EU. The resulting uniform patent licensing guidelines should employ the rule of reason approach for all licensing terms and should not include a mandatory notification requirement.

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of reason approach as implemented in the United States).

166. Compare Coleman & Schmitz, *supra* note 65, at 110 (articulating the costs associated with a mandatory filing requirement) with Marks, *supra* note 8, at 992 (considering the potential litigation costs of enforcing a patent license).

167. See *supra* notes 135-42 and accompanying text (assessing the current bias against American licensors and licensees resulting from substantive and procedural differences in the patent licensing guidelines of the United States, Japan, and the EU).

168. See *supra* notes 143-50 and accompanying text (explaining the inter-relationship among international patent licensing guidelines in the United States, Japan, and the EU, the extent of innovation, and the state of the overall economy).