

## DEPRIVING OTHERS OF THEIR INTELLECTUAL PROPERTY

---

18 December 2019

On June 14 2019, the Japan Fair Trade Commission (JFTC) published the *Report on Fact-Finding Survey on Abuse of a Superior Bargaining Position, etc. targeting Manufacturer's Know-how and Intellectual Property Rights*.

### JFTC Report

#### I. Background and purpose of the survey

1. The JFTC strictly responds to acts violating the rules of abuse of a superior bargaining position under the Antimonopoly Act and the Subcontract Act, and is making efforts to prevent violations in advance. In addition, as part of this preventative effort, the JFTC conducts surveys to find out facts in transaction fields where problems concerning abuse of a superior bargaining positions or the Subcontract Act occur.

2. In recent years, the importance of intellectual property protection in business activities has increased, and the JFTC has received suggestions from experts that companies in a superior bargaining position have been unfairly receiving know-how and intellectual property rights from supplying manufacturers. In light of this situation, the JFTC conducted a *Fact-Finding Survey on Abuse of a Superior Bargaining Position, etc. targeting Manufacturer's Know-how and Intellectual Property Rights*.

### II. Survey Method

The survey was conducted from October 2018 using the following methods.

#### 1. Written survey

A questionnaire survey was addressed to 30,000 manufacturers, and 15,875 responses were received (recovery rate 52.9%).

The reporting period was five years from October 1 2013 to September 30 2018.

#### 2. Interview survey

A total of 122 interviews were conducted (101 manufacturers, 13 business associations, and eight experts).

### III. Survey results, evaluation, and response from the JFTC

#### 1. Survey results

The survey revealed a lot of cases that have been little known about before, such as forcing disclosure of know-how, joint research in name only, interfering with patent applications, and free assignment of intellectual property rights. Reports were received from large companies, as well as venture companies including SMEs.

Some of the reported cases are as follows:

##### i) Unilateral non-disclosure agreement

The manufacturer was coerced into a unilateral NDA that kept the client's secrets strictly, but not its own secrets.

##### ii) Forcing disclosure of know-how

Disclosure of the trade secret components in the client's product chart was coercively revealed. In addition, the client manufactured counterfeit and discontinued transactions with the subcontractor.

##### iii) Beating down of prices

The client placed a new order including mold design drawings etc. while the price remained unchanged.

#### **iv) Imposition of technical guidance**

The skilled workers of the manufacturer were forced to provide technical guidance to the employees of the competitor for free.

#### **v) Joint research in name only**

Joint research and development contracts where only the manufacturer works but results are attributed, free of charge, to the client.

#### **vi) Interfering with patent application**

When applying for patents for the inventions created by only the manufacturer and unrelated to the client, the client requested revelation of the contents in advance and corrections.

#### **vii) Free assignment of intellectual property**

- Half of patent rights were transferred free of charge to the client.
- IP was licensed unilaterally for free to the client.

In addition, manufacturers complained of the following:

- The theme of this survey is a big problem for technology ventures.
- In Japan's subcontract transactions, there is a strong culture where SMEs are challenged and large companies gain benefit.
- On a daily basis, contract proposals are sent unilaterally from large companies saying "your company is the only one that complains," and we are coerced into signing the contract with no opportunity to change the clauses.

## **2. Evaluation**

Know-how and intellectual property rights acquired by a manufacturer after years of research and development are the source of the manufacturer's competitiveness. In cases where know-how that should be kept secret from clients is coercively revealed by those unwilling to disclose, or IP rights that were hard-earned are coercively assigned for free, the intellectual property strategy of companies in Japan may not work.

## **3. Response from the JFTC**

The JFTC, in cooperation with the METI and the JPO, will disseminate this survey report to the entire manufacturing industry in order to prevent violations and ensure fair trade. Furthermore, the JFTC will continue to gather information on abuse of a superior bargaining position targeting the manufacturer's know-how and intellectual property rights, and will deal strictly with violating acts. Regarding Subcontract Act violations, the JFTC will also cooperate with the Small and Medium Enterprise Agency.

## **Practical tips**

The Research Commission on Market Competitiveness Policy of the Liberal Democratic Party of Japan expressed interest in the survey report and urged the JFTC to provide information on it.

The examples given in the reference cases in this survey report are common in practice. The impact of this report on contract drafting and negotiation practices is immeasurable. Large companies and foreign companies will be expected inevitably to review contract drafting and negotiation strategies. It will also be important for them to record and document the negotiation process clearly to prepare for a situation where the negotiating partner suddenly claims know-how and intellectual property is deprived. Foreign companies must assume that Japanese companies will request amendments and concessions to contracts based on this report. A strategy to send a "non-negotiable" draft contract in a PDF instead of a Word file will no longer be workable.

The JFTC states that this report will naturally be applied not only to Japanese companies but also to foreign companies, as long as transactions are made in the Japanese market. In this survey, several Japanese companies supplying parts to Apple US responded to the questionnaire from the JFTC that the contract with Apple US was unilateral including clauses that Apple US and its affiliates be allowed to use technologies, knowledge and other intellectual property belonging to the Japanese companies for free. The JFTC is considering the necessity of verifying facts and additional investigations on the matter, as the case could be an "abuse of a superior bargaining position" prohibited under the Antimonopoly Act.



Takanori Abe

### **ABE & Partners**

Matsushita IMP Building  
1-3-7, Shiromi, Chuo-ku, Osaka, 540-0001, Japan  
Tel: +81 6 6949 1496  
Fax: +81 6 6949 1487  
[abe@abe-law.com](mailto:abe@abe-law.com)