Japan

Japan is comprised of four main islands, Kyushu, Shikoku, Hokkaido and Honshu; as well as numerous other smaller islands. The island chain lies between the North Pacific Ocean and the Sea of Japan, east of the Korean Peninsula. Japan’s capital is Tokyo, and the country is divided into 47 administrative prefectures. Japan is a constitutional monarchy with a Parliamentary Government.

Economy
Japan prides itself as being the second most technologically powerful country and the third largest economy in the world.

In the years following World War II, government-industry cooperation, a strong work ethic, mastery of high technology, and a comparatively small defense allocation (1 percent of GDP) helped Japan develop a technologically advanced economy.*

A tiny agricultural sector is highly subsidised and protected, with crop yields among the highest in the world. Usually self-sufficient in rice, Japan imports about 60 percent of its food on a caloric basis. Japan maintains one of the world’s largest fishing fleets and accounts for nearly 15 percent of the global catch. For three decades, overall real economic growth had been spectacular – a 10 percent average in the 1960s, a 5 percent average in the 1970s, and a 4 percent average in the 1980s. Growth slowed markedly in the 1990s, averaging just 1.7 percent, largely because of the after effects of inefficient investment and an asset price bubble in the late 1980s that required a protracted period of time for firms to reduce excess debt, capital, and labour. Modest economic growth continued after 2000, but the economy has fallen into recession three times since 2008.

A sharp downturn in business investment and global demand for Japan’s exports in late 2008 pushed Japan into recession. Government stimulus spending helped the economy recover in late 2009 and 2010, but the economy contracted again in 2011 as the massive 9.0 magnitude earthquake in March disrupted manufacturing. Recovery spending helped boost GDP in early 2012, but slower global economic growth began weakening Japan’s export-oriented economy by mid-year.*

Effective and sound competition law and policy have recently been hailed as one of the cornerstones upon which the economy of Japan relies to subsist and move forward.

Competiton Evolution and Environment
Any discussion on competition law and policy in Japan might sound insufficient if nothing were said about what had taken place prior to its introduction. The Meiji Restoration, which took place about 140 years ago, saw the modernisation of Japan. Japan’s economy had, since then, been market-oriented, without, however, laws to regulate cartels, trusts and market concentration, till the end of World War II (WWII). In fact, the economy of Japan, prior to WWII, was characterised by the control of many companies, in various industries, by just a few families. Such groups of companies formed the zaibatsu, which was anticompetitive in nature.

The evolution of competition law in Japan began with the Allied occupation of Japan after the end of the WWII. The economic democratisation policy introduced by the
Allied Powers saw, *inter alia*, the dissolution of the *zaibatsu*, the introduction of the *Antimonopoly Act* in 1947 (‘the Act’) and the establishment of the Japan Fair Trade Commission (JFTC). The concept of competition policy, with economic development through competition, however, did not immediately take root.

Upon the cessation of the Allied occupation in the 1950s, the foremost priority in the then Government’s industrial policy was to achieve economic independence, with the focus on fostering and strengthening domestic industries to earn foreign exchange. This led to the legislation of various laws exempting a wide range of industries from the Antimonopoly Act, particularly with the purpose of easing cartel regulations.

Furthermore, various anticompetitive administration measures were introduced during the recessions, in order to prevent excessive competition and stabilise the market. Despite an unfavourable political environment, the JFTC stood steadfast in support of the principles enshrined in the Act. It acted against unfair trade practices that were mainly related to SMEs, such as delays in paying subcontractors, and abuse of superior bargaining positions by department stores.

In the 1960s, Japan’s economy became more internationalised and competition changed from domestic to international. This raised the need for industrial reorganisation through mergers and integration of enterprises. One mega-merger involved the then two largest steel companies, Yawata and Fuji. This largest post-WWII merger would have anticompetitive effects, as the market share of the merged entity would exceed 30 percent in more than 20 products. There were arguments for and against the merger. The JFTC conducted a hearing and eventually approved the merger, with conditions. The merger once again brought the JFTC into the public eyes.

The international monetary crisis and oil crisis of the 1970s rocked the Japanese economy. Many applications for recession cartels, exempt from the purview of the Act, were filed. Upon the recovery of the economy, traders continued to engage in speculative trade practices, and manufacturers formed illegal cartels to raise prices in advance of the rise in materials costs.

In February 1974, the JFTC, for the first time, referred those involved in petroleum cartels to the public prosecutor. The criminal prosecution highlighted two issues, namely:

(i) that the tendency to believe that the formation of cartels were better than doing nothing in those times was difficult to eliminate; and

(ii) that administrative oversight was actually involved in the cartels.

Subsequent convictions at the Supreme Court marked a turning point in cases where restrictive business practices were executed with administrative blessings.

In the 1980s and 90s, Japan’s enormous trade surplus, and the appreciation in yen, necessitated deregulation in order to open up the Japanese economy and boost imports. The deregulations emphasised upon improving the quality of life; reducing the price difference between domestic and export markets; improving access to markets; revamping industrial structure and encouraging new entry; all being compatible with the competition policy.

Various exemptions, which owed their existence to the 1940s and 1950s, were also removed in order to stabilise and rationalise enterprise management, for the purpose of strengthening the industries and improving international competitiveness.

**Competition Legislation**

**The Antimonopoly Act**

The purposes of the Act, and its corresponding roles, may be divided into three main categories as follows.

**Free Interaction between Production and Consumption**

The principle here is that each seller should have the right to freely compete with another, in acquiring customers whilst consumers should have the right to freely choose which seller to buy from, and what goods or services of what quality to buy at what price.

The Act, therefore, prohibits any form of unfair trade practices, unreasonable restraint of trade or private monopolisation detrimental to the interests of consumers by distorting competition in the market.

**Free and Fair Competition**

The rationale here is that all producers should have equal opportunities in obtaining their supply of raw materials, and equal opportunities to have access to their buyers. No producer shall, whether by itself or in concert with others, prevent any other producers from having such equal opportunities for any such action.

The Act is aimed at, amongst other things, promoting free and fair competition, stimulating the creative initiative of firms, and encouraging the business activities of enterprises. The Act is, therefore, intended to eliminate private monopolisation and to prevent/improve monopolistic situation.

**Elimination of Concentration of Market Power**

The underlying notion here is that no one, single entity, or more, shall have such a dominant position in a particular market, as the case of the *zaibatsu*. Any proposed M&A, that may lead to the concentration of market powers, should be resisted to ensure that there is a healthy and even growth in the economy that benefits the society as a whole.

The Act, thus, puts mergers, acquisitions, interlocking directorates and others, under its regulation and such an
objective is expressly enshrined in the Act by the words ‘promoting democratic and wholesome development of the national economy.’

**Anticompetitive Business Practices**

The types of practices subject to the control of the Act are:

**Cartels**

There are three categories of cartels with respective prohibitions as follows:

1. **Prohibition of Unreasonable Restraint of Trade:** The Act provides that no firm shall carry out any unreasonable restraint of trade. Unreasonable restraint of trade refers to cartels amongst firms, which include price cartels, volume cartels, market allocation cartels, and bid rigging;

2. **Prohibition of Participation in International Agreement/Contract:** Firms are prohibited to enter into an international agreement or contract, which contain elements of unreasonable restraint of trade. The Act regulates trade between Japan and foreign countries, if such trade restrains competition in the Japanese market; and

3. **Regulation of Activities of Trade Associations:** The Act also prohibits cartels formed by trade associations. Furthermore, trade associations are prohibited from limiting the number of firms in a particular field of business, unjustly restricting the functions or activities of constituent firms, or encouraging or abetting firms to engage in unfair trade practices.

**Private Monopolisation and Monopolistic Situation**

**Prohibition of Private Monopolisation:** Private monopolisation by firms violates the Act. Private monopolisation means the formation of market power or the exercise of existing market power by a firm by artificially excluding or controlling the business activities of other firms, either individually or by combination or conspiracy with other firms. Exclusion refers to various conducts that would cause difficulty for other firms to continue their business activities or for new market entrants to commence their business activities. Control refers to the imposition of constraints on other firms through, for instance, the acquisition of stock, the dispatch of officers, and the utilisation of dominant bargaining position.

**Measures against a Monopolistic Situation:** Where a field of trade comes under a certain conditions such that one or two firms have an extremely large market share [e.g. over 50 percent (one firm) or 75 percent (two firms) and meets certain statutory requirements], the Act deems the field of trade a monopolistic situation and provides for necessary measures to be taken against the firm to restore competition, including the transfer of a part of its business though in practice this is the last resort.

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**Box 1: Dominance of Microsoft**

Amongst the recent investigations or actions taken by the JFTC include the recommendation issued in July 2004 against Microsoft Corporation (‘Microsoft’) against its practices of “trading on restricted terms” in the Japanese market.

The salient facts of this case are that Japanese manufacturers of personal computers installed Microsoft’s Windows OS, which carried some audio-video (‘AV’) function, in their computer pursuant to a licence agreement drafted by Microsoft.

As a result of the immense popularity of the Windows OS, the Japanese manufacturers had no choice but to install the Windows OS. Knowing their dominance in the market, Microsoft imposed a ‘Non-Assertion Provision’ in its licence agreement with the Japanese manufacturers.

Since some of the Japanese manufacturers of personal computers installed with the Windows OS also owned patents in AV technologies, there was a possibility of an overlap between the two sides and of Microsoft or its subsidiaries exploiting or infringing the patents of the Japanese manufacturers, with the unfortunate result that the latter would be barred from enforcing their patent rights against the former due to the Non-Assertion Provision.

The JFTC viewed such a clause in the licence agreement as having the possibility of causing the Japanese manufacturers to lose their incentive in inventing or developing the technology relating to the AV function, with the result of tending to impede fair competition in this area of technology in Japan. As such, the JFTC issued a recommendation to Microsoft that it shall delete such a clause from its licence agreement.

**Unfair Trade Practices**

The Act prohibits unfair trade practices, which tend to impede fair competition. The Act regulates unfair trade practices by firms, by trade associations or unfair trade practices contained in international contracts. The Act stipulates certain such practices and empowers the JFTC to designate the specific definition of unfair trade practices. Such practices may be classified into the following three broad categories:

1. **Conduct, which may restrain free competition, such as refusals to deal, discriminatory pricing, unjust low price sale, and resale price restrictions;**
Mergers and Acquisitions (M&As)
Under this heading, there are six main areas subject to restrictions of the Act, for the purpose of preventing the formation of an anticompetitive market structure.

Restriction of Mergers: Mergers are prohibited if they may cause a substantial restraint of competition in any particular field of trade. Whether a merger is unlawful is determined after considering various factors.

Restriction on Corporate Splits: Since joint incorporation type-company splits or absorption type-splits have the same effect as mergers, they are treated in the same manner as mergers in the Act.

Restriction on Joint Share Transfers: Since joint share transfers also have the same effect as mergers, as several companies become to be owned by a newly established company, they are treated in the same manner as mergers in the Act.

Restriction of Acquisition of Business: The above reasoning applies here as well.

Restriction of Shareholdings: The Act stipulates that no company shall acquire or hold shares of companies in Japan where the effect of such acquisition or holding of shares may substantially restrain competition in any particular field of trade.

Restriction of Interlocking Directorates: Interlocking directorates are prohibited if they may substantially restrain competition in any particular field of trade.

Excessive Concentration of Economic Power
Whilst the regulation of mergers and acquisitions aims at preventing substantial restraint of competition in any particular field of trade, the Act also restricts excessive concentration of economic power in two aspects.

Restriction of Companies that may be to cause excessive concentration of Economic Power: The Act prohibits the establishment of a company, or acquisition, or holding of shares of other companies that may cause excessive concentration of economic power. Excessive concentration of economic power means a situation in which the extreme largeness of the comprehensive business scale over a considerable number of fields of businesses of a company and its subsidiaries; the remarkably strong power of the said company and its subsidiaries to influence other firms due to transactions relating to its finance; or the influential position over a considerable number of inter-related fields of businesses by such a company and its subsidiaries; have a large effect on the national economy and impede the promotion of free and fair competition.

Restriction on Holding of Voting Rights by Banks or Insurance Companies: The Act prohibits a company engaged in the banking business from acquiring or holding more than five percent of the total voting rights in another non-financial company in Japan, unless the prior approval of the JFTC is obtained or other exceptions apply. The same prohibition and exceptions apply to a company engaged in the insurance business, though the limit is 10 percent.

Institutions and its Competencies
The implementation of the Act is carried out by the JFTC, in the form of administrative measures, or by the Courts in the form of criminal penalties or civil remedies. The civil remedies available to a person whose interests have been infringed as a result of a violation of the Act include the right to seek an injunction in court, and the right to seek damages. The JFTC may, in the case of a merger and acquisition, consummated without the prior notification, bring suits to have the said merger declared invalid.

In the case of criminal convictions, the penalties include imprisonment for a maximum of five years or a maximum fine of JPY5mn for those engaged in unreasonable restraint of trade or monopolisation; imprisonment for a maximum of two years or a maximum fine of JPY3mn for failure to comply with a final decision; and a maximum fine of JPY500mn, for enterprises whose employee was engaged in unreasonable restraint of trade or monopolization.

The administrative measures that the JFTC may order include among other:
- to cease and desist the anticompetitive conduct concerned;
- to prohibit exchanging information about the price of products concerned (in the case of cartels);
- to establish a compliance programme; and
- to delete the relevant contractual terms (in the case of unfair trade practices).
The JFTC may also impose surcharges in the case of bid rigging, production or sale cartels that may have an impact on prices, private monopolisation and certain types of unfair trade practices (concerted refusal to trade, discriminatory pricing, unjust low price sales, resale price restrictions, abuse of superior bargaining position).

The JFTC is administratively attached to the office of the Prime Minister and is positioned as an external organ of the Cabinet Office. The JFTC comprises of a Chairman and four Commissioners, whose proposed appointment by the Prime Minister requires the consent of both Houses of the Diet - the Parliament of Japan. The powers of the JFTC may be categorised into the administrative power (including the general power to implement the Anti-monopoly Act and the power to eliminate offences), quasi-legislative power (that is, the power to designate unfair trade practices), and quasi-judicial power.

**Sectoral Regulation**

**Telecommunications Sector**

The Japanese Government is implementing various structural reform policies that are crucial for revitalising the economy. One particularly important policy is the dramatic development of Information Technology (IT). The Government’s IT strategy intends to boost the telecommunications market, as this constitutes the core infrastructure of Japan’s economy. The JFTC, which is in charge of the competition policy, is therefore working hard to encourage competition in the telecommunications sector.

Strict enforcement of the Anti-monopoly Act is encouraged to promote competition in the telecommunications sector, and especially to ensure efficient entry into the market. Due to substantial monopolisation by the giant Nippon Telegraph and Telecommunication (NTT) of regional networks and the subscriber lines, which were essential in the telecommunication business, it is crucial to make the market readily accessible to new entrants. If a new entrant requests connections from NTT and is rejected without legitimate reason, the JFTC considers this to be hindering market entry and so a violation of the Anti-monopoly Act.

**Electricity Sector**

On March 21, 2000, the second stage of reforms to the Electricity Business Act (Law 170 of 1964) came into force. The reforms have opened a path for new providers to sell electricity to a limited scope of ‘large-scale consumers’. These large-scale consumers, extra-high-voltage power for industry and commercial users, accounted for about 26 percent of electricity consumption in Japan at that moment. The amendments are part of the Government’s policy, which aims to increase the cost-competitiveness of the industry as a whole, in order to decrease Japan’s medium to long-term electricity costs.
Competition Regimes in the World – A Civil Society Report

The first stage of partial liberalisation of the electricity market began in December 1995 when the Ministry of Economy, Trade and Industry (METI) introduced a wholesale tender system. Thereafter, the scope of liberalisation has been expanded in April 2004 and April 2005.

After the Great East Japan Earthquake, some problems with regard to electricity supply were revealed such as ‘Lack of a viewpoint to adjust demand at the consumer side’ and ‘Lack of viewpoint to realise the optimum nationwide supply-demand structure’ and others. The METI has been considering an additional reform plan including expansion of the liberalised segment on retail market, activation of the existing wholesale electricity market, creation of a more enhanced competitive market among utilities and promotion of nationwide operation (supply-demand balancing).

The Electricity Business Act is the central law regulating the supply of electricity in Japan, and covers such issues as:
• permission for undertaking an electric utility supply business;
• standards for electric facilities;
• use of land;
• inspection by designated authorities; and
• punitive provisions.

The Act is designed to protect consumers of electricity and promote sound development of the electricity supply business.

Although the electricity industry had been exempted from the Anti-monopoly Act in the past, the Act was amended in 2000.

Consumer Protection

The Consumer Protection Fundamental Act, which was enacted in 1968, had functioned as the basic framework for Japan’s consumer policies. Since the economic and social conditions surrounding consumers have changed drastically, a bill to revise the Consumer Protection Fundamental Act to meet current economic and social conditions was submitted to the Diet and enacted in May 2004. The name of the Act was changed to the Consumer Basic Act.

In Japan a variety of laws have been enacted for consumer protection with the objective of preventing consumers from being damaged or to provide immediate relief if they are damaged.


In order to protect and enhance consumer benefits, a new Consumer Affairs Agency was established on September 01, 2009. It covers broader range of jurisdictions related to consumer problems, such as “trade,” “labelling,” and “safety.”

Concluding Observations and Future Scenario

In the past 10 years, a series of amendments to the Antimonopoly Act has brought some changes to the competition policy in Japan. The most recent amendment approved by the Diet was in 2009. The amendments were to:
• expand types of conduct subject to surcharges to exclusionary type of private monopolisation and certain types of unfair trade practices (concerted refusal to trade, discriminatory pricing, unjust low price sales, resale price maintenance, abuse of superior bargaining position);
• increase the maximum jail term for unreasonable restraint of trade from 3 years to 5 years; and
• revise the notification system on business combination to introduce a prior notification system for share acquisitions and others.

Also, the Cabinet submitted an amendment bill of the Act to the Diet in March 12, 2010. The amendments were to:
• abolish the JFTC’s hearing procedure for administrative appeal;
• abolish the provision which stipulates that the jurisdiction of the first instance over any appeal suits pertaining to decisions of the JFTC shall lie in the Tokyo High Court;
• introduce a system in which any appeal suits pertaining to cease and desist orders and so on, shall be subject to the exclusive jurisdiction of the Tokyo District Court, and a panel of three or five judges of the Tokyo District Court hears the cases, with a view to ensuring expertise of the court; and
• develop procedures for hearing pertaining to cease and desist orders, etc.

The bill was discarded due to the dissolution of the House of Representatives in November 2012. However, these items are likely to remain on the agenda as important issues to be considered in relation to the competition policy in Japan.

Through a series of amendments including the amendment in 2005 to introduce the leniency programme and others, deterrent power of the Act has been strengthened and the fairness of the investigation procedure from the viewpoint of enterprises are expected to be enhanced.

Finally, international activities of the JFTC have to be mentioned. The international presence of the JFTC is getting enhanced recently. For example, the JFTC has actively been participating in the activities of the International Competition Network, which is the world’s
largest network among competition authorities, and leads the discussion there.

For the last decade, the JFTC has played an active part in the competition policy domestically and internationally and it is expected to be continued.

**Suggested Readings**

*Antimonopoly Act* 1947 of Japan (English version) (JFTC website, last accessed November 30, 2012)

*Annual Report on Competition Policy in Japan to the OECD* (January-December 2010)


OECD, Challenges/Obstacles Faced by Competition Authorities in Achieving Greater Economic Development through the Promotion Competition – Contribution from Japan, submitted by Japan to the OECD Global Forum on Competition, Session II, on 12 and 13 February, 2004


**Endnotes**

1 Compiled from Challenges/Obstacles Faced by Competition Authorities in Achieving Greater Economic Development through the Promotion of Competition – Contribution from Japan, submitted by Japan to the OECD Global Forum on Competition, Session II, on 12 and 13 February 2004.

2 The full name is the Act on Prohibition of Private Monopolisation and Maintenance of Fair Trade (Act No.54 of 1947).

3 Compiled from Japan Fair Trade Commission, Role of JFTC (and Competition Policy) – How the Japan Fair Trade Commission Ensures a Robust Economy (JFTC website, last accessed 6 Sep 2004)

4 As such, if a firm that supplies high-quality, inexpensive products comes to monopolise the market after other firms have left the market as a result of competition, this will not violate the Act.

5 The ‘Non-Assertion Provision’ provided *inter alia* to the effect the licensees shall not among others sue, bring, prosecute, assist or participate in any judicial, administrative or other proceedings of any kind against Microsoft, its subsidiaries or other licensees for infringement of the Japanese manufacturers’ patents which occurs during the Immunity Period. Such period shall terminate upon the last to expire, of all the Japanese manufacturers’ patents.

6 There is another law bearing a similar name, that is, Unfair Competition Prevention Act (Act No.47 of 1993), but it deals mainly with labelling and trade secrets and is not directly related to anti-competition.

7 Any particular field of trade means the relevant market. It is generally defined by the extent to which a merger may affect competition, taking into consideration specific factors found in the cases such as the types of goods and services handled by the merged company, the geographical extent to which such goods and services are to be traded, and the specific phase of transaction (manufacture, wholesale, retail, etc.)

8 A joint incorporation type-split means incorporation-type company split that a company effects jointly with another company. Surcharges are penalties fixed as a percentage, and therefore the authority has no power to vary the same.

9 The full name is Nippon Telegraph and Telephone East Corporation.

10 Which NTT East purportedly but did not actually practice.

11 For further information, see the JFTC website (last accessed on November 30, 2012).