

SAIC Releases Guidelines on the Enforcement of the Anti-Monopoly Law with Respect to IP Rights.

On 7 April 2015, the State Administration for Industry and Commerce (“**SAIC**”) released its long-awaited regulation on intellectual property rights (“**IPR**”) and competition law (the “*Provisions on Prohibition of Abuse of Intellectual Property Rights to Eliminate or Restrict Competition*” (“**IPR Regulation**”)). After no less than five years of research, consultations, drafting, and at times heated debates with stakeholders, the IPR Regulation will take effect as of 1 August 2015. It marks a watershed for IPR and competition law in China, a complex inter-relationship that has sparked controversies in jurisdictions worldwide.

As the SAIC is tasked with enforcing China’s Anti-Monopoly Law (“**AML**”) against non-price related anti-competitive conduct, the IPR Regulation applies within the SAIC’s own enforcement remit, not the price-related anti-competitive conduct (which falls within the jurisdiction of the National Development and Reform Commission (“**NDRC**”)) or IPR issues arising in the review of mergers (the Ministry of Commerce (“**MOFCOM**”) is in charge of merger review). Notwithstanding, the IPR Regulation is China’s first comprehensive implementing regulation addressing the exercise of IPRs and signals that the SAIC is prepared to intensify enforcement in this area.

Anticompetitive agreements

Consistent with the AML’s general prohibition against anti-competitive agreements, the IPR Regulation confirms that undertakings are prohibited from entering into either horizontal or vertical monopoly agreements involving IPR. Notably, the IPR Regulation introduces “safe harbour” provisions, which were heavily debated during the drafting process. Agreements between undertakings will not be considered to be anti-competitive if the parties’ market shares are below certain thresholds: (1) for horizontal agreements, 20% combined share in the affected market, or if four or more substitutable technologies, controlled by entities independent of the parties, are available at reasonable price; (2) for vertical agreements, 30% share in each of the upstream and downstream market, or if two or more substitutable technologies, controlled by entities independent of the parties, are available at reasonable price.

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The safe harbour thresholds resemble the equivalent rules in the European Commission's Technology Transfer Block Exemption Regulation ("TTBER"), which was amended in 2014. Nevertheless, while the rationale behind the "safe harbour" rule are laudable, parties to agreements involving IPRs may find it difficult to gain comfort in practice. Such market share thresholds involve complex assessment of what constitutes a "relevant market" for antitrust purposes, and even more complex assessment of whether alternative technologies are "substitutable" and available at prices that are "reasonable". Moreover, the IPR Regulation adds a caveat: the exemption does not apply if the SAIC establishes that an agreement has the effect of eliminating or restricting competition.

Abuse of Market Dominance

The IPR Regulation identifies certain behaviours that the SAIC will consider as an abuse of a dominant market position, unless the conduct can be justified: refusal to license essential IPRs; exclusive dealing; tying/bundling; attaching unreasonable trading conditions; and differential treatment to equivalent transactions. These are only examples: the SAIC may find that other types of conduct amount to an abuse of ownership of IPR. It is unclear what could be recognised as "justifications" by the SAIC, but it is understood that the parties will bear the burden to justify their conduct.

The IPR Regulation makes it clear that the question whether an IPR holder is in a dominant market position is determined according to the rules laid down in the AML. Ownership of IPRs is one factor to be taken into account in this assessment, but the SAIC will not presume an undertaking to be dominant merely because it holds IPRs.

Refusal to license

The IPR Regulation for the first time introduces an "essential facilities doctrine", a controversial concept in antitrust enforcement world-wide. When considering an IPR holder's refusal to license IPRs, the SAIC will take into account: (1) whether reasonable substitutes for the IPR exist, and whether the IPR is necessary for the licensee to compete in the relevant market; (2) whether the refusal will have an adverse impact on competition or innovation, to the detriment of consumer interest or public interest; and (3) whether licensing the IPR to the licensee will cause unreasonable harms to the IPR holder.

During consultations of drafts preceding the IPR Regulation, the circumstances under which a refusal to license would breach the AML was fiercely debated. Very likely, the final text continues to be a source of concern for many IPR holders, due to the fact that it seemingly sets a low threshold for compulsory licensing. This stands in contrast to the approach taken in other jurisdictions. For instance, in the EU, a refusal to license will only amount to an abuse of dominance in "exceptional circumstances." Similarly, the US courts have also imposed duties to deal on dominant firms in highly specific situations. It is yet to see how the SAIC would apply this doctrine in practice,

but the emergence of a Chinese enforcement practice that disincentivised innovation would be deeply unfortunate.

Unreasonable trading conditions

The IPR Regulation further prohibits the imposition by a dominant IPR holder of unreasonable conditions on its licensees without justifications. The regulation lists a non-exhaustive list of unreasonable conditions, including (1) exclusive grant-backs of the licensee's improvement to licensed technologies, (2) no-challenge clauses prohibiting a licensee from challenging to the validity of the licensed IPR; (3) restrictions on the use of competing products or technologies after expiry of the license agreement; (4) obligations to pay royalties after the expiry or invalidation of the licensed IPR; and (5) exclusive dealing.

This scepticism about exclusive grant-back and no-challenge clauses is in line with the approach taken in the TTBER in the EU. Under the TTBER regime, technology license agreements containing such clauses are not exempted from the EU rules on restrictive agreements. The TTBER also removes the benefit of the exemption for termination clauses, which allow the licensor to terminate the technology licence agreement if the licensee challenges the validity of the IPR, as the European Commission considers that such termination arrangements can have the same deterring effect as no-challenge clauses. It is unclear in the IPR Regulation (albeit possible) that the SAIC will consider that a termination clause is already covered as one type of non-challenge practice.

Patent pools

The IPR Regulation also addresses anticompetitive conduct in the context of patent pools. Under the IPR Regulation, patent pool members are prohibited from entering into anticompetitive agreements through the exchange of competitively sensitive information relating to output, market allocation, etc. In addition, unless justified, patent pools with a dominant market position are not allowed to (1) prevent members from individually licensing outside the pool; (2) prevent members or licensees from developing competing technologies on their own or in cooperation with third parties; (3) require exclusive grant-backs; (4) prohibit licences from challenging the validity of the pooled patents; or (5) apply different trading conditions to equivalent transactions.

Notably, a patent pool can, as provided in the IPR Regulation, take the form of a specialised joint venture company tasked with managing the patent tool. This could constitute a concentration of undertakings under the AML, and, if the relevant turnover thresholds are also met, would trigger a merger control filing to MOFCOM. In this situation, MOFCOM will undertake assessment of the competition issues in relation to the proposed establishment of the joint venture company, including any clauses referenced above. It is unclear whether and how the SAIC will coordinate with MOFCOM during the latter's review process (which may take place prior to the SAIC's intervention on its own).

Standard Setting

The IPR Regulation contains provisions that are intended to regulate abusive conduct by dominant IPR holders during the standard setting process. It will be considered an abuse of dominance if a patentee deliberately conceals patent information or waives the right of assertion during the standard setting process, but nevertheless asserts the patent after a certain standard has incorporated the patent. It will also constitute an abuse if a standard essential patent (“**SEP**”) holder refuses to license the SEP, tying in licensing, or imposing unreasonable conditions in violation of the fair, reasonable and non-discriminatory (“**FRAND**”) principle.

Other IPR-related abusive conduct

Exclusive dealing, tying and discrimination in the exercise of IPR are also prohibited under the IPR Regulation. However, the clauses related to these types of conduct largely mirror the wording of the general provisions of the AML, and no further details have been provided with regard to the application to the exercise of IPRs.

Notably, some provisions which appeared in the previous drafts were removed from the final version. For instance, the draft released for public comment on 11 June 2014 attempted to regulate copyright collecting societies, because the SAIC believed that such conduct could potentially restrict competition. More specifically, the public consultation draft prohibited anticompetitive agreements between a copyright collecting society and copyright owners, and between copyright collecting societies, and further outlaws abusive conduct in the forms of refusal to license; discriminatory treatment; obligations imposed upon licensees to accept unwanted copyrights; and preventing copyright owners from removing themselves from the society. These provisions have been removed from the final regulation. In addition, the public consultation paper also sought to prohibit dominant IPR holders from sending abusive warning letters after the IPR has expired or become invalid. This prohibition also does not appear in the final version. These provisions were removed presumably because they provoked controversies which were not successfully settled.

Conclusion

The IPR Regulation represents a step forward in laying out a general framework on how to apply the AML to the area of IPR. In the past, antitrust regulation in relation to IPR in China was scattered in a variety of laws and regulations, such as the Patent Law, the Contract Law and the relevant judicial interpretations of the Supreme Court. This has resulted in a lack of clarity in terms of what constitutes anticompetitive conduct in the IPR field. In this regard, the IPR Regulation has provided some welcome guidance to market players. The rules have not departed significantly from internationally recognised approaches, but certain clauses (e.g. those dealing with refusal to license) may still cause concerns among IPR holders.

There remains uncertainty around the application of the IPR Regulation. As the SAIC is tasked with enforcement against non-price related anticompetitive agreements and abusive conduct, the IPR Regulation presumably does not cover price-related anticompetitive conduct, which falls into the jurisdiction of the NDRC. However, the lingering question is how a clear line can be drawn between price and non-price related conduct. Further, when an undertaking's exercise of IPR involves both price and non-price aspects, it is unclear how the two agencies will coordinate on the jurisdictional issues and how the IPR Regulation will be applied to a case falling within NDRC's jurisdiction.

Antitrust enforcement in the IPR field may be reasonably expected to intensify following the introduction of the IPR Regulation. IPR-rich companies will need to bring their licensing practices in China into line with the regulation so that they are able to withstand a greater degree of scrutiny.

The full text of the IPR Regulation is available [here](#) and a courtesy English translation can be found [here](#).

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