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# How Japanese Businesses Should Handle China's Emerging Approach to Antitrust and Intellectual Property

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**“The future competition in the world is in intellectual property.”**

**Wen Jiabao (Premier 2004)**



# Outline

- 1. The Antimonopoly Law (“AML”) and Intellectual Property
- 2. Unfair Competition and Licensing: Chinese Contract Law
- 3. Refusal to License: AML
- 4. Patent Law and Refusals to License
- 5. Patent Pools and Standards Setting
- 6. “Junk” Patents and Abuse of Patent Rights
- 7. Summary of Concrete Steps to Be Taken
  
- Addenda

# 1. The AML and Intellectual Property

- “This Law is not applicable to the undertakings which use intellectual property rights according to the laws [法律] and administrative regulations [行政法规] relevant to intellectual property, but is applicable to the undertakings which abuse intellectual property and eliminate or restrict market competition.” AML, Article 55

# What is “Use” of Intellectual Property in Accordance with Law / Or Abuse which Restricts Competition?

- Article 55 appears in Chapter 8 titled “Supplemental Provisions” instead of Chapter 3 which relates to abuses of a dominant market position. This suggests that:
  - A company can “abuse” IPR without a finding that the activity is an abuse of dominance.
  - Intellectual property rights are not a direct basis for inferring abuse of dominance. However, IP rights will be a factor particularly in industries that greatly rely on IP rights.
- Compliance with other “laws and administrative regulations” may create safe harbors from the AML.
- These points are repeated in the recent Third Draft Guidance for Antimonopoly Law Enforcement in Field of IP Rights (Art. 3).





# Other Provisions of AML Potentially Regarding Intellectual Property

- Prohibiting horizontal agreements  
“restricting the purchase of new technology or new facilities or the development of new technology or new products.” (Art. 13.4)
- Prohibiting “abuse of dominant position” in which an “operator” “may control the prices of products, their volume, and other conditions of exchange within relevant markets as well as obstruct or otherwise affect the entry of other operators into relevant markets.” (Art. 17)
- Exempting agreements to improve technology or to research and develop new products, provided that consumers may “share impartially in the interests derived from the agreement” and it “**will not entirely eliminate competition** in a relevant market.” (Art. 15.1)
  - Appears to be an Art. 55 “Safe Harbor” for R&D

## 2. Unfair Competition and Licensing: China Contract Law (1999)

- Art. 329 Invalidity of Technology-monopolizing and Infringing Contract
- A technology contract which illegally monopolizes technology, and impairs technological advancement ... is invalid.



# Interpretation of the Supreme People's Court concerning Some Issues on Application of Law for the Trial of Cases on Disputes over Technology Contracts (2005)

- **Article 10** The following circumstances are... “illegally monopolizing technology and impairing technological progress” (Article 329 of the Contract Law):

*Exclusive grantbacks*

**(1) Restricting one party from making new research and development ... non-reciprocal conditions for both parties to exchange the improved technologies including such circumstances as requiring one party to gratuitously provide the other party with the improved technology... or jointly own the intellectual property of the improved technology;**

*Adverse effects on the transfer of technology*

**(2) Restricting obtaining, from other origins, the technology similar to or competitive against that of the technology provider;**

*Adverse Effects on Trade*

**(3) Impeding one party's sufficient exploitation of the contractual subject technology in a reasonable way pursuant to the market demands, including unreasonably restricting the quantity, varieties, price, sales channel or export market of the contractual subject technology exploited by technology acceptor in an obvious way to produce products or to provide services;**

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# Supreme People's Court Contract Interpretation (continued)

(4) Requiring the technology acceptor to accept attached conditions dispensable for exploiting the technology, including purchasing dispensable technologies, raw materials, products, equipment, services or accepting dispensable persons, etc.;

*Coercive  
package  
licensing*

(5) Unreasonably restricting the channels or origins for the technology acceptor to purchase raw materials, parts and components, products or equipment, etc.; and

(6) Prohibiting the licensee from making objections to the effectiveness of the intellectual property ... or attaching conditions to the objections made.

*Preventing  
challenges  
to validity*



# *Draft Guidelines on AML Enforcement in the Field of IP Rights (3d Draft Revision).*

- Article 13:
  - Anticompetitive Horizontal Business Practices Involving IP Rights, include:
    - Restrictive conditions on the licensing of IP rights, such as limiting the quantity of goods for sale
    - Cross licensing to cut apart sales markets
    - Restrict the purchase of new technology or equipment or developing new technology through exclusive grant backs by licensee
    - Standards setting that excludes competition

*Coercive  
package  
licensing*

*Exclusive  
grantbacks*



# 3. Refusal To License Under the AML

- Dominant undertakings shall also “not abuse their dominant position by...selling products at unfairly high prices [or]...*refusing to trade* with another party without legitimate reasons. (Art. 17.1,3)
- **Dominance Plus Refusal to License is cause for concern**
  - **Mere ownership of IP rights does not mean market dominance (Art. 6, Draft Guidelines)**
- **Factors for Analysis of Competitive Effect (Art. 10, Draft Guidelines)**
  - **Market Position of Owner of IP Rights**
  - **Concentration of Market**
  - **Difficulty of Entry/Exit**
  - **General Industry Practice**
  - **Time limitation of IP Right And Exclusivity Provided by the Right**
  - **Effects of Exercising the Right on Promotion of Innovation**

# Safe Harbors Under Draft Guidelines

- **Safe Harbors for non - “core restrictive conduct” (‘hardcore’ cartel activity) for business operators with horizontal competitive relationship**
  - Two parties have  $\leq 20\%$  market share
  - If market share cannot be calculated, at least four other competitors in the market
- **Business operator and transaction entity have no competitive relationship (vertical)**
  - Neither of the two parties have  $\leq 30\%$  market share
  - If market share cannot be calculated at least two other competitors in the market.
- **If No Safe Harbor - Companies especially need “legitimate reasons” (Art. 12)**
- **Non-Dominant Companies May Still Need to Focus On Other Laws As Areas of Risk Exposure**



# Refusal License: Past Perspective of SAIC

- “Refusing to deal” means transnational corporations having dominant market positions refuse to sell their products or provide services without appropriate reasons. For example, a US corporation, the largest network equipment manufacturer, prohibited licensing its patents or trade secrets to any other enterprises by “private agreements” which artificially prevents the communication among equipments of different enterprises, forms technology and market obstacles, and prevents its competitors from material competition in biddings.
- ***What constitutes “appropriate reasons”?***
- Source: Behaviors of Restricting Competition by Transnational Corporations in China and Corresponding Measures, Fair Trade Bureau, SAIC May 2004.





# Exempted Circumstances

- Business operators may be exempted from burden of persuasion for “core restrictive acts” if they can produce evidence that they will not restrict competition in the market and consumers will share in the benefits, and their acts are is for the following purposes:
  - Improving technology and developing new products
  - Improving quality of products, reducing costs, raising efficiency, etc.
  - Improving operation efficiency of small and medium size business operators
  - Realizing public interests such as energy saving, environmental protection, disaster relief, etc.
  - Relieving deteriorated sales or excess product due to economic cycles
- Also exempted: securing justified interests in foreign trade with foreign investors.  
Guidelines (Art. 15).

# 4. Patent Law and Refusals to License

- Article 48 (Revised Patent Law, Eff. Oct 1).

In any of the following cases, the Patent Administrative Department Under the State Council may, upon the request of the entity or individual which is capable to exploit, grant a compulsory license to exploit the patent for invention or utility model:

- (1) where the patentee, after the third anniversary of the grant of the patent right and fourth anniversary of the filing date of patent application, has not exploited the patent or **has not sufficiently exploited** the patent **without any reasonable grounds**;
- (2) Where it is determined through the judicial or administrative procedure that the patentee's exercise of the patent right thereof is an act of eliminating or restricting competition, thus there is a necessity to grant a compulsory license to the applicant.

- **The Patent Law provides a separate basis for compulsory licenses for refusals to license.**
- **No dominant position is required for a compulsory license** by reason of insufficiently exploiting a patent, “without reasonable grounds.”
- If there is anticompetitive conduct, there is a separate basis for a compulsory license.



# Role of AML and Patent Abuse in Refusals to License

- **Patent Law revision history confirms that Refusal to License is a separate basis from the AML for a compulsory license, regardless of competitive effect.**
  - “Because the Antimonopoly Law requires that the patentee demonstrate that its patented products hold a certain market share, ... it is difficult to apply the AML to many types of licensing operations ...the most typical of these problems [that] need to be considered under the Patent Law is a refusal to license....” (Guo He et al in: SIPO Study on Third Amendments to Patent Law and Patent Law Implementing Rules (2006) (“Patent Monograph”).
- **SIPO has never issued a compulsory license to date.**

# Abuse of Technological Protection Measures

- Proposed policies: **Technological Protection Measures (“TPM’s”) by an IP owner if used to restrict competition may be anti-competitive.**
  - If protecting digital copyright, no review may be carried out.
  - If an alternative method to protect copyright that has **more limited effect** on competition is available, the TPM may be seen as restricting competition.
- **Possible consequences for OEM’s of TPM-controlled equipment and consumables** such as: ink cartridges, video game controllers, standards setting incorporating TPM’s, technical interfaces in car parts.

Source: Guidelines, Art. 21.

# 5. Patent Pools and Standards Setting

- Emerging policies on **anticompetitive acts of patent pools**:
  - Prohibit licensors from independently licensing outside of the pool
  - Force exclusive grant backs of non-essential patented technology
  - Prohibit challenging the validity of the patents
  - Discriminatory royalties without legitimate grounds
  - Limits R&D by a licensor/licensee
- The following may be **anticompetitive acts of management**:
  - Unreasonably discriminates
  - Limits participants to using the pooled patents
  - Facilitates the exchange of sensitive information on competition

Guidelines, Art. 19.





# Conduct in Standards Setting

- **Unilateral Pronouncements Generally Not Examined:** Generally no examination of unilateral announcements of license terms by patentees.
- **Anticompetitive Licensing Terms of SDO's Will Be Examined:** Where license terms by standards body could restrict competition, anticompetitive effects will be examined.
- **Conduct Likely to be Viewed As Restraints of Competition by Patentee:**
  - If patentee is aware of incorporation of patent into standard, but **does not disclose to SDO, but asserts patent after standard is set.**
  - If patent is incorporated into the standard and **the patentee licenses on unreasonable or unequal terms**
    - May be less than an arms-length licensing fee
  - **Other prohibited licensing conduct** (grant backs, tied selling, etc.)

See Guidelines, Art. 20, also draft Judicial Interpretation on Handling of Patent Litigation, other draft agency guidance.





# Standardization Law – Draft for Public Comment of “Provisions on the Administration of Formulating and Revising National Standards Involving Patents [Interim]”

- After interagency-consultation this draft was announced for public comment by end of November, for likely promulgation by end of this year by the Standardization Administration of China (SAC).
- **National Standard Licensing Policy:**
  - **Mandatory disclosure** to technical committee developing the standard
  - The patent will be licensed on a royalty-free basis for use in the national standard if no disclosure is made.
  - Otherwise, the patent shall be **licensed on a RAND basis**.
  - **If no license is granted, the patent shall not be included in the standard.**
- **Compulsory National Standards Licensing Policy:**
  - Patentee grants royalty-free license or negotiates with technical committee
  - **Compulsory license granted in absence of agreement**
- *Compare - Supreme People’s Court (2008) Instruction: no infringement if patent is licensed in standards context.*



# Approaches to Standards and Patent Pools

- Careful attention is required to multiple policy initiatives underway, with Standardization Law itself Under revision
  - **Chinese government and industry is using a multifaceted approach:** WTO/APEC/Bilateral/Multiple National Agencies/Courts/Local Governments/SDO's. The tone can be nationalistic.
  - Tension between China's manufacturing dominance and weak patent portfolios.
  - **Government Relations / Engagement is Critical At This Point In Time**
- Chinese companies have become increasingly active in standards development in China and overseas.
- **Private licensing activities need to closely follow existing guidelines**



## 6. “Junk” Patents and Abuse of Patent Rights

- Current situation: Explosive growth in patent applications of all types, with China likely to become the largest patent office in the world.
- Chinese grantees vastly outnumber foreign grantees of utility model and design patents, which do not undergo substantive examination and may be difficult to invalidate.
- Higher predominance of non-service or small/individual inventors in China, which may be associated with low quality and vexatious litigation.
- **Greater vigilance is required** by rights holders to:
  - **File patents defensively, especially design and utility model patents**
  - **Seek invalidation of vexatious patents**
  - **Argue that vexatious patenting impedes technological development and is anticompetitive**



# Small Inventors – Big Agitators?

## *U.S. Percent of Patents Granted (2006)*

<b>U.S. CORPORATION</b>	<b>45.4%</b>
<b>U.S. GOVERNMENT</b>	<b>0.5 %</b>
<b>U.S. INDIVIDUAL</b>	<b>6.8 %</b>
<b>FOREIGN CORP.</b>	<b>44.5 %</b>
<b>FOREIGN GOVT</b>	<b>0.0 %</b>
<b>FOREIGN INDIVID.</b>	<b>2.7 %</b>

## *China (2006)*

- **INVENTION PATENTS -**
  - **SERVICE INVENTIONS 79.5%**
  - **NON-SERVICE INVENTIONS 20.5%**
- **DESIGN PATENTS**
  - **SERVICE 37.8%**
  - **NON SERVICE 62.2%**
- **UTILITY MODELS**
  - **SERVICE 37.1%**
  - **NON SERVICE 62.9%**

([http://www.uspto.gov/go/taf/topo\\_06.htm#PartA1\\_2b](http://www.uspto.gov/go/taf/topo_06.htm#PartA1_2b))



# How Valuable Are Unexamined Patents?

## High Patent Damage Awards:

- 2004: \$50,000
  - 2005: \$1,100,000
  - 2006: \$210,226
  - 2007: \$44,300,000 (Chinese Plaintiff / Foreign Defendant / Utility Model Patent)
  - 2008: \$2,780,000
- 
- To many foreign companies, China is already a “compulsory licensing” environment due to difficulties in enforcement.
  - Patent abuse appears to be originating from Chinese rights holders.
- 
- Data Source: NERA Economic Consultants, “Trends in IP Litigation and Damages in China” (2009)





# 7. Summary of Concrete Steps To Be Taken

- 1. Care should be exercised in commercializing IPR to minimize risks of AML / patent abuse concerns.
- 2. License agreements, particularly for patent pools and consortia, should be carefully reviewed in light of recent legal developments.
- 3. Dominance + control of relevant IP rights will likely elicit greater scrutiny from the courts, AML enforcement authorities, standardization bodies and the patent office.
  - But is likely not required for “patent abuse” to be determined.
- 4. Patents should be practiced in a manner that shows an effort to promote technology, meet the domestic demands for the patented product or method and minimize “refusal to license” concerns.
- 5. For foreign companies, “junk patents” need to be taken seriously.
- 6. Because of the overlap in issues and laws, counsel should be hired for expertise in AML, IPR, standards and related areas.



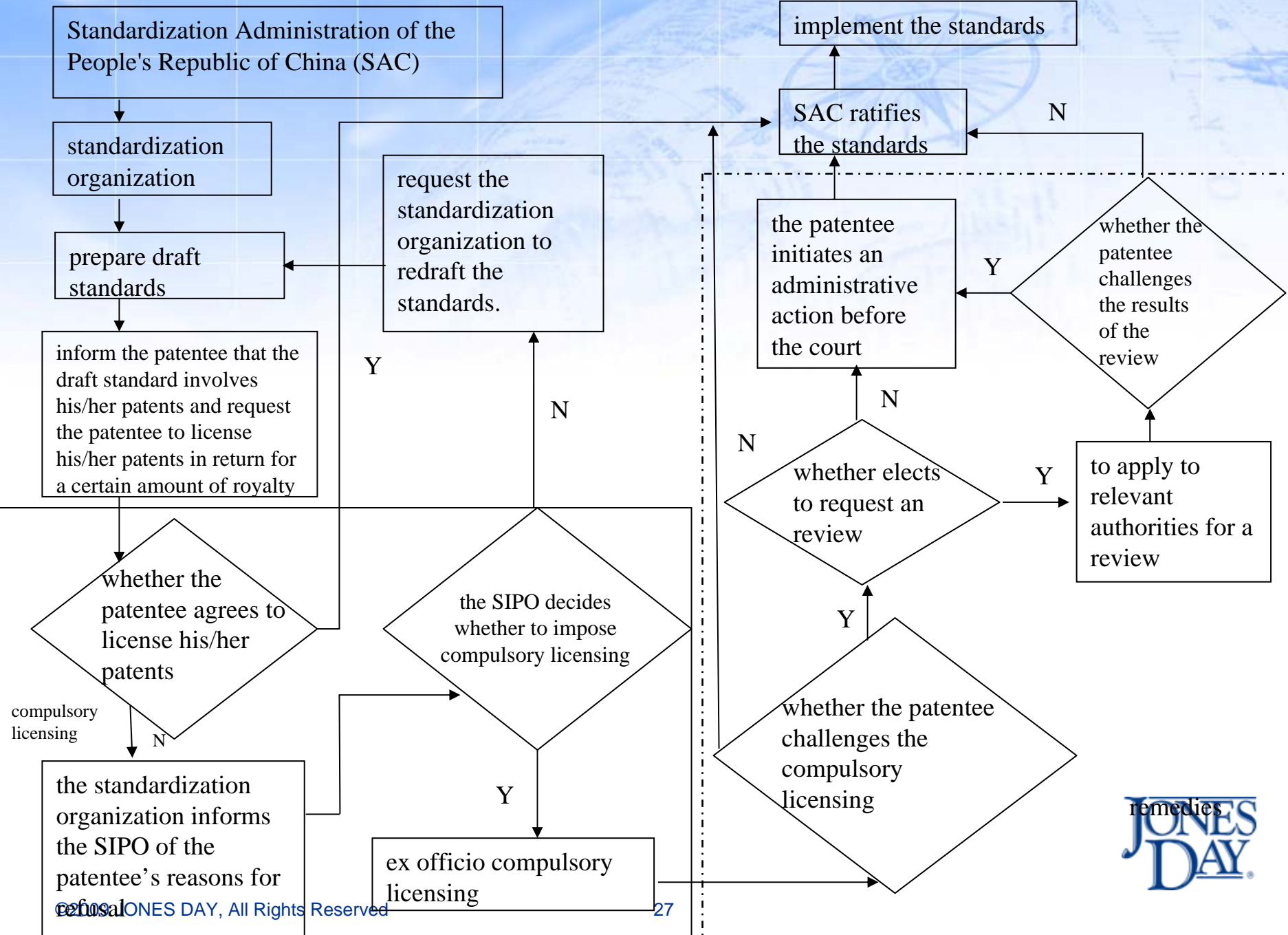


# Overlapping Authority: IPR and AML Agencies

- Rights Holders Need to Look at Developments Across Agencies:
- **Supreme People's Court / IPR Tribunal**
  - Concurrent jurisdiction over antimonopoly cases (reportedly no cases yet)
  - Patent Cases/Technology Transfer Contracts
- **State Administration for Industry and Commerce**
  - Abuse of Dominance/Monopolistic Agreements/ (several dozens of cases)
  - Trade Secrets/Law to Counter Unfair Competition/Consumer Protection
  - Trademarks
- **Ministry of Commerce**
  - Mergers
  - Foreign Trade (Section 337 type authority-no cases yet)/ Foreign Licensing
  - TRIPS/APEC/TBT/Bilateral IPR Discussions
- **National Development and Reform Commission**
  - Overlapping authority with SAIC on “price-related” monopoly agreements and abuses of dominance
  - National Economic Plan, including innovation-related efforts
- **State Intellectual Property Office**
  - Patent Grants and Patent Enforcement
  - National IPR Strategy/Interagency Coordination
  - Compulsory Licensing Procedures (no cases yet)
- **Other**
  - Standardization Administration of China



# Emerging Complexity: Compulsory Licensing for National Standards (SIPO Monograph Proposal)



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# Thank you!

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