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Interface between IP and Competition Law in Taiwan

Kung-Chung LIU*

I. INTRODUCTION

The modernization of Taiwan's intellectual property (IP) laws has been most marked in the last 10 to 15 years.[1] During that period, Taiwan also responded to U.S. Section 301 pressure by enacting and enforcing the Fair Trade Act of 1991, a general competition law. The issue of the interface between IP and antitrust law has gradually gained significance in the last couple of years. To some extent, as its development in Taiwan testifies, competition law has circumscribed the scope of IP laws and inflicted a spill-over effect on the IP laws. The ramification of competition law in Taiwan with regard to the interaction with IP laws has, thus far, resulted in an accumulated body of experience which, given the interface role that Taiwan is playing in many industries, could perhaps be of use for countries at an equivalent level of development or facing a similar situation.

Totally unaware of the paradigm shift from a pattern of weak IP laws (especially patent laws) and strong antitrust laws in the 1970s to the pattern of strong IP laws (especially patent laws) and weak antitrust laws in the 1990s in the United States[2] and the European Union,[3] the Taiwanese legislature has, mainly out of its habit of imitating Japan, introduced into the Fair Trade Act[4] Article 45, which closely resembles Article 21 of the Japanese Antimonopoly Act (formerly Article 23). Article 45 of the Fair Trade Act reads: "No provision of this law shall apply to any proper conduct in connection with the exercise of rights pursuant to the provisions of the Copyright, Trademark, and Patent Acts."[5]

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1 The three fundamental IP laws in Taiwan—the Copyright Act, the Trademark Act and the Patent Act—were all substantially revised in 2003. The Copyright Act was again amended in 2004 to introduce, *inter alia*, the protection of technical measures. The English version of the Taiwanese IP laws is available on the Website of the Taiwanese Intellectual Property Office, at: ‹www.tipo.gov.tw/eng/laws/laws.asp›. The Copyright Act is available at: ‹www.tipo.gov.tw/eng/laws/e1-4-1an93.asp›; the Trademark Act is available at: ‹www.tipo.gov.tw/eng/laws/tmlaw-e.asp›; and the Patent Act is available at: ‹www.tipo.gov.tw/eng/laws/patlaw-e.asp›.

2 See John H. Barton, *Patents and Antitrust: A Rethinking in Light of Patent Breadth and Sequential Innovation*, 65 Antitrust L.J. 449, 1997, at p. 449.

3 As exemplified by the European Union block exemption clauses; see Andreas Heinemann, *Immaterialgüterschutz in der Wettbewerbsordnung: eine grundlagenorientierte Untersuchung zum Kartellrecht des geistigen Eigentums*, Mohr Siebeck, Tübingen, 2002, at p. 626.

4 The Taiwanese Fair Trade Act is available at: ‹www.ftc.gov.tw/20000101299901011374.htm›.

5 The Taiwanese Legislature introduced this provision because: "Copyright, trademark right and patent right are legal monopoly in nature, therefore the proper conduct in connection with the exercise of rights pursuant to Copyright, Trademark, and Patent Acts excludes the application of This Law." See *Joint Report on the Review of the Draft Revision Act of the Fair Trade Act by the Committees on Economic Affairs and on Judiciary*, Legislative Yuan, 79 Gazette (1980), Issue 96, No. 2416, p. 100.

The provision itself does not provide any clue as to how "proper conduct" is to be understood. However, the Taiwanese IP laws contain rules that deal with some aspects of the IP/competition law interface issue, such as parallel imports and compulsory licensing. The Taiwanese Fair Trade Commission (TFTC) has developed the principle of allowing parallel imports of trademarked goods as a general rule and laid down stringent rules on issuing warning letters alleging IP infringement. Recent case law of the TFTC shows that patentees can be held responsible for the abuse of monopoly power derived from their patent pool. In 2002, the TFTC also specifically adopted the essential facility doctrine in its guidelines entitled "How the Fair Trade Act Might Apply to Cross-Ownership and Joint Provision among 4C Enterprises"[6] (hereinafter, the 4C Guidelines).[7] This article will examine these issues in the above-mentioned order.

II. Parallel Imports[8]

With the proliferation of parallel importation of genuine goods motivated by the substantial price differentials of the 1980s, the Taiwanese courts were flooded with cases which challenged the legality of parallel imports. In 1992, the Supreme Court unprecedently went beyond legal exegesis and touched upon economic theory. Indeed, Decision Number 2444 of 1992 makes economic sense by asserting:

> "The parallel import of genuine goods may prevent the trademark owners from monopolizing [the] domestic market, controlling prices, and may therefore facilitate price competition, and allow consumers to choose (from different sources) of the same goods, and enjoy the benefit of free competition."[9]

At roughly about the same time, the TFTC echoed its supportive opinion,[10] which was later shared by the 1993 Trademark Act Amendment Act, adopting the "exhaustion theory". The current Article 30(2) of the 1993 Trademark Act Amendment Act stipulates:

"Where goods bearing a registered trademark are traded or circulated in the marketplace by

[6] The term "4C enterprises" refers to the telecommunications, cable television, computer network and e-commerce industries.

[7] The 4C Guidelines are available at: ‹www.ftc.gov.tw/20000101299912311597.htm›.

[8] For a more detailed report on the parallel import regime in Taiwan, see Kung-Chung Liu, *Exhaustion and Parallel Imports in Taiwan*, in Christopher Heath (ed.), *Parallel Imports in Asia*, Kluwer Law International, London, 2004, at pp. 39–50.

[9] Decision number 5380 of 1993 reinforced the Supreme Court's position: "The parallel import of genuine goods may prevent the market from being monopolized, facilitate intra-brand price competition, and allow consumers to enjoy the benefit of reasonable prices." Kung-Chung Liu, *Fair Trade Law*, Angel Publishing, Taipei, 2003, at p. 302 (in Chinese). The Decisions of the Taiwan Supreme Court mentioned in this article, with the exception of those adjudicated before 1995, are available on the Website of the Judicial Yuan, at: ‹www.judicial.gov.tw›.

[10] Explanation No. 3 of the TFTC says: "While importing goods, which have been authorized by the original producer to be imported by his agent or manufactured by other producers, if the importing company has by active means misled consumers concerning the product's contents, source, name and address so as to give the impression that the goods come from the agent, this is the so-called free-ride, then the 'deception' or 'obviously unfair' clause of Article 24 ['In addition to what is provided for in this Law, no enterprise shall otherwise have any deceptive or obviously unfair conduct that is able to affect trading order.'] is invoked, because the domestic agent has invested huge marketing costs or expenditures to make the goods widely known to consumers." Explanation No. 3 of the TFTC Regarding the Legality of Parallel Import, 22 April 1992; available at: ‹www.ftc.gov.tw› (in Chinese).

the trademark right holder or by an authorized person, or are offered for auction or disposal by a relevant agency, the right holder shall not claim trademark rights on the said goods. However, the aforementioned shall not apply in case of preventing deterioration or damage of goods or any other fair reasons."[11]

Unfortunately, due to trade pressure from the United States, the other Taiwanese IP laws were forced to not follow the same logic. The Copyright Act was the first piece of legislation to principally ban parallel imports. According to Article 87(4) of the Copyright Act, the import of originals or reproductions of works without the consent of copyright holders is deemed to be an act in violation of the Copyright Act, thereby indirectly granting copyright holders the exclusive right to import copyrighted goods. Article 87*bis* of the Copyright Act provides several narrowly defined exceptions to the right to import,[12] which, in combination with a decree promulgated by the competent authority, allows, for example, the parallel import of five copies of works (but only one copy of audiovisual works) for non-profit educational or archival purposes and, moreover, of one copy of a work for personal use and of one copy of a work as part of personal luggage brought back from abroad.[13]

The provisions of the Patent Act are somewhere between the extremes of those of the Trademark Act and the Copyright Act. Although the Taiwanese Patent Act recognizes that the patentee of an invention, a utility model or a design, has the exclusive right to manufacture, sell, offer to sell, use, or import for the above purposes

[11] However, this leaves room for doubt. If it is for the preservation of the quality of goods, then it is an issue that should be and would better be dealt with by the Consumers Protection Act. Even if it is for the preservation of the goodwill of trademark right holders, it is not justifiable to grant trademark right holders a superior position over the property right of owners of the goods. If it is meant to protect trademark right holders against an intentional damage of the goods by their owners in order to diminish the reputation of the former, then it can be sufficiently handled by either Article 22 ("No enterprise shall, for the purpose of competition, make or disseminate any false statement that is able to damage the business reputation of another.") or Article 24 of the Fair Trade Act. Furthermore, it is dubious how trademark right holders can enforce their right over the goods owned by others—to prohibit the continued sale or use of the trademarked goods and sue over the continued sale or use of the goods, claiming infringement of trademark rights.

[12] Article 87*bis* of the Copyright Act, *supra*, footnote 1, reads: "The provisions of subparagraph 4 of the preceding article do not apply to any of the following circumstances: 1. Importation of the original or copies of a work for the use of central or local government agencies; provided, this does not apply to importation for use in schools or other educational institutions, or importation of any audiovisual work for purposes other than archival use. 2. Importation of the original or a specified number of copies of any audiovisual works in order to supply such works to nonprofit scholarly, educational or religious organizations for archival purposes, and importation of an original or specified number of copies of works other than audiovisual works for library lending or archival purposes where the use of such copies conforms with the provisions of Article 48. 3. Importation of the original or a specified number of copies of a work, where such copy is for the private use of the importer, not for distribution, or where the import is by a person arriving from outside the territory, as the copy forms a part of such person's personal baggage. 4. Importation of the original or copies of a work incorporated into any legally imported goods, machinery, or equipment; such original or copies of the work cannot be reproduced during the use or operation of the goods, machinery or equipment. 5. Importation of an instructional or operational manual accompanying any legally imported goods, machinery, or equipment; provided, this does not apply where the instructional or operational manual are the principal objects of the importation. The 'specified number' set forth in subparagraphs 2 and 3 of the proceeding paragraph shall be prescribed by the competent authority."

[13] Before 9 July 2003, violation of the right of importation was subject to two years imprisonment and/or a monetary penalty in the maximum amount of NT$ 500,000 (Article 93(3) of the Copyright Act). However, the 2003 Copyright Act has deleted the criminal sanction without giving any reason for doing so; see *Joint Report on the Review of the Draft Revision Act of the Copyright Act by the Committees of Economic Affairs and of Judiciary*, Legislative Yuan, 92 Gazette (1993), Issue 34, No. 3308, p. 156.

the patented matter or products that were derived directly from the patented method (Articles 56(1), 106(1) and 123(1) of the Taiwanese Patent Act), this does not necessarily mean that every parallel import will be automatically disallowed. Indeed, pursuant to Articles 57(2) and 125 ("The geographic area in which sale can be made ... shall be determined based on facts by the court.") of the Patent Act and Rule 39 of the Implementation Regulations:

> "The wording 'the areas in which sale can be made' as referred to in the provisions of Paragraph 2 of Article 57 and Paragraph 2 of Article 125 of this Act shall be determined by the Court on the basis of agreement on the contract, real intention of the parties concerned, customary practice in trading, or other objective facts accordingly."[14]

The area in which the right of importation is exhausted is not mandated by law but can be agreed upon contractually by private parties, whether locally, regionally or globally.[15]

III. Compulsory Licensing

Compulsory licensing has been for a long time an integral part of the Taiwanese IP laws to counter-balance the interests of IP right holders against the public interest. While the 1998 Copyright Act reduced the category of compulsory licensing to only one, namely the sound recording of a musical work (Article 69 of the Copyright Act), the Patent Act, in contrast, expanded the scope of compulsory licensing. According to Article 76(1), (2) and (5) of the Patent Act:

> "(1) In order to cope with national emergencies, or to make non-profit-seeking use of a patent for enhancement of public welfare, or in the case of an applicant's failure to reach a licensing agreement with the patentee concerned under reasonable commercial terms and conditions within a considerable period of time, the Patent Authority may, upon an application, grant a right of compulsory licensing to the applicant to put the patented invention into practice; provided that such practicing shall be restricted mainly to the purpose of satisfying the requirements of the domestic market. However, if the application for compulsory licensing of a patent right covers semiconductor technology, such application may be allowed only if the proposed practicing is purposed for a non-profit-seeking use contemplated to enhance the public welfare.
>
> (2) In the absence of the conditions set forth in the preceding Paragraph, the Patent Authority still may, upon an application, grant to the applicant a compulsory license to practice the patented invention in the event that the patentee has imposed restrictions on

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[14] Implementing Regulations of the Patent Act; available at: ‹www.tipo.gov.tw/eng/laws/pater-e.asp›.

[15] These provisions can be nicely annotated by Article 16.7(2) of the Singapore–United States Free Trade Agreement; available at: ‹www.ustr.gov/assets/Trade_Agreements/Bilateral/Singapore_FTA/Final_Texts/asset_upload_file708_4036.pdf›: "Each Party shall provide a cause of action to prevent or redress the procurement of a patented pharmaceutical product, without the authorization of the patent owner, by a party who knows or has reason to know that such product is or has been distributed in breach of a contract between the right holder and a licensee, regardless of whether such breach of a contract occurs in or outside its territory." However, footnote 16-10 preserves for either Party the right to "limit such cause of action to cases where the product has been sold or distributed only outside the Party's territory before its procurement inside the Party's territory". It remains to be seen whether either Party will exercise this right.

competition or has committed unfair competition, as confirmed by a judgment given by a court or a disposition made by the Fair Trade Commission of the Executive Yuan.

. . .

(5) The grantee of the compulsory license shall pay to the patentee an appropriate compensation. In the case of dispute over the amount of such compensation, the amount shall be decided by the Patent Authority."

Article 24 of the Integrated Circuit Layout Protection Act also has a compulsory licensing provision similar to that of the Patent Act. However, compulsory licensing was never applied with regard to the Copyright Act. This would also be the case with regard to the Patent Act except that, in July 2002, a Taiwanese CD-R manufacturer filed with the Taiwanese Intellectual Property Office (TIPO) the first application for the compulsory licensing of five Taiwanese patents owned by Philips. The applicant was a patent licensee of Philips with the royalty arrangement of whichever is the higher: 3 per cent of the net sales price or ¥ 10 for each CD-R disk. With the freefall of the price of CD-R disks, dropping from US$ 5 per disk in 1997 to US$ 0.19 in 2003, Philips insisted on charging ¥ 10 per CD-R and refused to renegotiate on the percentage base proposed by the applicant. The TIPO set up a committee with external members to examine the application and came to a decision two years later (in 2004), granting the applicant use of the five patents at issue to satisfy the need of the domestic market up until their expiry dates (between 26 January 2007 and 19 December 2009).[16]

On the whole, the reasoning of the TIPO is comprehensive, balanced and, therefore, convincing. First of all, it said that the fact that the applicant has used the patents at issue before filing the application does not in itself invalidate his eligibility to be an applicant under Article 76(1) of the Patent Act. In other words, an applicant does not have to wait until the grant of a compulsory license, a process that can take very long to conclude, to use the patents.

Secondly, the term "prior to such use" employed by Article 31(b) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement)[17]—a term absent from Article 76(1) of the Taiwanese Patent Act—only refers to "other use without the authorization of the right holder" in general and does not mean any use or the particular "use of the patents at issue". According to the TIPO, Article 31(b) of the TRIPS Agreement requires that the applicant has, prior to the compulsory licensing, negotiated with the patentee on reasonable terms and conditions and failed to reach an agreement:

"The purpose of compulsory licensing is neither to sanction those who have used patents in

[16] Tze-Fa No. 093186005-0 of the TIPO (26 July 2004). Philips filed with the Ministry of Economic Affairs an appeal against this decision. As of the date of publication of this article, the appeal is still pending.

[17] The title of Article 31 of the TRIPS Agreement reads: "Other Use Without Authorization of the Right Holder". TRIPS Article 31(b) stipulates: "Where the law of a Member allows for other use—other than that allowed under Article 30, as explained by a footnote—of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected: ... (b) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable terms and conditions and that such efforts have not been successful within a reasonable period of time ..."

> question prior to negotiating a licensing agreement, nor to deprive them of the standing to apply for compulsory licensing ... Against those who have used patents in question prior to negotiating a licensing agreement, the patentee may exercise his right in accordance with the Patent Act, thus rendering it unnecessary to deprive them (of the right) to seek a lawful use of the patent right via filing an application for compulsory licensing."

Thirdly, "reasonable commercial terms and conditions" is an uncertain legal concept and defies any fixed definition, not to mention the fact that commercial terms and conditions are far-reaching in scope, including the extent, area and time period of licensing, the profitability of technology, the renown of the technical brand, competition, etc. Therefore, in order to determine the so-called reasonable commercial terms and conditions, one shall consider the term of the patents, their market prospect and the social and public welfare as a whole and come to the terms and conditions that the applicant for compulsory licensing can afford and practically pay. Taking into consideration the text and reasoning of the legal provision, its legislative purpose and the global operation of the technology concerned, to solve this CD-R royalty controversy, commercial terms and conditions considered by an objective third party to not be bluntly violating the circumstances in the relevant technology market, and from the standpoint of the parties of the contract to be subject to the possibility of further negotiation, are reasonable. The TFTC found Philips' insistence on charging ¥ 10 for each CD-R disk and its refusal to grant the licensee a chance to negotiate to be an abuse of monopoly power. Furthermore, the United States International Trade Commission (USITC) found the fixed royalty to be arbitrary and therefore anti-competitive, rendering Philips' patents in the United States unenforceable.[18] In addition, the Industry Bureau of the Taiwanese Ministry of Economic Affairs was of the opinion that royalties in the electronics industry are mostly between 2 and 15 per cent and that the current royalty for CD-Rs is indeed high. These three findings suggest that there is room for reasonable discussion concerning the method of calculating the royalty set by Philips. Consequently, the proposal by the applicant to further negotiate the basis of calculating according to a specific percentage (2–5 per cent) of the set sales price can hardly be dismissed as unreasonable commercial terms and conditions.

Fourthly, the term "within a considerable period of time" shall be measured by the average social concept, and not by the unilateral assertion of the applicant or the person against whom the application was filed. The fact that the applicant has fruitlessly tried to reach a licensing agreement with Philips for more than a year (from March 2001 to April 2002) suffices as a considerable period of time.

The "appropriate compensation" is yet to be negotiated between the parties. According to Article 76(5) of the Patent Act (equivalent to Article 31(h) of the TRIPS Agreement), the right holder shall be paid appropriate compensation in case of compulsory licensing. However, the TIPO wisely did not touch upon this issue in the Philips case, since the object of the application for compulsory licensing is limited to

[18] For more details see Section V.B. of this article.

the granting of such and does not involve the calculation of compensation. As of the date of publication of this article, Philips and the applicant have not yet reached any agreement on the amount of appropriate compensation. Given the agonistic relationship between the parties, no agreement should be expected. The hot potato of how to determine the appropriate compensation will be passed on to the TIPO. In order to make a scientific and objective determination, one might rely on the "efficient component-pricing rule" instead of the otherwise commonly used "marginal costs pricing rule." Under the "efficient component-pricing rule", the direct per unit incremental cost plus the opportunity costs will be the price chargeable for the use of a bottleneck facility by third parties.[19]

Nevertheless, the idea of incremental and opportunity costs runs afoul of the essence of IP, namely, non-rivalry and zero incremental costs. In other words, IP can be used by a limitless number of users at the same time and without any incremental costs. Therefore, the adequate remuneration can only be decided by the economic value of the patent in question. A proxy for this will be the average or normal royalty charged or paid in the specific industry.[20] In the Philips case, 3 per cent of the net sales price can be used as a practical benchmark, simply because it was one of the two methods of calculating royalty agreed by Philips. Furthermore, in order to be in line with Article 31(k) of the TRIPS Agreement, which allows the consideration of the need to correct anti-competitive practices when determining the amount of remuneration in anti-competitive cases, the compensation may be at a lower level than the average or normal royalty.[21] Again, taking the Philips case as an example, this means less than 3 per cent of the net sales price.

Compulsory licensing is certainly a double-edged sword; while it prods patentees into licensing negotiation, firms hit by it "may decide not to make future technology available" in the country which imposed compulsory licensing in the first place.[22] However, looking at it as a purely legal issue, IP offices and even governments should not worry too much about extra-legal pressure and be afraid to use compulsory licensing as "one item in an arsenal of tools that may be used to promote national systems of innovation".[23]

IV. Issuance of Warning Letters

It was common in Taiwan for IP right holders to issue warning letters to the potential trading partners of the alleged infringers of their rights to prevent the spread

[19] William J. Baumol and J. Gregory Sidak, *The Pricing of Inputs Sold to Competitors*, Yale Journal on Regulation, Vol. 11, No. 2, 1994, at p. 178.

[20] Daniel Gervais, *The TRIPS Agreement—Drafting History and Analysis*, 2nd edition, Sweet & Maxwell, London, 2003, at p. 252.

[21] Id.

[22] Jerome H. Reichman and Catherine Hasenzahl, *Non-voluntary Licensing of Patented Inventions*, 2003, at pp. 5–6; available at: ‹www.ictsd.org/pubs/ictsd_series/iprs/CS_reichman_hasenzahl.pdf›.

[23] Ibid., at p. 7.

of the infringing goods. This practice has been proven to be highly effective, since most recipients would rather avoid trouble and accept the asserted infringement at face value. With no domestic judicial precedents and no knowledge of comparable foreign experiences,[24] the TFTC has, out of its own creativity, conceived and promulgated the "Guidelines on the Reviewing of Cases Involving Enterprises Issuing Warning Letters for Infringement on Copyright, Trademark and Patent Rights" (hereinafter, Guidelines on Warning Letters).[25] According to Point 3 of the Guidelines, the issuance of warning letters is *per se* proper conduct to exercise one's right accorded by the Copyright, Trademark, and Patent Acts after the completion of one of the following procedures:

- a determination by a court of first instance confirming that infringement of a copyright, trademark or patent right has been secured; or
- an expert opinion confirming the infringement has been secured from an institution jointly appointed by the Judicial Yuan and the Executive Yuan, in addition to the manufacturer, importer or agent who may have committed the infringement being duly notified by the right holders in advance to cease the infringement.

In cases where due diligence of care has been taken or in situations where notification is objectively impossible, the aforementioned notification requirement can be waived.

However, according to Point 4 of the Guidelines on Warning Letters, the issuance of warning letters after the completion of one of the following procedures is proper conduct for exercising one's right accorded by the Copyright, Trademark and Patent Acts, provided, however, that Points 6 to 9 of the Guidelines have not been violated:

- an expert opinion confirming the infringement has been secured from an institution which was not jointly appointed by the Judicial Yuan and the Executive Yuan; and the manufacturer, importer or agent who may have committed the inftingement has been notified by the right holders in advance to cease the infringement; or
- the specific contents and scope of the copyright, trademark or patent in question and the concrete infringing activity have been included in the warning letter so that the receiving party can make a reasonable judgment, in addition to the manufacturer, importer or agent that may have committed the

[24] For example, the German courts are very strict about the issuance of warning letters addressed to third parties (Drittverwarnung), because they constitute an especially dangerous instrument. The courts differentiate IP rights that are subject to close examination by IP offices from those which are not, distinguish warning letters addressed to manufacturers from those to customers and then impose different degrees of care on the issuers. See Adolf Baumbach and Wolfgang Hefermehl, *UWG*, 22.Aufl., C.H. Beck, Munich, 2001, § 14 Rdnr 12a and 12b.

[25] Fair Trade Commission Guidelines on the Reviewing of Cases Involving Enterprises Issuing Warning Letters for Infringement on Copyright, Trademark and Patent Rights; available at: ‹www.ftc.gov.tw/20000101299912317789.htm›.

infringement being duly notified by the right holders in advance to cease the infringement.

In cases where due diligence of care has been taken or notification is objectively impossible, the aforementioned notification requirement becomes non-binding.

Following the procedure under Point 4 of the Guidelines on Warning Letters does not exempt the issuance of warning letters under Articles 19(1) and (3),[26] 21 (misleading presentations)[27] and 22 (trade libel) of the Fair Trade Act if the requirement of the respective article has been met. Nor does it exclude the application of Article 24 of the Fair Trade Act when:

- no legal copyright, trademark or patent exists;
- the scope of the copyright, trademark or patent has been exaggerated;
- it has been falsely stated or implied that its competitors or in general other competitors in the market are illegally infringing its copyright, trademark or patent; or
- a deceptive or obviously unfair statement was made, and the trading order is likely to be affected.[28]

The direct issuance of warning letters without following the procedures provided by Points 3 or 4 may violate Article 24 of the Fair Trade Act if the trading order is likely to be affected. The Guidelines on Warning Letters have been effectively enforced by the TFTC and have reined in the abusive practice of issuing warning letters. Nonetheless, the Guidelines on Warning Letters can be further improved by requiring that:

- the entire court decision or the expert opinion be attached to the warning letter to facilitate the recipient's making a reasonable judgment about the alleged infringement; and
- the issuer first have filed suit against the actual infringer before it can carry its battle with the infringer over to unrelated third parties.[29]

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[26] Article 19(1) and (3) of the Taiwanese Fair Trade Act, *supra*, footnote 4, prescribes: "No enterprise shall engage in any of the following acts which is likely to lessen competition or to impede fair competition: 1. causing another enterprise to discontinue supply, purchase or other business transactions with a particular enterprise for the purpose of injuring such particular enterprise; ... 3. causing the trading counterpart(s) of its competitors to do business with itself by coercion, inducement with interest, or other improper means; ..."

[27] Article 21 of the Taiwanese Fair Trade Act, ibid., prescribes: "1. No enterprise shall make or use false or misleading representations or symbol as to price, quantity, quality, content, production process, production date, valid period, method of use, purpose of use, place of origin, manufacturer, place of manufacturing, processor, or place of processing on goods or in advertisements, or in any other way making known to the public. 2. No enterprise shall sell, transport, export or import goods bearing false or misleading representations referred to in the preceding paragraph. 3. The two preceding paragraphs shall apply *mutatis mutandis* to the services of an enterprise. 4. Where any advertising agency makes or designs any advertisement that it knows or is able to know is misleading, it shall be jointly and severally liable with the principal of such advertisement for damages arising therefrom. Where any advertising medium communicates or publishes any advertisement that it knows or is able to know is likely to mislead the public, it shall be jointly and severally liable with the principal of such advertisement for the damages arising therefrom."

[28] Point 9 of the Guidelines on Warning Letters, *supra*, footnote 25.

[29] Liu, *supra*, footnote 9, at pp. 289–290.

V. Antitrust Issues Raised by Controversial Patent-Related Practices

A. *Dubious Patent Licensing that Led to Administrative Settlements*

In the last 14 years, there have been four cases reported in which the foreign patent holders were on the defensive side.

1. The *Intel* Case

In 1993, Intel was accused by Cyrix, Advanced Micro Devices (AMD) and the Business Association of the Computer Manufacturing Industry Taipei County of violating the Fair Trade Act, while licensing its patents. Allegedly, Intel engaged in the following activities: price manipulation; restricting personal computer (PC) manufacturers from using central processing units made by its competitors; tying in products, compelling Taiwanese manufacturers to sign patent licensing agreements; bringing law suits against competitors systematically and continuously; and price discrimination. The case ended with an administrative settlement between the TFTC and Intel in 1996. However, the content of the settlement was not published by the TFTC.[30]

2. The *RCA* Case

In 1995, the Radio Corporation of America (RCA) was accused of engaging in anti-competitive activities, discriminating in royalties, charging improper royalties, collecting royalties retroactively and using Section 337 of the U.S. Customs Act as a negotiation threat. In 1998, the TFTC and RCA reached an administrative settlement. Again, the content of the settlement was not published by the TFTC.[31]

3. The *Matra* Case

In the 1990s, Matra Transport International secured a contract to provide the Taipei Rapid Transit Corporation (TPRC) with its patented VAL system to be deployed on one of the city's rapid transit lines. After completing the price negotiation process with the TPRC on the maintenance contract for the patented system on 27 March 1996, Matra entered into a dispute with the Rapid Transit Bureau of Taipei City with regard to the fulfilment or non-fulfilment of its contract, which prevented Matra from being able to conclude the aforementioned maintenance contract. As a consequence, the TPRC was forced to execute the maintenance itself. The TPRC then complained before the TFTC that the subcontractors of Matra were constrained by Matra from providing service and spare parts and that Matra was misusing its superior market position derived from its patents on the automatic control system.

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30 Ibid., at p. 409.

31 Ibid., at p. 412.

Although the TFTC determined that Matra did enjoy a superior position due to its patents on the automatic control system, it was not excluded that the Fair Trade Act could eventually be applied to Matra's refusal to provide maintenance service after the formal operation of the rapid transit line in question. The TFTC decided to solve the case via an administrative settlement, given the lingering factual and legal uncertainties and because consumer welfare and security, and thus the public interest, were at stake. In 1997, Matra and the TFTC reached an administrative settlement which was published in the TFTC's Gazette.[32] The essence of the settlement was:

- Matra may suggest that the TPRC not demand a monetary deposit from Matra during the price negotiation process;
- Matra may, within the reasonable boundary, negotiate with the TPRC to modify clauses relating to letters of credit as guarantees and to confiscate the provided guarantees by way of business arbitration; the negotiation and signing of the maintenance contract between Matra and the TPRC is to be under the TFTC's supervision;
- Matra shall not restrain its subcontractors from providing spare parts and maintenance service directly to the TPRC; and
- the term of the settlement shall be three months from the date on which Matra's acceptance becomes effective; if no maintenance contract has been signed by the expiration of the term, the TFTC will reopen its investigation process and take into account whether the reason for the lack of a contract is attributable to any party.

4. THE *MICROSOFT* CASE

In 2002, a short-lived student incident called the "anti-anti piracy", accusing Microsoft of misusing its monopolistic power in Taiwan to tie in products and charge excessive prices, caught the attention of the general public and some legislators, who filed a complaint against Microsoft Taiwan Company (MSTC) with the TFTC. The TFTC looked into the case and settled with Microsoft in 2003. In the published administrative settlement, the MSTC and its relevant affiliates agreed, amongst other things,[33] to:

- comply with relevant provisions of the Fair Trade Act with respect to pricing and tying in;
- offer ample quantities of supply for individual components of the Office Standard (Word, Excel, PowerPoint and Outlook) in the Republic of China (ROC, Taiwan) language version;

[32] Gazette of the TFTC, Vol. 7, No. 2, 1997, pp. 1–4.

[33] It has been widely speculated that the TFTC has made MSTC commit to an undertaking to cut its overall price level by a certain percentage.

- not restrict the freedom of setting resale prices by large account distributors (LADs) or large account resellers (LARs);
- promote consumers' interests by providing, in end-user licence agreements with consumers, that ROC courts adjudicating the related disputes may apply ROC law and by not requiring licensees to submit to the jurisdiction of courts other than ROC courts, and by using ROC language as the governing language;
- promote intra-brand competition by eliminating its "Guidelines Governing Product Shipping and Order Placement by LARs and LADs" and by not interfering in contractual relations between LARs and users and between LADs and LARs.[34]

The administrative settlements adopted by the TFTC resemble those of the consent decrees of the U.S. Department of Justice (USDOJ) and the U.S. Federal Trade Commission (USFTC). However, statistics show that approximately 75–80 per cent of all civil cases handled by the Antitrust Division of the USDOJ are settled without engaging in litigation,[35] whereas administrative settlement remains a sporadic phenomenon in TFTC practice.[36]

Given the potential of administrative settlements to reach beyond the case-by-case and *ex post* remedy limitation of the competition law, it should be made mandatory in the future that a proper public consultation precede the conclusion of any administrative settlement.[37] Moreover, the supervision of the compliance of administrative settlements may pose even greater problems than the ones that they are supposed to solve in the first place, the most notable example being the divestiture consent decree between the USDOJ and AT&T to break up AT&T in 1984 and its enforcement by Judge Greene.[38] The consent decree between the USDOJ and Microsoft in 2002 provides a different mechanism, by setting up a Technical Committee comprising three members—one recommended by USDOJ, one by Microsoft and the third jointly by the two recommended members—to monitor the compliance. Arrangements of this kind may manifest benefits in complementing the inefficiency of a competition authority to deal with technological issues and in enhancing the credibility of administrative settlements.

[34] The English-language version of the settlement can be found at the Website of the TFTC, at: ‹www.ftc.gov.tw/MSContrac2003.pdf›.

[35] See Wilbur L. Fugate, *Foreign Commerce and Antitrust Laws*, Aspen Publishers, New York, 2001, § 14.2.

[36] Along with the aforementioned administrative settlements, there has been only one other settlement in 1993, in which the IP right of a domestic motorcycle manufacturer, Sanyang, was involved. In that case, Sanyang was accused by its competitor of having coerced its satellite manufactories, to whom Sanyang has provided casts, not to supply spare parts of a specific series of 125cc motorcycle to the complainant. The TFTC has settled with Sanyang on the following grounds: 1. The motorcycle industry in Taiwan is export competitive and an important model for the so-called center-satellite production system through which Taiwanese manufacturers achieve economies of scale. 2. An investigation and sanction might inflict too heavy an impact on that industry. See Liu, *supra*, footnote 9, at p. 412.

[37] The standard procedure of the USFTC requires that the contents of a consent decree contemplated by the Commission must be put on public record for 30 days for the public to comment; see 26 CFR, 2005, §§ 2.32–2.34.

[38] In Peter Huber's words, "The best of antitrust law degrades into the worst of commission," because Judge Greene "took charge, created a system for granting waivers to the decree quarantine, and then ran that system for the next fourteen years". See Peter Huber, *Law and Disorder in Cyberspace*, Oxford University Press, Oxford, U.K., 1997, at p. 98.

B. *ANTI-COMPETITIVE PATENT LICENSING ARRANGEMENTS*

1. ANTI-COMPETITIVE PATENT LICENSING ARRANGEMENTS FOUND TO VIOLATE THE FAIR TRADE ACT

In 1999, certain Taiwanese CD-R disk manufacturers accused Philips Electronics, N.V., the Sony Corporation (Japan), and Taiyo Yuden (Japan) of abusing their monopoly power in the CD-R market through patent pooling and collective patent licensing to demand excessive royalties, of engaging in cartels by bundling patents and by licensing in packages, of tying in patents that had already expired and obscuring information about the patents to be licensed. The TFTC found that the defendants indeed violated several articles of the Fair Trade Act (the *Philips I* Decision).[39] The defendants appealed to the Executive Yuan, which was not convinced by the determination of market by the TFTC and overruled the *Philips I* Decision, remanding it back to the TFTC. The TFTC reached a Decision on 25 April 2002 (the *Philips II* Decision) with the same conclusion as the *Philips I* Decision.[40] Both the *Philips I* and *II* Decisions are mainly based on the grounds described in the following sub-Sections.

(a). *THE DEFENDANTS WERE HORIZONTAL COMPETITORS*

According to the *Philips I* Decision, the defendants are horizontal competitors in the CD-R patent-licensing market. The qualification of a horizontal competition relationship is the prerequisite for the application of the cartel regime of the Fair Trade Act.[41] The defendants' assertion that the patents they own are collectively necessary and not interchangeable for the production of a certain product, and that the patents complement each other, does not affect the determination of a horizontal relationship since the defendants admitted that they still offered individual licences competitively and, in addition, each defendant has its own research and development (R&D) and did compete against each other at the initial stages of R&D for CD-R. The *Philips II* Decision emphasizes that each defendant is potentially capable of developing other interchangeable technology that can compete with other defendants and that the patents owned by defendants are in fact interchangeable to some extent.

(b). *CARTEL ACTIVITIES*

The *Philips I* and *II* Decisions found that the defendants violated Article 14 of the

[39] Decision No. 21 (2001) of the TFTC.

[40] Decision No. 091069 (2002) of the TFTC. This Decision was again appealed to the Executive Yuan, which upheld it. It was then appealed to the Taipei Administrative High Court, and that appeal is still pending as of the date of publication of this article.

[41] According to Article 7(2) of the Taiwanese Fair Trade Act, *supra*, footnote 4, the term "concerted action" is limited to horizontal concerted action at the same production and/or marketing stage which would affect the market function of production, trade in goods, or supply and demand of services.

Fair Trade Act by engaging in two cartel activities.[42] First, Sony and Taiyo Yuden promised Philips that "all the licensing requests on their patents at issue will be forwarded to Philips, and no other licensing agreements will be made, except for other cross-licensing agreements of a broad coverage". Second, Philips, in its response to the complainants, stated: "Philips, Sony and Taiyo Yuden have all agreed that there is only one way of calculating royalty, namely 3% of the net sales price and at least 10 Japanese Yen for each CD-R disk."[43] Such cartel activities were sufficient to affect the market function of producing and trading products or providing services because the defendants owned all the patents necessary for the production of CD-R disks and, thus, together possessed a worldwide monopoly status. Hence, collective licensing left no room for individual licensing.

(c). *MONOPOLY POWER IN THE CD-R PATENT-LICENSING TECHNOLOGY MARKET*

It was determined that all the important patents for the manufacture of CD-R disks were owned by the defendants, and any production and sales of CD-R disks in the world must acquire patent licences from the defendants. Therefore, the defendants had an overwhelmingly superior position to exclude competition and enjoyed a worldwide monopolistic status.[44]

(d). *ABUSE OF MONOPOLY POWER*

The *Philips* I and II Decisions further held that the defendants engaged in

[42] Article 14 of the Taiwanese Fair Trade Act, ibid., prohibits in principle cartels, unless they are approved in advance by the TFTC: "No enterprise shall have any concerted action; unless the concerted action that meets one of the following requirements is beneficial to the economy as a whole and in the public interest, and the application with the central competent authority for such concerted action has been approved:

1. unifying the specifications or models of goods for the purpose of reducing costs, improving quality, or increasing efficiency;
2. joint research and development on goods or markets for the purpose of upgrading technology, improving quality, reducing costs, or increasing efficiency;
3. each developing a separate and specialized area for the purpose of rationalizing operations;
4. entering into agreements concerning solely the competition in foreign markets for the purpose of securing or promoting exports;
5. joint acts in regards to the importation of foreign goods for the purpose of strengthening trade;
6. joint acts limiting the quantity of production and sales, equipment, or prices for the purpose of meeting the demand in an orderly manner, while in economic downturn, the market price of products is lower than the average production costs so that the enterprises in a particular industry have difficulty maintaining their business or encounter a situation of overproduction; or
7. joint acts for the purpose of improving operational efficiency or strengthening the competitiveness of small to medium enterprises.

After receipt of the application referred to in the preceding Article, the Central Competent Authority shall make a decision of approval or rejection within three months, the period of which may be extended once if necessary."

[43] Decision No. 091069 (2002) of the TFTC.

[44] According to Article 5(1) and (2) of the Taiwanese Fair Trade Act, *supra*, footnote 4: "1. The term 'monopolistic enterprise' as used in this Act means any enterprise that faces no competition or has an overwhelmingly superior position to enable it to exclude competition in a relevant market. 2. Two or more enterprises shall be deemed monopolistic enterprises if they do not in fact engage in price competition with each other and they as a whole have the same status as the enterprise defined in the provisions of the preceding paragraph."

monopolistic conduct by acting through a cartel in the CD-R patent-licensing market and that they also violated Article 10(2) and (4) of the Fair Trade Act.[45] Philips defended its royalty scheme as necessary to recover its tremendous R&D investment at the time when the licensing agreements were first negotiated. However, the TFTC looked into the drastic price drop (US$ 7 for each CD-R in 1996, and less than US$ 0.5 in 2000) and the sixty-fold growth in volume worldwide (from 182 million CD-Rs in 1997 to 3.6 billion CD-Rs in 2000). It was concluded that the maintenance of such a royalty scheme would reap for the defendants royalties of twenty to sixty times more in 2000 than the expected amount. On the other hand, defendants refused to lower their royalty scheme to match market demand. Hence, the defendants were found guilty of abusing of their monopoly market power through charging royalties far in excess of those expected by the licensors.

(e). *OTHER EXPLOITATIVE ABUSE OF MONOPOLY POWER*

Philips, Sony and Taiyo Yuden were also found to be elusive about important trading information, such as the contents, scope and terms of patents and the number of patents they individually owned. Moreover, the TFTC found the defendants' demand that licensees withdraw their invalidity applications against defendants' patents as a precondition for concluding the licensing contracts was an improper exercise of patent rights. All of these acts amounted to a so-called exploitative abuse of monopoly power and therefore violated Article 10(4) of the Fair Trade Act. Thus, Philips, Sony and Taiyo Yuden were sanctioned by the TFTC to pay fines of NT$ 8 million, NT$ 4 million and NT$ 2 million, respectively.

The defendants appealed the *Philips II* Decision to the Executive Yuan but were rebuffed. They then took their case to the Administrative High Court of Taipei, which, at the date of publication of this article, has not yet rendered its decision.[46]

2. ANTI-COMPETITIVE PATENT LICENSING ARRANGEMENTS FOUND TO BE PATENT MISUSE UNDER THE U.S. PATENT ACT

In 2002, Philips (Complainant) resorted to the USITC and filed with it an application to use Section 337 of the U.S. Customs Act to stop the importation of CD-R disks made by two Taiwanese CD-R manufacturers who had not settled with it (Respondents) on the charge of infringing its U.S. patents. The Respondents raised a defense that the patents at issue were unenforceable because the Complainant had engaged in patent misuse involving the creation of an unlawful patent pool and the use

[45] Article 10(2) and (4) of the Taiwanese Fair Trade Act, ibid., reads: "No monopolistic enterprise shall: ... 2. improperly set, maintain or change the price for goods or the remuneration for services; ... or 4. otherwise abuse its market power."

[46] Above the Administrative High Court of Taipei sits the Administrative Supreme Court, which has the final say.

of its monopoly power to control the U.S. CD-R and CD-RW disk markets. Thus, at issue was the applicability of 35 U.S.C. 271(d)(5), which was introduced into the U.S. Patent Act in 1988 by the Patent Misuse Reform Act. 35 U.S.C. 271(d)(5)(d) reads :

> "(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:
>
> ...
>
> (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned."

On 24 October 2003, Administrative Law Judge Sidney Harris of the USITC reached an Initial Determination (ID) of patent misuse rendering the patents unenforceable, not only by the rule of reason test but also by the *per se* test.[47] The ID was upheld by the USITC.

(a). *THE PHILIPS CD-R AND CD-RW PATENT POOLS*

In the early 1990s, Philips, Sony and Taiyo Yuden formed a patent pool of the CD-R patents that each owned in order to license manufacturers to produce and sell Orange Book (standard specifications)-compliant CD-R disks. Philips and Sony formed a similar patent pool along with Ricoh for Orange Book-compliant CD-RWs. With time, the Philips CD-R and CD-RW patents pools changed from a single package into a series of packages of so-called "essential" and "non-essential" patents, the former of which must be licensed but the latter of which may be licensed in addition without paying any additional royalty fee. Philips' CD-RW packages are divided into similar arrangements.[48]

(b). PER SE *ANALYSIS*

According to the ID, 35 U.S.C. 271(d)(5) does not preclude a *per se* approach to examining an antitrust-based patent misuse defense, it just disfavours the presumption that patent ownership equates with the element of market power. The ID also determined that Philips has no market power in the worldwide product market for CD-R/RW (combined with its licensor-partners, it has only 8.8 per cent of world manufacturing output and 13 per cent of the worldwide sales of CD-Rs, and 2 per cent and 10 per cent of CD-RWs worldwide output and sales in 2002), but Philips and its licensor-partners do have the market power of an absolute monopoly in the licensing market, because there can be no CD-R or CD-RW manufacturing without a licence from Philips and because Philips was able to maintain the royalty rates (now representing

[47] USITC Investigation No. 337-TA-474; available on the Website of the USITC, at: ‹www.usitc.gov›.
[48] Ibid., at pp. 140–141.

50–70 per cent of today's average net sales price and an undisclosed multiple[49] of those of individual rates worked out between Philips and its Taiwanese licensees after the TFTC's decisions) above competitive levels for a significant period of time.

The ID was of the opinion that the royalty rates function to fix prices above the competitive level, entailing price discrimination both in nature—because the "all-or-nothing" patent licensing scheme with only a one-rate royalty is a classic example of economic discrimination, totally unrelated to factors normally affecting the royalty rates calculation—and in application—because the royalty for the products sold by the licensees to the cross-licensees of Philips was exempted.

To sum up, the:

> "... foregoing restraints on the U.S. market for unique CD-R/RW patented technology rises to the level of a *per se* antitrust violation because they are sure to 'threaten the proper operation of our predominantly free-market economy' in a way that 'would always or almost always tend to restrict competition' in such technology."[50]

(c). *"RULE OF REASON" ANALYSIS*

(i). *Scope of the patent grant*

The practice of pooling "essential" with "non-essential" patents under a licence agreement is well-recognized under U.S. antitrust laws to constitute an extension beyond the statutory right to exclude. When the non-essential patents are added to the pools on the ground that they are "necessary as a practical matter", the statutory monopolies of the essential patents are impermissibly expanded. Consequently, Philips' bundling of "essential" with "non-essential" patents in its CD-R and CD-RW patent pooling licence agreements, as well as its bundling of "technically essential" patents with patents that are improperly deemed to be "necessary as a practical matter", exceed the scope of its right to exclude under its patents and, therefore, must be further analyzed under the "rule of reason" to balance the pro- and anti-competitive effects of this practice.

(ii). *Application of "essentiality" standards to patents in the pools*

The decision whether a patent is to be included in the pools was assigned to Dr Kenneth Rubenstein, who considers himself an "independent evaluator". In deciding whether a patent is "essential", Dr Rubenstein breaks his analysis into two parts. A patent is "technically essential" when "at least one claim of the patent covers a portion" of the Orange Book and is "essential as a practical matter" when "at least one claim has no commercially reasonable alternative for implementing a portion of the CD-R Standard".

[49] The USITC intentionally deleted the sales- and business-related information to protect the parties' trade secrets.

[50] USITC Investigation No. 337-TA-474, *supra*, footnote 47, at pp. 175–182.

The ID found that Dr Rubenstein's method confuses "technical compliance" with infringement of a "technically essential" patent in the pool and is virtually arbitrary. Furthermore, it is contrary to the USDOJ's definition of patents that are "essential as a practical matter" in its business review letters related to the CD-R industry—namely, only patents that are "essential as a practical matter: patents for which there are no substitutes for the purpose of compliance with the Standard Specifications"—and suppresses emerging technologies by gradually extending the reach of the pools beyond the Orange Book.

The ID concluded that, on balance, the anti-competitive effect on the alternative technologies outweighs the pro-competitive effect of creating a convenient, broad package of patents for manufacturers to license. In addition, several non-essential patents were found to be included in the pools. Moreover, the ID took into account the unreasonable nature of the royalty rate that is in and of itself necessarily arbitrary and unilaterally imposed, an impracticable royalty floor that bore no economically driven rhyme or reason. On balance, patent pools constitute patent misuse because they unreasonably restrain trade in the U.S. market for licensing patented CD-R/RW technology.[51]

VI. TFTC Guidelines on the Review of Patent and Know-How Licensing Agreements

Based upon the experience drawn from the administrative settlements with foreign patent holders, taking into account the current industrial development of Taiwan, and with reference to the U.S., European and Japanese rules on technology licensing, the TFTC promulgated the "Guidelines on Technology Licensing Arrangements" on 20 January 2001.[52] Up until now, these Guidelines have not been applied by the TFTC or the courts. Hence, their actual effects remain to be seen. The Guidelines cover patent and know-how licences (Point 2(2) of the Guidelines on Technology Licensing Arrangements). Following the U.S. path, the Guidelines do not presume that the licensor possesses market power simply because he owns a patent or know-how (Point 3 of the Guidelines on Technology Licensing Arrangements).

A. *Analytical Steps*

Point 4 of the Guidelines on Technology Licensing Arrangements delineates the analytical steps that the TFTC will follow to determine the legality of the technology licensing arrangements in question.

[51] Ibid., at pp. 182–193 and 213–220.

[52] Fair Trade Commission, Guidelines on Technology Licensing Arrangements; available at: ‹www.ftc.gov.tw/100001012999123153O.htm›.

Paragraph 1 of Point 4 of the Guidelines provides that the Patent Act does not exclude the application of the Fair Trade Act:

"(1) In reviewing technology licensing arrangement cases, the Commission will first examine the licensing arrangements with respect to Article 45 of the Law [the Fair Trade Act]. An arrangement, which is in form a proper conduct in connection with the exercise of rights under the Patent Act or other relevant laws, but in substance oversteps the scope of proper exercise of rights under such laws and contravenes their legislative purpose of protecting invention and innovation, shall be reviewed under the Law [the Fair Trade Act] and its Rules."

Paragraph 2 of Point 4 of the Guidelines provides how the TFTC will determine the impact of technology licensing agreements on relevant markets:

"(2) In reviewing technology licensing agreements, the Commission [the TFTC] will not be bound by the form or wording of such arrangements, but will emphasize on possible or actual restraint of competition or unfair competition created by such arrangements in the following relevant markets:

i. 'Goods markets' to which the goods manufactured or provided through use of the licensed technology belong.

ii. 'Technology markets' defined by technology that is substitutable with the licensed technology.[53]

iii. 'Innovation markets' in which research and development of relevant goods may take place."

Paragraph 3 of Point 4 of the Guidelines provides the factors to be considered by the TFTC when reviewing technology licensing agreements:

"(3) In reviewing technology licensing arrangements, in addition to the reasonableness of the provisions of such arrangements, the Commission shall consider the following factors:

i. The market power of the licensor with regard to the licensed technology.

ii. The market position of the parties to the arrangement in a relevant market and the status of that market.

iii. The degree of influence to which the licensing arrangement will increase opportunities for utilization of the technology or exclude competition.

iv. The degree of difficulty of access to the relevant market.

v. The length of the term of limitations under the licensing arrangement.

vi. International or industry precedents applicable to the relevant market for the licensed technology."

[53] In the *Philips II* case, the TFTC elaborated on the factors to be considered when defining a "technology market": 1. other IP or technology that produces the same class of products or products deemed by consumers to be of the same function; 2. other IP or technology that produces competing products; and 3. the economic effect of the technology at issue (capable of producing products deemed by consumers to be substitutable), in case the relevant information is hard to acquire; see Decision No. 091069 (2002) of the TFTC.

B. *White Clauses*

The Guidelines on Technology Licensing Arrangements contain so-called "white", "black" and "gray" clauses and give examples thereof, illustratively but not exhaustively. Point 5 of the Guidelines prescribes that the following kinds of technology licensing arrangement stipulations do not intrinsically violate the provisions of the Act on restraint of competition or unfair competition, with the exception of those improper matters to be found after being reviewed according to Points 3 and 4:

"(1) Limitations clauses that restrict the scope of use by the licensee to manufacture, use, or sell.

(2) Restrictions on the terms of a licensing arrangement that fall within the term of validity of the patent itself. Restrictions on the terms of a licensing arrangement prior to public disclosure of know-how, which, through no circumstance imputable to the licensor, has been disclosed and lost its status as a trade secret.

(3) Stipulations that, for ease of calculation, fees for licensed technology that is part of a manufacturing process or that subsists in component parts are to be calculated on the basis of the quantity of finished goods manufactured or sold that employ the licensed technology, or the quantity of raw materials or component parts used that employ the licensed technology or the number of times such materials or parts are used in the manufacturing process.

(4) Stipulations that the licensee shall continue to pay fees after expiration of the patent term for use already made of the licensed technology, where the fees for use of a licensed patent are paid in installments or on a post-paid [running royalty] basis. Stipulations that in the event of public disclosure of the know-how and loss of its status as a trade secret through no circumstance imputable to the licensor, the licensee must continue to pay the agreed fees by a certain period and method through the free will of the parties to the arrangement until the expiration or termination of the arrangement.

(5) Stipulations that the licensee shall grant non-exclusive license to the licensor with respect to any improvements in or new applications of the licensed technology.

(6) Stipulations that the licensee shall, to the best of its ability, manufacture and sell goods using the licensed technology.

(7) Stipulations that, during the licensing period or after the expiration of the term of the licensing arrangement, impose on the licensee the obligation to maintain the secrecy of any know-how that retains the status of a trade secret.

(8) Clauses that, in order to guarantee the licensor a minimum amount of revenue from licensing fees, require the licensee to produce a minimum volumes of goods employing the licensed technology, to employ the licensed technology a minimum number of times in the manufacturing process, or to sell a minimum quantity of goods manufactured with the licensed technology.

(9) Requirements that the licensee shall maintain a certain level of quality with respect to the goods, raw materials, or component parts of the goods that employ the licensed technology insofar as is necessary to ensure effective utilization of the licensed technology and maintain a certain level of quality in the licensed goods.

(10) Stipulations that the licensee may not transfer or sublicense the licensed technology, except where otherwise agreed by the parties to the licensing arrangement.

(11) Stipulations that the licensee may not continue to use the licensed technology after the expiration of the term of the licensing arrangement insofar as the licensed patent remains valid or the licensed know-how remains a trade secret."

C. *BLACK CLAUSES*

Point 6 of the Guidelines on Technology Licensing Arrangements lists some provisions as *per se* illegal:

"(1) Arrangements between parties to a licensing arrangement who are in a competitive relationship, in which, through contract, agreement, or other form of mutual understanding, they jointly determine the price of the goods employing the licensed technology, or restrict quantities of goods, trading partners, trading regions or areas of research and development, thus, mutually restricting each other's business activities in a manner sufficient to influence the functions of the relevant market in violation of Article 14 of the Law [the Fair Trade Act].

(2) Licensing arrangement content that involves any of the circumstances listed as the following acts which is likely to restrict competition or to impede fair competition in relevant markets violates Article 19(6) of the Law [the Fair Trade Act][54]:

i. Restrictions on competitive activities by the parties to the arrangement or their related enterprises with respect to research and development, manufacture, use, or sale of competing goods.

ii. Restrictions on a party to the licensing arrangement with respect to marketing methods, scope of use of the licensed technology, or trading counterparts, in order to achieve the goal of market segmentation.

iii. Mandatory requirements that the licensee purchase, accept, or use other patents or know-how not needed by the licensee.

iv. Mandatory requirements that the licensee assign back exclusively to the licensor any improvements to the licensed patent or know-how.

v. Restrictions on the licensee's free use of the technology in question or required payment of fees or royalties after extinction of the patent or after the know-how has been publicly disclosed through no circumstance imputable to the licensor.

vi. Restrictions on the licensee's manufacture, use, or sale of competing goods or utilization of competing technology after the expiration of the term of the licensing arrangement.

vii. Restrictions on the price at which the licensee may sell goods manufactured or produced with the licensed technology to a third party.

viii. Restrictions on the licensee's ability to challenge the validity of the licensed technology.

[54] Article 19(6) of the Taiwanese Fair Trade Act, *supra*, footnote 4, reads: "No enterprise shall have any of the following acts which is likely to lessen competition or to impede fair competition: ... 6. limiting its trading counterparts' business activity improperly by means of the requirements of business engagement." Article 25(1) of the Enforcement Rules of the Fair Trade Act, available at: ‹www.ftc.gov.tw/20000101299901011375.htm›, further defines the "limiting" as "tying arrangements, exclusive dealing, restrictions on territory, customers or use, and other restrictions on business activities."

ix. Refusal by the licensor to provide the licensee with information on the content, scope, or valid term of a patent.

(3) When a party to a licensing arrangement is a monopolistic enterprise, the issue of whether any of the matters above-listed violates Article 10 of the Law [the Fair Trade Act] shall be determined with reference to the contexts of individual case."

D. *GRAY CLAUSES*

Point 7 of the Guidelines on Technology Licensing Arrangements illustrates some "gray" clauses whose legality may be questioned:

"(1) Technology licensing arrangement content that is likely to restrain competition or impede fair competition in relevant markets may violate Article 19(6)(vi) of the Law [the Fair Trade Act]. Examples include:

i. Restrictions involving distinctions between regions in which the licensing is applicable within the territory of Taiwan during the valid term of a patent. Likewise, regional restrictions on the use of know-how before the know-how is publicly disclosed or loses its status as a trade secret through no circumstance imputable to the licensor;

ii. Restrictions on the scope of sales or the trading counterparts of the licensee, where the restrictions are unrelated to the areas of application [of the licensed technology]. Restrictions on the areas or scope of applications in which the licensee may practice the licensed technology;

iii. Ceilings restricting the quantity of goods that may be manufactured or sold by the licensee, or the number of times the know-how or patented technology may be used;

iv. Requirements that the licensee must sell goods through the licensor or a person designated by the licensor;

v. Requirements that the licensee pay licensing fees based on the quantity of a particular type of good manufactured or sold irrespective of whether the licensee used the licensed technology.

(2) Article 19(1)(ii) or (6)(vi) of the Law may be violated by requirements that the licensee purchase raw materials or component parts from the licensor or a person designated by the licensor, where such requirements are unrelated to reasonable and necessary efforts to assure effective utilization of the licensed technology, to maintain the reputation of a trademark associated with the licensed technology or to maintain the secrecy of the know-how involved, and where such requirements are likely to restrain competition or impede fair competition in relevant markets.

(3) Article 19(2)(ii) of the Act may be violated by licensing arrangements that, without justification, give discriminatory treatment to licensees with regard to the terms of the arrangement or licensing fees, where such discriminatory treatment would be likely to restrain competition or impede fair competition in relevant markets."[55]

[55] Article 19(1) and (2) of the Taiwanese Fair Trade Act, *supra*, footnote 4, reads: "No enterprise shall have any of the following acts which is likely to lessen competition or to impede fair competition: 1. causing another enterprise to discontinue supply, purchase or other business transactions with a particular enterprise for the purpose of injuring such particular enterprise; 2. treating another enterprise discriminatively without justification; ..."

E. *EVALUATION OF THE GUIDELINES*

On balance, the Guidelines on Technology Licensing Arrangements are very detailed and encompassing in content, on the one hand, but silent on the reasoning behind the clauses, on the other, which makes it more categorical and micro-managing than understandable and persuasive. Unfortunately, the Guidelines did not entirely incorporate the judgments of Articles 60, 108 and 129 of the Patent Act, which declare void patent assignment and licensing agreements that contain one of the following clauses and lead to unfair competition:

"(1) To prohibit or restrict the assignee from using any specific article or process not furnished by the assignor or licensor; or

(2) To require that the assignee purchase products or raw materials of the assignor which is not under patent protection."[56]

The Guidelines on Technology Licensing Arrangements will be in much better shape if they follow the EU Regulation No. 772/2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements of 27 April 2004, by moving away from listing "white" and "gray" clauses, focusing only on hardcore restrictions and taking a more economics-based approach which differentiates agreements between competitors from agreements between non-competitors, exempts clauses below a certain level of market power and takes both industrial developments and the nature of the technology at issue into consideration.

One of the features of the international competitiveness of Taiwanese industry is its world-scale manufacturing capacity and cost-effectiveness in driving down prices. Parallel to this is the amazing rate of the drop in prices in the information industry.[57] An appropriate consideration of these characteristics would lead the Guidelines on Technology Licensing Arrangements to blacklist any scheme that maintains a minimum royalty floor regardless of a sharp price decline.

The emerging patent pool-related antitrust issue in Taiwan merits treatment by the Guidelines on Technology Licensing Arrangements, which they neglected to do. In the future, the Guidelines could render proper treatment of patent pools by highlighting, first, their obvious pro-competitive effects, such as reducing transaction and litigation costs, clearing blocking patents and facilitating the rapid development of technology and, secondly, some of the anti-competitive effects which are inherent to patent pools, such as, for example, being a disguised vehicle for cartels, being over-inclusive by including unessential or even unrelated or expired patents into patent

[56] Article 60 of the Patent Act, *supra*, footnote 1.

[57] According to Gerald Brock, *The Second Information Revolution*, Harvard University Press, Cambridge, Massachusetts, 2003, at p. 67, the 1950 Whirlwind memory cost was US$ 46,000 per kilobyte, while by 2001 the price of a memory had dropped to US$ 00.001 per kilobyte, a price reduction factor of 46 million.

pools[58] and being exclusionary by having a closed membership. Furthermore, the Guidelines should follow the suggestion that open membership and non-exclusive licensing among pool members be taken as an important mechanism to prevent the anti-competitive effects of patent pooling.[59]

VII. THE ADOPTION OF THE ESSENTIAL FACILITY DOCTRINE BY THE TFTC

The TFTC's 4C Guidelines give the 4C industries some guidelines on how to judge and consequently adapt their activities to comport with the Fair Trade Act. In giving some illustrative examples of misuse of superior market power, the 4C Guidelines list "abuse with an essential facility" first. *Inter alia*, the TFTC refers specifically to the *MCI* case[60] and defines essential facilities as those fulfilling the following criteria:

- controlled by a monopolist;
- competitors are unable to duplicate in an economical and reasonable way;
- competitors are unable to compete with the owner of the facility if denied the use of the facility; and
- the owner of the facility is able to provide competitors with the facility.[61]

The 4C Guidelines further reason that, due to the fact that competitors will not be able to compete with the owner of the essential facility if denied the use of the essential facility and that the controller of the essential facility acquires therefore the ability to obstruct or exclude competitors, the 4C industries, especially, are very likely to exclude competitors from competition through the use of essential facilities. Therefore, if monopolies in the 4C industries improperly refuse to provide, cease to provide or discriminatorily provide competitors with the use of the essential facility, and thus leads to constraint of competition or impediment of fair competition, then they bear the danger of violating Article 10 of the Fair Trade Act. Although the Explanations of the 4C Guidelines do not mention IP as a form of essential facility and does not generalize, it is nonetheless possible that the TFTC might conceive of some bottleneck IP as essential facilities in the 4C industries or even in general.

[58] In the *Philips II* case, the TFTC expressed its opinion on patent pools: "Patent pools are themselves indisputable, what is disputable is that the parties fix prices, segment markets or limit the items that they can freely develop via collective licensing, thus affecting the functioning of the market competition mechanism. The defendants have patents from different countries, and Sony does not have patents necessary for the manufacture of CD-Rs in Taiwan or Europe. The collective licensing has expanded its patent scopes improperly, excluded other competitors from entering and violated the prohibition of concerted activities by the Act." Decision No. 091069 (2002) of the TFTC. It clearly distances itself from the general assertion by one scholar that "if a patent pool uses its collective market power to have a greater effect on competition, then this exceeds the protection granted by the patent law and Taiwan's Fair Trade Law should apply"; see Min-Yan Shieh, *A Discussion of the Relationship Between the Patent Law and the Fair Trade Law in Taiwan with a Review of the Philips CD-R Decisions*, in Tzong-Leh Hwang and ChiYuan Chen (eds.), *The Future Development of Competition Framework*, Kluwer Law International, 2004, at p. 175.

[59] Robert P. Merges, *Institutions for Intellectual Property Transactions: The Case for Patent Pools*, in Rochelle Dreyfuss, Diane L. Zimmermann and Harry First (eds.), *Expanding the Boundaries of Intellectual Property*, Oxford University Press, Oxford, U.K., 2001, at p. 164.

[60] *MCI Communications Corp. v. AT&T*, 708 F.2d, 1081, 1132 (7th Circuit, 1983).

[61] Point 5.1 of the 4C Guidelines, *supra*, footnote 7.

As a matter of first principle, it needs to be pointed out that the essential facility doctrine is not yet a settled law in the United States because for the following reasons. Firstly, the Supreme Court has neither explicitly embraced nor rejected it, and did expressly refuse to rest its ruling on the essential facility doctrine in *Aspen Skiing* (472 U.S. 585(1985)). Secondly, although the essential facility doctrine continues to find recognition (for example, *Trinko v. Bell Atlantic Corp.*, 294 F.3d 307 (2d Cir.), the number of successful invocations of the doctrine after the *MCI* case are few.[62] Moreover, among those courts that endorsed the essential facility doctrine, the tendency has been to interpret it narrowly and not to extend it beyond situations where the defendant's control of the facility enabled it to eliminate competition in the downstream market.[63] Thirdly, heavyweight writers are very critical of this principle. Posner argues that simple, unconditional refusal to deal by dominant firms should never be deemed a violation of Section 2 of the Sherman Act.[64] Areeda and Hovenkamp find it inconsistent with the purpose of antitrust laws, both harmful and unnecessary, and conclude that it should be abandoned.[65]

Clearly, the 4C Guidelines are misguided in their reliance on the essential facility doctrine, which is not yet established in the United States, to generally conclude that if monopolies in the 4C industries improperly refuse to provide, cease to provide or discriminatorily provide competitors with the use of the essential facility, and that leads to constraint of competition or impediment of fair competition, then they bear the danger of violating Article 10 of the Fair Trade Act. Nor does the over-generalization of this doctrine by the 4C Guidelines get any support from European competition law, which, in Article 82 EC, also prohibits the abuse of a dominant position, similar to the Taiwanese Fair Trade Act. As the European Court of Justice has recently reaffirmed its long-held position in the *IMS Health GmbH* case (C-418/01, decided on 29 April 2004), which regards as abuse the refusal by an undertaking in a dominant position to allow access to a product protected by copyright where that product is indispensable for operating on a secondary market:

> "... only where the undertaking which requested the license does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the copyright, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand." (paragraph 49)

It is therefore advisable for the TFTC to limit its interpretation of the essential facility doctrine to cases where the refusal to license the use of such facility may eliminate the competition of a secondary market, be it downstream, upstream or adjacent.

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[62] Pierre Larouche, *Competition Law and Regulation in European Telecommunications*, Hart Publishing, Oxford, U.K., 2000, at p. 178.

[63] Gregory McCurdy, *Intellectual Property and Competition: Does the Essential Facilities Doctrine Shed Any New Light?* E.I.P.R., 2003, p. 472.

[64] Richard Posner, *Antitrust Law*, 2nd edition, University of Chicago Press, Chicago, 2001, at pp. 242–244.

[65] Phillip E. Areeda and Herbert Hovenkamp, *Antitrust Law*, 2nd edition, Aspen Publishers, New York, 2002, at pp. 171–173.

VIII. Conclusion

At the end of the day, what remains decisive for the determination of a proper interplay between IP and competition law is not an abstract economic analysis of the IP regime as a whole but, rather, the value approach each country needs to take for its own interest, namely, whether to be comparatively more pro-competition or more pro-IP in order to take its development stages and core competitiveness into consideration. This approach may vary over time, as the development of the United States and the European Union clearly shows a shift from a weak patent and strong antitrust standing in the 1970s to a strong patent and weak antitrust position in the 1990s. Every sovereign country needs to make its judgment consciously.

Taking Taiwan's strength in IP and world trade as a whole, one will soon realize that Taiwan is by far a net importer of IP and plays a key role in the world economy only as an original equipment manufacturing center rather than an R&D, branding and licensing hub. Thus, in the near future, it serves the Taiwanese national interest best to take a slightly pro-competition stance throughout its legislative, administrative and judicial branches. Measured by that yardstick, the parallel import regime in Taiwan needs to be improved by allowing more choice for consumers and more intra-brand competition that truly reflects the goal of the WTO: a globalized world market that is beyond any market segregation, whether by IP or not.

Compulsory licensing of IP (excluding, however, trademarks) is the inherent and integral part of IP, given its instrumentalist foundation that seeks to strike a delicate balance between public and private interests. The first-ever compulsory licence granted by the TIPO in 2004, after 2 years consideration, in a case where the patentees hold an absolute monopoly (no other bypass possible) should not be over-interpreted as Taiwan pursuing a hostile position against IP holders.[66] The handling by the TFTC of warning letters issued by IP holders to third parties, requiring that precautionary steps be taken before the issuance of such letters is justified because it reduces uncertainty in the market. The market would be further better off had the TFTC demanded that the whole of the court decision or the expert.opinion regarding patent infringement be attached to the warning letter and that the issuer must first have filed suit against the actual infringer.

Last, but not least, experiences in Taiwan show that, like all economic powers unchecked by market forces, multinational conglomerates are tempted to act in an inconsiderate and aggressive way when exercising their IP rights, even to conduct anti-competitive activities in the name of IP rights and laws and contracts. To counter-balance IP superpower and the possible resultant misuse that suffocates market competition and leaves the needs of consumers unsatisfied, competition law in Taiwan has proven to be of help.

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[66] In the United Kingdom, from 1959 to 1968, there were on average 1.5 applications for compulsory licences per year under the general provisions. Only two were granted in this period. For food and drugs, there were an average of 4.1 applications per year, and only four were granted. See William Cornish and David Llewelyn, *Intellectual Property*, 2nd edition, Sweet & Maxwell, London, 2003, at p. 294, footnote 81. In Germany, from the establishment of the Federal Patent Court in 1961 to 1991, there were only twelve applications for compulsory licences and only one was granted; see George Benkard, *Patentgesetz*, 9th edition, C.H. Beck, Munich, 1993, § 24 Rdnr.5.