New IPR regulation takes effect

Hannah C.L. Ha and **John M. Hickin** conclude that the Mainland's groundbreaking legislation reflects growing recognition of the importance of research and development

The past decade has seen a significant shift in the competitive landscape of China's science and technology sector. From the manufacturing floor to a major contributor to scientific advances and technological innovation, spending on research and development continues to increase and Chinese companies are emerging as genuine contenders to worldwide brands and renowned research facilities.

Against this backdrop, on 13 April, the State Administration for Industry and Commerce released the final version of the *Provisions on Prohibition of Abuse of Intellectual Property Rights to Eliminate or Restrict Competition*, which took effect on 1 August.

The regulation comes at an opportune time, and reflects the growing recognition of IPR protection in China. The regulation was first conceived in 2008 and its enactment this year represents the fruits of a seven-year-long legislative process, including numerous rounds of public consultation during which issues on the interface between IPR and competition law were debated and explored.

Another part of the framework

The IPR regulation supplements Article 55 of the Anti-monopoly Law, which is the principal rule for IPR-related conduct. Article 55 states that the Anti-monopoly Law does not apply to companies that exercise their IPR in accordance with applicable laws and administrative regulations on IPR, unless the companies abuse their IPRs to eliminate or restrict competition.

This is the first IPR-dedicated piece of antitrust regulation. However, it will only apply to enforcement action taken by

SAIC, not the National Development and Reform Commission or the Ministry of Commerce. Notably, the exclusion of provisions regulating price-related abuses in the final version of the IPR regulation means that price-related abuses will remain the NDRC's exclusive jurisdiction.

More recently, towards the end of May, the State Council's Anti-Monopoly Commission announced that the NDRC has been tasked with developing a set of antitrust guidelines, in consultation with SAIC and MOFCOM. One of the guidelines will address specific issues relating to abuses of IPR that eliminate or restrict competition. It will be interesting to see, in due course, how the new guideline will interact with the IPR regulation.

Introduction of safe harbours

Article 5 of the IPR regulation introduces the following safe harbours to determine whether an IP-related agreement is likely to restrict competition:

Horizontal monopoly agreements

- The combined market share of the parties in the relevant market does not exceed 20 percent; or
- There are at least four other independently controlled substitute technologies in the relevant market that can be obtained at reasonable cost.

Vertical monopoly agreements

- The market shares of each parties in the relevant markets does not exceed 30 percent; or
- There are at least two other independently controlled substitute technologies in the relevant market that can be obtained at reasonable cost.

The safe harbours are a key feature of the regulation. They stipulate conditions that act as proxies for measuring the impact of an agreement on competition, which, when met, raise a presumption that the IPR agreement is unlikely to be anti-competitive. The presumption is rebuttable, and parties to an agreement may lose the protection of the safe harbour if there is evidence showing an IPR agreement has the effect of eliminating or restricting competition.

The safe harbours are modelled upon the European Commission block exemption for technology transfer agreements, but differ in an important respect. While the EC safe harbour exempts certain agreements on the presumption they fulfil Article 101(3) of the Treaty on the Functioning of the European Union (the equivalent of Article 15 of the Anti-monopoly Law), i.e. their benefits outweigh their harm, the IPR regulation safe harbours fall short of providing justification for negative effects on competition and accords more limited protection.

IPR-related abuses of a dominant market position

Articles 7 to 11 of the IPR regulation prohibit members of patent pools in a domi-

nant market position from abusing their dominance and provide a list of IPR-related abuses, including, but not limited to, forcible bundling, exclusive dealing, imposing unreasonable restrictive conditions and discriminatory treatment.

Additionally and despite objections, the SAIC has adopted the essential facilities doctrine. Article 7 sets out three factors that will be considered in determining what constitutes an "essential" IPR:

- The IPR has no reasonable substitute and is essential for other undertakings to compete in the relevant market;
- Refusal to license the IPR will cause an adverse impact on competition or innovation in the relevant market, leading to the impairment of consumer or public interest; and
- Licensing the IPR will not cause unreasonable damage to the licensor.

These factors define and limit the scope of essentiality to an extent, but Article 7 nonetheless argues legal uncertainty around how the tension between IPR protection and competition will be resolved, and when companies will find themselves at the tipping point where the objectives of competition law overtake an essential IPR.

Two special IPR-related activities

The IPR regulation also provides guidance on patent pools and standard setting. Specifically, Articles 12 and 13 provide that:

1. Patent pool

- Members of a patent pool should not exchange competitively sensitive information in terms of output, market division etc.
- If a patent pool is in a dominant market position, without justifiable reasons, it shall not:
  - Restrict its members from licensing independently outside the patent pool;
  - Restrict its members or licensees from developing competing technologies independently or with third parties;
  - Force its licensees to exclusively grant back their improvements or technologies to the patent pool or its members;
  - Forbid its licensees to challenge the validity of the patents in the pool; and
  - Discriminate against its members or licensees.

2. Standard setting

If a patent holder is in a dominant market position, it shall not, without justifiable reasons:

- Deliberately conceal information on its patents or expressly abandon its patent rights during participation in standard setting, but claiming its patent rights against the parties implementing the standard after the patents become part of the standard; and
- After its patents become standard essential patents, breach the fair, reasonable and non-discriminatory principle and engage in behaviour such as refusing to license, tying products or attaching unreasonable trading conditions to the licence.

There are certain issues that remain unclear and it is necessary to cross-reference other IPR-related rules for clarification. For example, with regards to regulation of national standards, the *Administrative Regulation on the National Standards involving Patents (Tentative)* provides the procedures for disclosure and publication of standard essential patents.

Conclusions

Local and international observers have, in recent years, witnessed a clear and inevitable trend towards a more pro-active approach to IPR-related antitrust enforcement in China. China's developing regime has come under scrutiny as a result of high-profile IPR-related antitrust investigations, civil suits and merger control cases involving foreign companies.

Despite concerns expressed by international IP practitioners, the IPR regulation is just one of many indications that China will no longer be tolerant of IPR infringements. As China is a key market for multinational corporations, foreign companies operating in China that hold key assets in IPR should be wary of the impact of the IPR regulation and ensure compliance after the IPR regulation took effect on 1 August.

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