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**Snapshot of the Guidelines
for Technology Licensing
Arrangements of Taiwan's
Fair Trade Commission**

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Intellectual property laws and antitrust laws share the common goal of enhancing consumer welfare. Intellectual property laws promote creative activity by conferring enforceable property rights exclusively on creators, and thereby incentivize the dissemination and commercialization of new products. Antitrust laws prohibit certain actions that may restrain competition, thereby ensuring consumers the benefits of competition. While intellectual property laws and antitrust laws both enhance consumer welfare, the fundamental difference is that by conferring enforceable property rights exclusively on creators, intellectual property laws afford creators protection against their competitors. This tension between intellectual property laws and antitrust laws surfaces in every technology license, which makes it necessary to differentiate between proper enforcement of creators' rights to promote creative activity and improper enforcement that restrains competition excessively.

As Taiwanese manufacturers rely strongly upon licensed technologies to compete in world markets, Taiwan's Fair Trade Commission (the "FTC") issued its Guidelines for Technology Licensing Arrangements (公平交易委員會對於技術授權協議案件之處理原則) on January 20, 2001, which were last amended on March 12, 2013 (the "Licensing Guidelines") to provide a clear roadmap for the licensing of technology. The following snapshot of the Licensing Guidelines should assist companies to understand the antitrust risks inherent in technology licensing.

General Principles

Technology licensing arrangements raise a few antitrust concerns. Companies in vertical or horizontal competition may engage in concerted actions that reduce competition. Unfair trade practices may impose restraints on trade to ensure profitability. Monopoly power may be abused to exclude competition or to achieve a lopsided advantage through technology licensing.

To address these antitrust concerns, the Licensing Guidelines embody three general principles:

- *Relationship between intellectual property laws and antitrust laws.* Taiwan's Fair Trade Act (the "FTA") provides that proper enforcement of rights under the Copyright Law, the Trademark Law or the Patent Law does not violate the FTA. This, however, is a mere declaration of the relationship between intellectual property laws and antitrust laws, as the line is not always clear between proper enforcement and improper enforcement of rights. Please note that:
 - o Registration is not required for any technology licensing to become valid in Taiwan, so the FTC normally does not learn of the technology, nor determine whether a technology licensing is in compliance with the FTA and Licensing Guidelines before it takes effect.
 - o The FTC may exercise its power to investigate and review a license if it suspects impropriety or a complaint is filed. Any person may file an antitrust complaint (but usually the licensee or a horizontal competitor of the licensor raises such a challenge).

- *Scope of Licensed Technologies.* The Licensing Guidelines cover the licensing of patents, know-how, or a combination of the two. Under the Licensing Guidelines:
 - o "patents" includes invention patents and utility model patents granted under Taiwan's Patent Law, or granted elsewhere but affecting competition in Taiwan; and
 - o "know-how" includes any method, technology, process, formula, program, design or other information that could be used in manufacture, sales or operations (i) which is not readily accessible to persons who are generally involved in information of such kind, (ii) which has substantial actual or potential economic value due to its confidentiality, and (iii) of which the owner has taken reasonable actions to protect its confidentiality.
- *No presumption of market power.* The FTC does not presume that patents or know-how create market power in the relevant markets. The FTC recognizes that conferring exclusive property rights on a creator or inventor does not preclude the possibility that there will be goods or services actually or potentially interchangeable or substitutable for the commercialized goods or services utilizing such patents or know-how in the relevant markets.

Illustrations of Antitrust Violations

In general, when reviewing a licensing arrangement, the FTC will look into not only the form of the arrangement, but also its substance, and will apply the rule of reason and assess (a) whether an arrangement is excessive in the enforcement of rights, and (b) whether the arrangement violates the purpose of promoting innovation and creativity. More specifically, the FTC will analyze whether its anti-competitive effects outweigh its pro-competitive effects.

The Licensing Guidelines make an attempt to illustrate various features of technology licensing and classify them into three different types of antitrust violations:

(a) Concerted Actions

Technology licensing, by its nature, constitutes a mutual understanding between parties in respect of their business activities and licensed products, on which restraints are agreed to assure that the technology is utilized only as the licensor consents. Such a licensing arrangement has pro-competitive implications, but it may also be used to exclude competition. Therefore, the Licensing Guidelines focus on whether such an arrangement affects the functioning of the relevant markets. Only those licensing arrangements having an effect on the functioning of relevant markets are struck down. For example:

- o Collaboration between small players in a market may be pro-competitive as several small players (who are likely to be horizontal competitors) may cooperate through a license or cross-license in order to be competitive against an oligopoly or duopoly. Yet, a licensor with a substantial market share in a relevant market may abuse its market power and reduce competition through restraints in its technology licensing arrangements, e.g., by prohibiting a licensee from developing or licensing competing technologies.

o A short-term collaboration is likely to be viewed as pro-competitive, while a long-term collaboration might attract greater scrutiny because market conditions and the market positions of the parties may change over time.

(b) Unfair Trade Practices

The FTC also has announced its view that it considers certain license terms and conditions to constitute unfair trade practices if they are likely to have an anti-competitive effect:

o Unfair restriction on a licensee's business activities

- i. Restricting the licensee's research, manufacture, use, sale or application of competing technology during or after the term of the license;
- ii. For market segmentation, or for a purpose not related to the scope of the license itself, restricting the scope of use of the licensed technology or the parties with whom the licensee may conduct business;
- iii. Requiring the licensee to pay royalties for patents or know-how not necessary to the licensee;
- iv. Requiring the licensee to grant an exclusive license of any improvements in the technology back to the licensor;
- v. After the expiry date of any patents or the publication of know-how in circumstances not attributable to the licensee, restricting the licensee from freely using such technology or requiring the licensee to continue to pay royalty;
- vi. Restricting the licensee's sale price of any licensed product it produces;
- vii. Restricting the licensee from challenging the validity of the licensed technology;
- viii. Refusing to provide information concerning the licensed patents, e.g., the contents, scope, expiry date, etc.;
- ix. Restricting the licensee from utilizing any patents or know-how throughout the territory of Taiwan;
- x. Requiring the licensee to conduct sales through the licensor or its designated person; or
- xi. Requiring the licensee to pay royalty according to the quantity of production or sales of certain goods, regardless whether the licensee used the licensed technology.

For example, if the licensor requires the licensee to grant back an exclusive license of any improvements the licensee makes in the licensed technology, the FTC generally finds an evident anti-competitive effect, as a licensee would usually not be incentivized to make improvements which would benefit only the licensor.

o Obstruction of supply for the purpose of injuring the licensee's business

The licensor may not require the licensee to purchase materials and components from the licensor or its designated person for reasons other than achieving certain functions of the licensed technology, maintaining the quality of the trademarks of the licensed products, or reasonably preserving the confidentiality of know-how, if it is likely to have an anti-competitive effect.

o Different treatment

Without a justifiable reason, the licensor may not provide different treatment among licensees, e.g., in trading terms or royalty rate, if it is likely to have an anti-competitive effect.

(c) Abuse of Monopoly Power

If a monopolist carries out the above concerted actions or unfair trade practices, the Licensing Guidelines will view it as an abuse of monopoly power. An enterprise is considered to possess monopoly power if it has no competition or has the ability to exclude competition in relevant markets. The FTA also regards two or more enterprises, as a whole, to possess monopoly power if they do not attempt to compete against each other and therefore have no competition or have the ability to exclude competition in relevant markets. Enterprise(s) are considered to have monopoly power if any of the following circumstances exists: (a) The market share of the enterprise in a relevant market is one-half or more of the market; (b) The combined market share of two enterprises in a relevant market is two-thirds or more of the market; or (c) The combined market share of three enterprises in a relevant market is three-fourths or more of the market. However, where the market share of an individual enterprise is less than one-tenth of the relevant market or where its total sales in the preceding fiscal year are less than NT\$1 billion (approximately US\$33.4 million), that enterprise in general is not considered a monopolist.

Standards of Review

It is important to note that these illustrations violate the FTA only when they have an anti-competitive impact. They do not constitute antitrust violations in all cases, without regard to the relevant markets. In deciding whether they constitute antitrust violations, the FTC applies the "rule of reason" and considers the following factors:

- The market power possessed by the licensor;
- The market position and market condition of the parties to the licensing arrangement in the relevant markets, including:
 - o "goods markets" comprised of goods and services provided by utilizing the licensed technologies;
 - o "technology markets" comprised of interchangeable or substitutable technologies (in the FTC's view, as technology markets exist for the purpose of producing goods, delineation thereof can be referred to the goods markets); and
 - o "innovation markets" for research and development directed to particular new or improved goods and services, and close substitutes for that research and development.

- The impact of the increased opportunity to utilize the licensed technologies and of excluding competition;
- The difficulty of entry into relevant markets;
- The terms of restraint provided by the licensing arrangement; and
- The international or industrial practices in the relevant markets of such licensed technologies.

Examples of Acceptable Practices

Given the uncertain nature of antitrust review because of the general principles and standards of review, the FTC believes that it is beneficial to provide some degree of certainty by announcing examples of acceptable practices.

For example, the FTC has pointed out that a non-exclusive grantback, which requires a licensee to grant a non-exclusive license of improved technology or new patents or know-how back to the licensor, is an acceptable practice. The FTC believes that a non-exclusive grantback provides a way for the parties to share risk, and to reward the licensor for making improvements of the licensed technology possible, which can generally be considered pro-competitive. This is different from an exclusive grantback, which takes away the licensee's incentive to make improvements and limits its freedom to grant licenses to others, which is likely to have an anti-competitive effect.

Other notable examples of acceptable practices include:

- Limiting the licensee in production, use or sales during the license term;
- Even if the licensed technology exists on only part of the production process or components, for the convenience of calculation, calculating the basis of royalty based upon the quantity of production or sales of the final products using the licensed technology, or the amount or frequency of use of necessary materials and components to produce the products using licensed technology;
- If the royalty is to be paid in installments or after utilization of the licensed technology, requiring that the licensee pay the royalty after the expiry date of patents for the licensed technology it utilized; the same applies to a requirement that a licensee still pay royalty for know-how that is made public for reasons not attributed to the licensee;

- Requiring the licensee to purchase materials and components of a certain quality to the extent necessary to achieve a certain function of the licensed technology and maintaining a certain quality of the licensed products;
- Prohibiting the licensee from transferring or sublicensing the licensed technology; and
- Requiring the licensee to produce a minimum quantity of products utilizing the licensed technology, to make minimum use of the licensed technology, or to make minimum sales of the products to ensure minimum royalty income.

What Should a Licensor Do to Reduce the Antitrust Risks?

When entering into a licensing arrangement, a licensor should realize that any potential competitor, or even the licensee, may challenge the license as an antitrust violation. The investigation may be prolonged and costly. To reduce such risks, a licensor should assure itself that it can justify a negative answer to each of the following questions:

- Do any of the terms of the license arrangement fall squarely within an example of the FTC of a potential unfair trade practice without a good pro-competitive reason?
- Does the license arrangement involve joint determination of the price of licensed products, or limit the quantity of licensed products, or restrict the licensee in where or with whom it may conduct business? These are typical concerted actions that make obvious cases for the FTC.
- Does the term of the license arrangement exceed what is normally needed to achieve the purpose of this license?

Also, a licensor should keep in mind the relevant markets and the licensor's position in those markets. A particular licensing arrangement may create an antitrust risk or not, depending on the nature of the technology and other circumstances.

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