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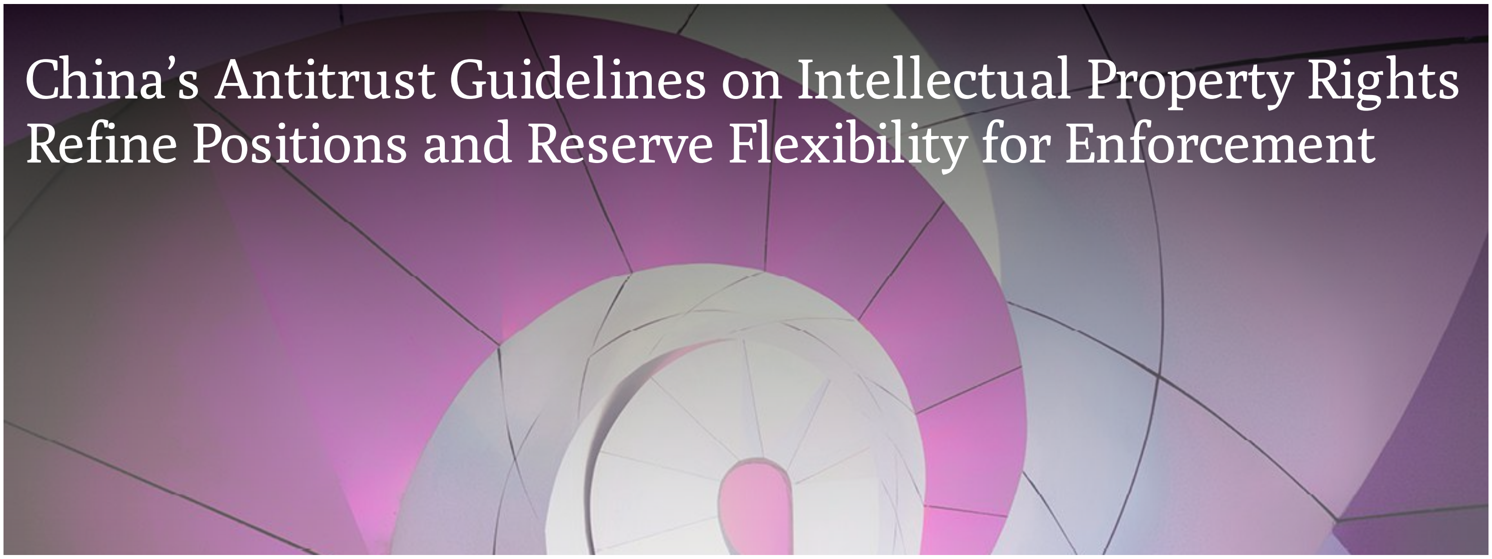
BLOG

China’s Antitrust Guidelines on Intellectual Property Rights Refine Positions and Reserve Flexibility for Enforcement



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On August 6, 2020, the Chinese antitrust agency, the State Administration for Market Regulation (SAMR), published new IP antitrust guidelines—the *State Council Anti-Monopoly Committee Anti-Monopoly Guidelines in the Field of Intellectual Property Rights* (the “IP Guidelines”). [1] The publication was included in a slate of long-awaited antitrust guidance documents, which also included new sets of guidelines on (1) the automotive sector,[2] (2) leniency,[3] and (3) commitments.[4] See here for our Competition Corner blog post covering the new leniency guidelines. These guidelines are currently available only in hard copy and in Chinese, so this post has the highlights for those unable to access the original text of the IP Guidelines.

Background

China’s comprehensive antitrust statute, the Anti-Monopoly Law or the AML, prohibits use of IP rights in a manner that eliminates or restricts competition. Various types of IP-related conduct or transactions can be subject to regulation and enforcement under the Anti-Monopoly Law, which prohibits anticompetitive agreements (similar to those agreements prohibited by Section 1 of the Sherman Act in the United States, and referred to under the Anti-Monopoly Law as “monopoly agreements”), abuse of dominance, and anticompetitive concentration of undertakings (i.e., anticompetitive mergers and acquisitions).

The IP Guidelines target issues subject to increasing enforcement and litigation and are intended only to provide clarifying principles, not to create any specific right or obligation.[5] While largely based on drafts previously circulated for public and expert comments, the IP Guidelines generally soften the SAMR’s positions from prior draft guidelines, and reserve flexibility for the agency’s enforcement in various areas. Many provisions contain extensive lists of ***relevant but not determinative*** analytical factors that the SAMR considers in making enforcement decisions. The IP Guidelines also provide three safe harbor rules for the analysis of IP-related agreements.

Structure and Key Language

The IP Guidelines cover five general topic areas: (1) the SAMR’s general analytical approach, (2) monopoly agreements, (3) abuse of dominance, (4) concentration of undertakings, and (5) special IP issues including patent pools, standard essential patents, and collective administration of copyrights. The summary below highlights key provisions relevant to companies with IP interests doing business in China.

A. Chapter I: General Provisions (Articles 1-6)

Chapter I covers the SAMR's general approach to analyzing the antitrust issues involving IP rights and is largely uncontroversial.

- **Article 1 ("Objectives and Legal Bases")** acknowledges the general principle that the exercise of IP rights does not violate the AML unless the underlying conduct or transaction is anticompetitive.
- **Article 2 ("Principles")** provides four principles for the analysis of IP-related antitrust issues:

  1. IP-related conduct or transactions should be analyzed like other property rights under the AML and relevant regulations;
  2. the analysis should take into account the characteristics of the intellectual property at issue;
  3. an IP holder is not presumed to be dominant; and
  4. any effects on efficiencies and innovation should be considered on a case-by-case basis.

- **Article 3 ("Approach")** provides the SAMR's general approach for the analysis of IP-related antitrust issues, requiring considerations of:

  1. the characteristics of the specific conduct or transaction;
  2. the relevant markets;
  3. the effects on market competition; and
  4. the effects on innovation and efficiencies.

- **Article 4 ("Relevant Markets")** provides, among other things, that if a comprehensive assessment of competitive effects cannot be realized through definition of the relevant *product* market, it may require defining the relevant *technology*
- **Article 5 ("Factors in the Analysis of Anti-Competitive Effect")** provides a non-exhaustive list of factors that may be considered in the analysis of the eliminative or restrictive effects of competition (including analyses of competition in the market as well as of the specific conduct). In particular, the share in the relevant technology market may be calculated in part based on the share of products implementing that technology in the relevant product market, the share of royalty revenue from that technology in the relevant technology market, and the number of substitute technologies available.
- **Article 6 ("Requirements for [Cognizable] Pro-Competitive Effects")** provides, among other things, that pro-competitive effects are cognizable only when the conduct or transaction is the least restrictive within the scope of reasonable commercial choices.

B. Chapter II: Provisions on Monopoly Agreements Involving IP Rights (Articles 7-13)

Chapter II addresses various IP-related agreements that might been considered anticompetitive (i.e., "monopoly agreements" under the AML), including joint R&D agreements, cross licenses, grantbacks, no-challenge clauses, and standard setting activities.

- **Article 7 ("Joint R&D")** acknowledges that joint R&D can generally save costs and increase efficiencies, and provides three factors to consider in analyzing a joint R&D arrangement:

  1. Whether the agreement restricts independent R&D, or joint R&D with a third party, in areas *unrelated* to the joint R&D at issue;
  2. Whether the agreement restricts R&D *subsequent* to the joint R&D; and

3. Whether the agreement restricts ownership and exercise of new technologies or new products that resulted from the R&D in areas *unrelated* to the joint R&D.

- **Article 8 ("Cross Licensing")** acknowledges that cross licensing can generally save costs and facilitate implementation of the relevant technology, and provides four factors whether the cross license is anticompetitive, including whether it:

1. is exclusive;
2. constitutes a barrier for a third party to enter the market;
3. eliminates or restricts competition in downstream markets; and
4. raises the cost of relevant products.

- **Article 9 ("Grantback")** provides that a grantback clause is more likely anticompetitive if the licensee itself is not granted rights to the licensee's subsequent improvements of the licensed IP. Article 9 defines a clause that reserves those rights to licensor or the licensor's designated third party *as well as the licensee* as a "Pai Ta Xing" grantback, and defines a clause that reserves those rights only to licensor or the licensor's designated third party as a "Du Zhan Xing" grantback. The presumption is that the latter is more likely than the former to eliminate or restrict competition. Article 9 provides four factors that may be considered in the analysis of eliminative or restrictive effects of a grantback clause—whether:

1. the licensor offers meaningful consideration for the grantback;
2. the requirement for grantbacks are mutual between the licensor and licensee;
3. the grantback causes the concentration of improvements in a single undertaking, thereby enabling it to acquire or enhance market power; and
4. the grantback affects the licensee's incentives to improve the licensed IP.

- **Article 10 ("No-Challenge Clause")** provides six factors that may be considered in the analysis of a no-challenge clause, which prohibits a licensee from challenging the validity of the licensed IP—whether:

1. all licensees are required to not challenge;
2. the license is free of charge to the licensee;
3. the licensed IP may constitute a barrier to entry into downstream markets;
4. the licensed IP impedes the exercise of a competing IP;
5. the relevant IP license is exclusive; and
6. a licensee, by challenging the validity of the licensed IP, will incur great loss.

- **Article 11 ("Standard Setting")** acknowledges that standard setting can generally facilitate interoperability across different products, save costs, increase efficiencies, and ensure product quality and provides four factors that may be considered in the analysis—whether the standard setting process:

1. excludes any other particular undertakings without valid justifications;
2. rejects a relevant proposal by any particular undertaking without valid justifications;
3. requires an agreement to not implement a competing standard; and
4. includes a necessary and reasonable mechanism that constrains the exercise of those IP rights incorporated in the standard.

- **Article 12 ("Other Restrictions")** is intended to cover agreements not specifically addressed in the previous articles. Article 12 notes that an IP agreement might contain other types of restrictions on any of the following:

1. the practice fields of the IP;
2. the sales or marketing of products implementing the IP;
3. the quantities of products implementing the IP; or
4. the use of a competing IP or the supply of a competing product.

- Article 12 acknowledges that these restrictions are usually commercially reasonable, can save costs, and facilitate the implementation of IP rights. It provides five factors that may be considered in the analysis of restrictive effects on competition of these types of restrictions in an IP agreement:

1. the content, extent, and implementation method of the restriction;
2. the characteristics of the products implementing the IP;
3. the relationship between the restriction and the licensing conditions of the IP;
4. whether there are multiple restrictions; and
5. if there is a competing IP owned by other undertakings, whether such other undertakings impose the same or similar restrictions.

- **Article 13 ("Safe-Harbor Rules")** provides three safe harbors for IP-related horizontal agreements between competitors (subject to Article 13 of the AML)[6] or vertical agreements between non-competitors (subject to Article 14 of the AML).[7] If the criteria of the safe harbors are satisfied, the SAMR will not take enforcement action unless there exists evidence showing anticompetitive effect. The first Safe Harbor applies to horizontal agreements, the second Safe Harbor applies to vertical agreements, and the third Safe Harbor applies when market data is unavailable.
    - **Safe Harbor #1**: competing undertakings have a combined share of less than 20% in the relevant market.
    - **Safe Harbor #2**: an undertaking and its trade counterparty have a combined share of less than 30% in any relevant market affected by the IP agreement.
    - **Safe Harbor #3**: there are four or more competing technologies that are not controlled by the parties to the IP agreement and can be obtained at reasonable costs. This safe harbor applies if market share data is hard to obtain or cannot accurately reflect the market positions of the undertakings in the relevant markets.

C. Chapter III: Abuse of Dominance Involving IP Rights (Articles 14-19)

Chapter III provides guidance on how to determine a dominant market position in IP-related contexts and then addresses various kinds of IP-related conduct that may be considered as abuse of dominance for the purposes of the AML, including licensing IP at an "unfairly high price," refusals to license, tying, unreasonable trading conditions, and discriminatory treatment.

- **Article 14 ("IP and Determination of Dominance")** provides that relevant provisions in the law—Article 18, the AML (for the *determination* of a dominant market position) and Article 19, the AML (for the *inference* of a dominant market position)—apply when determining or inferring whether an IP holder has a dominant market position. Additionally, there are three other factors that may be considered in the dominance analysis, including:

1. the possibility and cost of switching to alternative technologies or products, for a trade counterparty;
2. whether downstream markets rely on the supply of products implementing the IP; and
3. the ability for a trade counterparty to constrain the IP holder.

- **Article 15 ("Licensing at Unfairly High Prices")** provides a non-exhaustive list of factors that may be considered to determine whether an undertaking at a dominant market position has licensed its IP at an unfairly high price, including:

1. the calculation of license fees and the price of the relevant products relative to the value of the licensed IP;

2. the IP holder’s commitments in relation to the license;
3. the licensing history or comparable license fee standards;
4. the license terms including charging license fees beyond the scope of relevant geographic areas or products; and
5. in portfolio licensing contents, whether fees are charged on expired or invalid IP.

- **Article 16 (“Refusal to License”)** recognizes that an IP holder normally has no duty to license to its competitor or trade counterparty, but cautions that without valid justifications, the refusal to license may constitute abuse of dominance by an undertaking with a dominant market position. The following six factors may be considered in the analysis:

1. the IP holder’s commitments in relation to the license;
2. whether a license of the IP is essential for others to enter the relevant market;
3. the effects of the refusal to license on market competition and innovation;
4. whether the party being refused is unwilling or cannot pay reasonable royalties;
5. whether the party being refused had received a prior reasonable offer from the IP holder; and
6. whether the refusal will harm the interests of consumers and the public.

- **Article 17 (“Tie-in Sales Involving IP”)** cautions that portfolio licensing may constitute tying, and provides that without valid justifications, the license or transfer of IP *conditioned on* the license or transfer of different IP or on the acceptance of another good may constitute abuse of dominance by an undertaking with a dominant market position. The following six factors may be considered in the analysis—whether the tie-in:

1. is against the will of the trade counterparty;
2. is in accordance with usual trade practices or consumption habits;
3. ignores the differences and relations between the tying and tied IP rights or products;
4. is reasonable and necessary, for instance, to achieve technical compatibility, product safety, and product functionality;
5. eliminates or restricts trade opportunities of other undertakings; and
6. restricts consumer choices.

- **Article 18 (“Imposing Unreasonable Trade Conditions Involving IP”)** lists six kinds of trade conditions which may eliminate or restrict competition if imposed without valid justifications by an undertaking with a dominant market position in connection with an IP-related transaction:

1. requiring a grantback exclusive to a licensor or its designated third party (and licensee);
2. prohibiting a trade counterparty from challenging the validity of the IP or bringing IP infringement lawsuits against it;
3. prohibiting a trade counterparty from implementing its own IP rights, or from utilizing, researching, or developing competing technologies or products;
4. asserting IP rights that have expired or have been declared invalid;
5. requiring a trade counterparty to cross license without reasonable consideration; and
6. requiring a trade counterparty to deal or to not deal with a third party, or restricting the trade conditions between the trade counterparty and a third party.

- **Article 19 ("Discriminatory Treatment Involving IP")** provides that without valid justifications, discriminatory treatment in IP-related transactions by an undertaking with a dominant market position may constitute abuse of dominance. The SAMR may consider the following three factors—whether:

  1. the licensee subject to discrimination has substantially the same positions as other licensees, for instance, utilizing the IP within the same scope, or providing IP-implementing products that are substitutes to each other;
  2. the licensing terms (such as quantity, territory, and duration of the license) are substantially different, considering the license agreement as well as any other commercial arrangements between the licensor and licensee that might affect their licensing terms; and
  3. the discrimination adversely affects the licensee's participation in competition in the market.

D. Chapter IV: Provisions on Mergers & Acquisitions Involving IP Rights (Articles 20-25)

Chapter IV addresses issues related to SAMR's review of merger and acquisitions involving IP, including by describing the circumstances where IP may be involved, the SAMR's review, and the types of remedies available, including structural and behavioral remedies.

- **Article 20 ("Circumstances Where IP-Related Transactions May Constitute Concentration of Undertakings")** provides that an IP-related transaction may constitute a concentration of undertakings (e., mergers and acquisitions subject to SAMR's antitrust review). The SAMR's analysis considers:

  1. whether the IP constitutes a stand-alone business;
  2. whether the IP has generated independent and calculable turnover in the preceding accounting year; and
  3. how the IP is licensed and for what duration.

- **Article 21 ("Review of IP-Related Concentration of Undertakings")** provides that for transactions in which IP is a substantial or significant component, the SAMR's review will consider the factors in Article 27 of the AML (as applicable to any other transactions) as well as the characteristics of the IP. Article 27 of the AML provides a non-exhaustive list of factors that SAMR may consider in its merger review, including parties' market shares, the degree of concentration in the relevant market, and effects on price, output, and innovation.
- **Article 22 ("Categories of Restrictive Conditions Involving IP")** provides that as with other types of transactions, the SAMR can impose remedies on IP-related transactions, including structural remedies, behavioral remedies, or a combination.
- **Article 23 ("Structural Conditions Involving IP")** provides that in order to resolve antitrust concerns, an undertaking can offer to divest an IP right or an IP-related business, and that such divestiture should be effective, feasible, and timely, and ensure that the divestiture buyer has the necessary resources, capabilities, and willingness to implement the IP or operate the business and compete in the market.
- **Article 24 ("Behavioral Conditions Involving IP")** provides that to resolve antitrust concerns the behavioral remedies for an IP-related transaction may include the following:

  1. requiring an IP license;
  2. maintaining the independent operation of an IP-related business and conditions for its effective participation in the market for a certain period;
  3. imposing conditions on an IP license such as an obligation to license under fair, reasonable, and non-discriminatory (FRAND) terms and to not make tie-in sales; and
  4. charging reasonable license fees and providing detailed explanation for the calculation of fees, the required payment method, and the conditions and opportunities for fair negotiations, etc.

- **Article 25 ("Comprehensive Conditions Involving IP")** provides that an undertaking can offer a combination of structural and behavioral remedies that involve IP rights.

E. Chapter V: Special Issues Involving IP Rights (Articles 26-28)

Chapter V addresses several additional hot issues, including patent pools, standard essential patents, and the collective administration of copyrights.

- **Article 26 ("Patent Pools")** acknowledges that patent pools can generally save costs, increase efficiencies, and facilitate competition, and provides six factors that may be considered in analyzing whether they eliminate or restrict competition:

  1. the undertakings' market shares and market power in relevant markets;
  2. whether the patents in the pool involve substitutable technologies;
  3. whether a party to the patent pool can individually license its patents in the pool or individually research and develop relevant technologies;
  4. whether, via the patent pool, the IP owners exchange competitively sensitive information (such as the price and volume of relevant products);
  5. whether, via the patent pool, the IP owners impose restrictions on licensees (such as cross license, grantbacks, no-challenge clauses); and
  6. whether, via the patent pool, the IP owners charge unfairly high prices for the license or transfer, impose unreasonable trade conditions, or discriminate among trade counterparties.

- **Article 27 ("Special Issues Involved in Standard Essential Patents (SEPs)")** addresses two main issues relevant to SEPs—1) how to determine a SEP holder's market position; and 2) how to determine whether an SEP holder may have abused its dominance by seeking injunctive relief.

- Article 27 provides that when determining whether an SEP holder has a dominant market position, Article 14 of these IP Guidelines will apply, and there are five additional factors that may be considered:

  1. the market value as well as the scope and extent of the standard's application;
  2. the existence of a substitute standard or technology, considering the possibility and cost of switching to such a substitute standard or technology;
  3. the industry's reliance on the relevant standard;
  4. the evolution and compatibility of the relevant standard; and
  5. the possibility of replacing the relevant technologies as incorporated in the standard.

- Article 27 provides that an SEP owner may be abusing its dominance by seeking injunctive relief from a court or relevant authority to force its licensee to accept an unfairly high price or other unreasonable trade conditions. The analysis may consider five factors:

  1. the conduct and real intention of parties, as revealed through the course of their negotiations;
  2. the commitments encumbering the SEPs;
  3. the license terms proposed by the parties in the course of negotiations;
  4. the effects caused by the SEP owner's request for injunctive relief on the license negotiations; and
  5. the effects caused by the SEP owner's request for injunctive relief on competition in downstream markets and on consumer interests.

- **Article 28 ("Collective Administration of Copyrights")**, provides that collective administration of copyrights can generally promote copyrights and reduce costs, and the relevant analysis should consider the characteristics and the specific conduct.

Key Takeaways

The overall approach of the IP Guidelines is softened compared to earlier draft guidelines (published in 2017) recognize that certain conduct or transactions can be either pro-competitive or anticompetitive. The extensive lists of relevant factors that SAMR considers are likely to promote a more comprehensive analysis of IP-related antitrust issues, much like to the rule of reason analysis under U.S. antitrust law. Among the most notable provisions are Article 13's safe-harbor rules for certain IP agreements, which may provide businesses with welcome clarity and predictability concerning enforcement efforts.

However, uncertainties remain as the factors set forth in many of the Articles of the IP Guidelines are not mandatory considerations for the SAMR's analysis—i.e., the SAMR "may," not "must," consider them—leaving significant discretion in enforcement to the SAMR. Additionally, in some instances the definitions supplied by the SAMR deviate from language commonly used by other jurisdictions in similar guidelines thus creating unnecessary confusion by. [8] As additional enforcement and litigation is anticipated in this area, parties should seek guidance from experienced counsel paying close attention to relevant developments.

While the above contains only a general overview of the new IP Guidelines, we welcome you to contact us directly if you would like further information or assistance with respect to this subject. Winston works closely with the attorneys at the firm's strategic alliance partner, YuandaWinston, who are qualified to practice PRC law and provide comprehensive legal services across the full range of PRC antitrust and competition matters under China's anti-monopoly law, including representing clients in connection with antitrust investigations as well as antitrust issues arising in the context of licensing, joint development, pooling arrangements, and intellectual property disputes.

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[1] Guowuyuan Fanlongduan Guanyu Zhishi Chanquan Lingyu de Fanlongduan Zhinan (国务院反垄断委员会关于知识产权领域的反垄断指南 (2019年1月4日)) [State Council Anti-Monopoly Committee Anti-Monopoly Guidelines in the Field of Intellectual Property Rights] (promulgated by the AMC, Jan. 4, 2019). The guidelines were adopted by China's State Council Anti-Monopoly Commission (AMC) on January 4, 2019, effective now, and became publicized when the SAMR published them as part of a book (the "2019 Compilation"), which is currently only available in hard copy and only in Chinese text. 2019 Nian Fanlongduan Guizhang he Zhinan Huibian (2019年反垄断规章和指南汇编) [2019 Compilation of Anti-Monopoly Regulations and Guidelines] (2020) [hereinafter 2019 Compilation]. The IP Guidelines are in the 2019 Compilation at 30-42.

[2] Guowuyuan Fanlongduan Weiyuanhui Guanyu Qicheye de Fanlongduan Zhinan (国务院反垄断委员会关于汽车业的反垄断指南 (2019年1月4日)) [State Council Anti-Monopoly Committee Anti-Monopoly Guidelines for Automobile Industry] (promulgated by the AMC, Jan. 4, 2019), *in* 2019 Compilation, at 3-18.

[3] Guowuyuan Fanlongduan Weiyuanhui Hengxiang Longduan Xieyi Anjian Kuanda Zhidu Shiyong Zhinan (国务院反垄断委员会横向垄断协议案件宽大制度适用指南 (2019年1月4日)) [State Council Anti-Monopoly Committee Guidelines for Applying Leniency Program to Horizontal Monopoly Agreements] (promulgated by the AMC, Jan. 4, 2019), *in* 2019 Compilation, at 19-24.

[4] Guowuyuan Fanlongduan Weiyuanhui Longduan Anjian Jingyingzhe Chengnuo Zhinan (国务院反垄断委员会垄断案件经营者承诺指南 (2019年1月4日)) [State Council Anti-Monopoly Committee Guidelines for Undertakings' Commitments in Anti-Monopoly Cases] (promulgated by the AMC, Jan. 4, 2019), *in* 2019 Compilation, at 25-29.

[5] State Admin. for Mkt. Regulation, Guanyu Zhishi Chanquan Lingyu de Fanlongduan Zhinan Jiedu (《关于知识产权领域的反垄断指南》解读) [Interpretation of the Anti-Monopoly Guidelines in the Field of Intellectual Property Rights], *in* 2019 Compilation, at 100-107.

[6] Article 13 of the AML provides that "Competing undertakings are prohibited from concluding the following monopoly agreements: … (6) other monopoly agreements confirmed as such by the authority for enforcement of the Anti-monopoly Law under the State Council."

[7] Article 14 of the AML provides that "Undertakings are prohibited from concluding the following monopoly agreements with their trading counterparts: … (3) other monopoly agreements confirmed as such by the authority for enforcement of the Anti-monopoly Law under the State Council."

[8] For instance, Article 9 of the Guidelines defines two kinds of grantbacks (Pai Ta Xing vs. Du Zhan Xing), while as a comparison, the U.S. DOJ's IP Guidelines only speaks of exclusive and non-exclusive grantbacks. *See* Dep't of Justice, Antitrust Guidelines for the Licensing of Intellectual Property (Jan. 12, 2017), Article 5.6, available at https://www.justice.gov/atr/IPguidelines/download.

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