

SAIC enacts IPR abuse regulation

On 13 April 2015, the State Administration for Industry and Commerce ("**SAIC**") released the [Regulation on the Prohibition of Conduct Eliminating or Restricting Competition by Abusing Intellectual Property Rights](#) ("**SAIC IPR Abuse Regulation**"). The regulation is dated 7 April, and will enter into force on 1 August 2015.

The SAIC IPR Abuse Regulation implements the high-level principle in the Anti-Monopoly Law ("**AML**") that the law does not apply to the lawful exercise of intellectual property rights ("**IPRs**"), but does apply to anti-competitive IPR abuses. This principle is intended to achieve the goals of promoting competition and innovation and protecting consumers and the public interest.

The SAIC IPR Abuse Regulation is the first attempt by a Chinese authority to provide a comprehensive set of rules for the enforcement of the AML in the IPR field, and it gives some guidance on what conduct will violate the AML in the context of exercising one's IPR. However, the regulation does not bring about any ground-breaking changes as compared to the current state of law and practice.

Antitrust regulation of IPRs

The SAIC IPR Abuse Regulation's aim – to limit the anti-competitive exercise of IPRs – is not unique in the world. The [Antitrust Guidelines for the Licensing of Intellectual Property](#) by the US antitrust authorities and the European Commission's [Technology Transfer Block Exemption Regulation and guidelines](#) pursue the same goal.

Even within China, antitrust restrictions on the exercise of IPRs are not a new phenomenon. Implementing rules of the Contract Law and the Foreign Trade Law contain similar restrictions, and the two other antitrust authorities apart from SAIC – the National Development and Reform Commission ("**NDRC**") and the Ministry of Commerce ("**MOFCOM**") – have developed case

practices limiting the use of IPRs on the basis of AML provisions.

Regulation's coverage

The SAIC IPR Abuse Regulation has 19 articles. The regulation's key guidance is on how the AML's abuse of dominance prohibition applies to the IPR field. Some of the guidance is generally applicable to the exercise of IPRs: refusal to license; exclusive dealing; tying; imposition of unreasonable conditions; and discriminatory treatment, none of which is surprising in the general context of the AML.

Another part of the regulation looks at certain types of IPRs and specific situations, such as patent pools and patent standard setting and implementation. The regulation also establishes SAIC's jurisdiction to investigate IPR-related AML violations, and provides general guidance on how a violation is determined and restates the AML's penalties for such a violation – 1% to 10% of the perpetrator's annual revenues.

The key provisions of the SAIC IPR Abuse Regulation are briefly set out below.

Licensing clauses

The SAIC IPR Abuse Regulation imposes a series of general restrictions on IPR holders – to the extent they have a dominant position – in their licensing activities.

Although the regulation confirms that the ownership of an IPR does not necessarily mean dominance, it also makes clear that an IPR's nature as a legally authorized "monopoly" over a technology or product is an important factor in determining dominance. As a result, companies should either make a detailed analysis of whether their respective IPR confers market power leading to dominance or proceed on the assumption they have a dominant position.

If the risk of dominance cannot be excluded, certain conduct in the licensing context will become more risky

www.hoganlovells.com

"Hogan Lovells" or the "firm" is an international legal practice that includes Hogan Lovells International LLP, Hogan Lovells US LLP and their affiliated businesses.

The word "partner" is used to describe a partner or member of Hogan Lovells International LLP, Hogan Lovells US LLP or any of their affiliated entities or any employee or consultant with equivalent standing. Certain individuals, who are designated as partners, but who are not members of Hogan Lovells International LLP, do not hold qualifications equivalent to members.

For more information about Hogan Lovells, see www.hoganlovells.com.

Where case studies are included, results achieved do not guarantee similar outcomes for other clients. Attorney Advertising.

© Hogan Lovells 2015. All rights reserved.

in view of the regulations and more aggressive antitrust enforcement by the authorities. Beyond the more general principles such as the prohibitions of tying or discriminatory treatment contained in other articles, Article 10 lists a number of types of licensing conditions that dominant licensors cannot insert in agreements absent valid reasons – for example, exclusive grant-backs to improved technology, no-challenge clauses, non-compete clauses, etc.

Refusal to license

One article of the SAIC IPR Abuse Regulation that has been subject to intense discussions is the "refusal to license" clause. According to Article 7, the holder of an IPR that is an "essential facility" must agree to license under reasonable conditions.

The regulation also lists a few "factors" to be considered in a refusal to license assessment, which may limit the scope of application of the clause:

- the IPR must be indispensable for the licensee to compete in the market;
- the refusal to license must have a negative impact on competition or innovation; and
- the license does not cause unreasonable harm to the licensor.

It is likely that Article 7 follows European Union ("EU") antitrust law, without however taking on board an additional qualifying factor usually present there – namely, that the licensee use the licensed IPR to bring a "new product" to the market, rather than copying the licensor's existing product.

Patent standard setting and implementation

Another of the most controversial provisions in the SAIC IPR Abuse Regulation is Article 13, which attempts to regulate patent standard setting and implementation. This provision starts with the general principle that IPRs should not be used to anti-competitive ends during the setting and implementation of standards. Then, the provision continues with more detailed prohibitions of (1) patent assertions after failing to disclose patents in the standard-setting phase and (2) violations of the fair, reasonable and non-discriminatory ("**FRAND**") principle during licensing activities in the standard implementation phase.

The first prohibition must be analyzed against the background of the recent announcements by the State Council to transition standard setting from an essentially government-driven to a more market-driven process. With this provision in the SAIC IPR Abuse Regulation, SAIC has signaled that it intends to play a role in the antitrust scrutiny of the standard-setting process. Apart from the SAIC IPR Abuse Regulation, the process of revising the Patent Law may lead to further rules in this area: the current draft provides that a failure to disclose a standard essential patent during the standard-setting process is deemed as the grant of a license to that patent.

The second prohibition throws SAIC right into the middle of one of the most contentious issues surrounding the antitrust and IPR debate – namely, the obligation to license standard essential patents under FRAND terms. The regulation's broad definition of "standard essential patents" may potentially impose FRAND obligations on various types of patents, including *de facto* standard essential patents – that is, patents indispensable for technologies that have in practice become industry standards, rather than as a result of a formal selection process within a standard-setting organization.

Takeaways

The SAIC IPR Abuse Regulation is the first comprehensive antitrust regulation in the IPR field in China. Nonetheless, some of its rules are already featured in existing laws and regulations in a less systematic way – in particular, the implementing provisions of the Contract Law and the Foreign Trade Law – or have been developed through court judgments and authority case practice – such as the *Huawei v. InterDigital* judgments or NDRC's decision in the *Qualcomm* case.

Perhaps the biggest impact of the SAIC IPR Abuse Regulation is that, through it, SAIC signals that it is "up for business," ready to take on alleged IPR abuse cases, in addition to NDRC, MOFCOM and the courts.

To the extent that companies had not checked consistency of their licensing agreements and practices with prior Chinese antitrust rules, the issuance of the SAIC IPR Abuse Regulation provides the opportunity to do so now, in particular if they cannot exclude the possibility that they have a dominant position.

If you would like to obtain a copy of our inhouse translation of the SAIC IPR Abuse Regulation, please contact Sammi Wang at sammi.wang@hoganlovells.com.

Contacts

Adrian Emch

Partner, Beijing

adrian.emch@hoganlovells.com

+86 10 6582 9510

William (Skip) Fisher

Partner, Shanghai

william.fisher@hoganlovells.com

+86 21 6122 3850

Breed Logan

Partner, Washington DC

breed.logan@hoganlovells.com

+1 202 637 6407

Christopher Thomas

Partner, Brussels

christopher.thomas@hoganlovells.com

+32 2 505 0929