

China's IP Abuse Rule: Another approach to protecting the public domain'

[Draft]

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By Dr George Tian*

1. Introduction

In the current IP expansion environment, the laws on IP abuse prevention and technology transfer are playing an increasingly important role in striking a sound balance between IP protection and fair completion, and ensuring that the activities of IPR holders will not jeopardize the public domain and consumer rights. The laws on IP abuse prevention and technology transfer are not new legal terms. In 1994, *the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement)*, as one of most important international IP treaties, has set preventing the 'abuse of Intellectual Property Rights' and enhancing 'international technology transfer' as one of its key principles.¹ The *TRIPS Agreement* explicitly provides that the World Trade Organization (WTO) member states may adopt any appropriate measures to prevent the 'abuse of IPRs' and any conducts that unreasonably restrains trade or the transfer of technology internationally.² China is an important member of the WTO with nearly one-quarter of the world's population. It has become one of the fastest growing economies in the world.³ China's GDP rose to \$7.8 trillion in 2008, and its economy has become the 'second-largest economy in the world after the U.S.' - measured on a purchasing power parity (PPP) basis.⁴ Any international IP commercialization, anti-monopoly or IP abuse prevention strategy cannot afford to simply ignore a nation with such a market. However, until now, few studies have been done to the Chinese legislative regime on IP abuse, and its impacts on enhancing technology transfer and defending public domain.

This paper will focus on the recent development of the Chinese IP abuse legislation and its potential impacts on IP protection and technology transfer in China. Firstly, it will provide a brief overview of the interrelation between IPRs and public domain, and the necessity of examining the laws on IP abuses and technology transfer. It will next briefly examine the TRIPS requirement concerning IPR abuse and technology transfer, and the recent development of IP abuse laws at domestic levels, particularly in the US and the EC, will be given. The paper will then examine the recent development of the Chinese laws regarding technology transfer and IP abuse prevention, including both the recently enacted Anti-Monopoly Law 2008 (AML) and other regulations. Specifically, the ways in which IP-related provisions in the Chinese Anti-monopoly law 2008 balance the interests of different stakeholders, and facilitate technology transfer from developed nations to developing nations, will be discussed. Recent antitrust lawsuits, including the antimonopoly investigation against Microsoft in China, will also be examined. Finally, this paper will argue that rules preventing IP abuse and antitrust laws may serve as a supplement to current public rights measures (such as fair use and fair dealing doctrine and the open source movement), to enhance the public domain, consumer interests and fair competition.

2. IPR, Public Domain and IP Abuse laws

Public domain and its interrelation with IPR protection have become a hot topic in the legal debates for many years. Professor Caenegem in his article 'the Public Domain: Scientia Nullius' made a sound and brief summary of roles of knowledge, IP and public domain, and stated:

* Dr George Yijun Tian is a current Lecturer at the University of Technology Sydney Law School and a Member of the China Law Research Group and the IP, Media & Communication Research Network at the Faculty. He is also a Postdoctoral Research Fellow of the Cyberspace Law and Policy Center at the University of New South Wales (UNSW) Law School, and Research Fellow of the Centre for IP Law at the China University of Political Science and Law.

¹ See the *TRIPS Agreement*, Arts 7-8.

² See the *TRIPS Agreement*, Art 8.2.

³ Jones, Paul. "Licensing in China: The New Anti-Monopoly Law, The Abuse of IP Rights and Trade Tensions," *XLIII (2) les Nouvelles: Journal of the Licensing Executives Society International* 106 (June, 2008) (stating that the AML is widely described by Chinese officials and academics as China's "Economic Constitution").

⁴ CIA. (5 March 2009). China. *The World Factbook*, at <https://www.cia.gov/library/publications/the-world-factbook/print/ch.html> at 10 March 2009.

... the subject-matter of *intellectual property law* is *knowledge* in its various forms. It is suggested that the essence of *intellectual property law* is not to determine which *knowledge* is available for appropriation, but to identify which *knowledge* cannot be appropriated. From this perspective, the notion of the "*public domain*" in fact operates to deny claims to control certain forms of human knowledge...⁵

Although it is common to think of information resources fall into two binary opposite categories - either IP-protected or public domain, and either accessible to the public or not, the reality is much more complex than that.⁶ So far, there is no single definition on the public domain. In 2006, UC Berkley Law Professor Pamela Samuelson summarized and examined thirteen conceptions of the public domain that she found in various law reviews, and concluded that the public domain literature views the concepts of IPR and public domain 'not as binary opposites, but rather as points along a continuum'.⁷

Indeed, the expansion of the scope of IPRs may not automatically result in the shrinking of the public domain. As we know, IP law was designed to allow IPR holders to exclusively commercializing IPRs for a period of time, so that they can justify and recoup 'their often substantial investment in research and development' of their products or services.⁸ In doing so, stimulate their incentives to make further innovation. The greater incentive will arguably create the greater volume of intangible goods. Consequently, more intangible goods will immediately or eventually spill into the public domain, and result in the expansion of the extent/scope of the public domain.⁹ For examples, in the short term, the ideas in a copyright work and the technological information in the patent specification are immediately available for the public and other creators to make further creation and innovation. In the long term, when the term of the IPRs runs out, all intangible goods will eventually fall into the public domain and available for the public. As Professor Caenegem pointed out, 'determining the ideal size of a "healthy" public domain, and by inference, the scope of IPRs, is a conceptually, analytically and empirically challenging task', and 'there is no simple linear relationship between the scope of IPRs and the size of the public domain'.¹⁰

Thus, instead of being involved in the discourse on how to draw a clear line between the public domain and IPR, this paper will focus on how to use existing legal instruments to restrict the activities/conducts of IPR/information holders in abusing IPR to jeopardize public domain and consumer rights, such as monopolistic activities and misuse of technology transfer licensing arrangements.

3. Requirement under *TRIPS* & Major Forms of IP Abuses

The 'abuse of Intellectual Property' is not a new terminology. It can be found in the *TRIPS Agreement 1994*. The *TRIPS* has been the most significant development in the international IP arena in the twentieth century and an 'ineluctable consequence of increased global economic interdependence'.¹¹ It is often deemed a compromise between developing and developed nations in international trade negotiation. Developing nations promise to provide strong IP protection to foreign IP products. In return, developed nations promise to provide concessions to developing nations in labour-intensive industries.¹²

In response to development concerns, Articles 7 and 8 of the *TRIPS* lay down the important principles and objectives of the Agreement. Article 7 requires that the protection and enforcement of IPRs should 'contribute to the *promotion of technological innovation* and to *the transfer and dissemination of technology*', the

⁵ Caenegem, William Van. 'the Public Domain: Scientia Nullius' in 3 *European Intellectual Property Review* 2002, 24(6), 324-330, 324.

⁶ Samuelson, Pamela. 'Lecture: Enriching Discourse on Public Domains' in 55 *Duke Law Journal* 783 (2006), 785.

⁷ Samuelson, Pamela. 'Lecture: Enriching Discourse on Public Domains' in 55 *Duke Law Journal* 783 (2006), 785.

⁸ James F. Rill & Mark C. Schechter, 'International Antitrust and Intellectual Property Harmonization of the Interface' in 34 *Law and Policy in International Business* 783, Summer 2003, at 783.

⁹ Caenegem, William Van. 'Scientia Nullius', 325.

¹⁰ Caenegem, William Van. 'Scientia Nullius', 325.

¹¹ See Okediji, Ruth L. 'Back to Bilateralism? Pendulum Swings in International Intellectual Property Protection' (2003-2004) 1 *University of Ottawa Law & Technology Journal* 125, 127. Many commentators regarded the *TRIPS Agreement* as 'the highest expression to date of binding IP law in the international arena'. See Lovoi, Jeanmarie, 'Note: Competing Interests: Anti-Piracy Efforts Triumph Under *TRIPS* But New Copying Technology Undermines The Success' (1999) 25 *Brooklyn Journal of International Law* 445, 461.

¹² See Schiappacasse, Mikhaelle. 'Intellectual Property Rights in China: Technology Transfers and Economic Development' (2004) 2 *Buffalo Intellectual Property Law Journal* 164, 171.

enhancement of 'social and economic welfare', as well as a sound balance of rights and obligations of producers and users of technological knowledge.¹³ Moreover, Article 8 of the *TRIPS* explicitly provides:

Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the *abuse of intellectual property rights* by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international *transfer of technology*.

It is clear that this article allows member states to adopt any measures they think appropriate to prohibit IPR abuse and any other conduct that may unreasonably restrain trade or international technology transfer.¹⁴ As a United Nations study has pointed out, this article to a large extent reflects the view of many developing countries, such as India, during the Uruguay Round negotiations, that a 'main objective of *TRIPS* should be to provide mechanisms to *restrain competitive abuses* brought about by reliance on *IPR protection*'.¹⁵

This may be the first time that the term 'abuse of Intellectual Property Rights' appears in an international agreement. It is also the first time that the international community put 'IP abuse', 'innovation promotion', 'anti-competition' and 'technology transfer' issues altogether in one international document.

The *TRIPS Agreement* also includes specific provisions on anti-competitive matters. For instance, Article 31 specified the conditions for compulsory licensing of patents as parts of measures to remedy anticompetitive practices. Moreover, *TRIPS* includes a special section on the 'control of anti-competitive practices in contractual licences', which focuses on anticompetitive licensing practices and conditions that restrain trade.¹⁶ Article 40 of *TRIPS* imposes an obligation on member states to act on 'licensing practices or conditions pertaining to IPRs, which restrain competition' if they 'have adverse effects on trade and may impede the transfer and dissemination of technology'.¹⁷

It is clear that these provisions have a narrower scope of application than Article 8. They contain rules which, with have regard to only some of the conduct of IPR-holders that is listed in Article 8, and may establish obligations on member states that are not mandated by Article 8. As some commentators have observed, the *TRIPS Agreement* has not placed significant limitations on the authority of WTO member states to 'take steps to control anticompetitive practices'.¹⁸ For example, the *TRIPS Agreement* does not limit the remedial measures that each member state may impose. In addition to 'compulsory licensing', member states may apply other remedies against antitrust infringement, such as injunction, damages and fines.¹⁹ Since the *TRIPS Agreement* only sets up general principles for dealing with IP abuse, anticompetitive activities and technology transfer issues, it mainly relies on members' states themselves to make specific law and policies to 'define the concept of abuses through appropriate domestic measures'²⁰ and to regulate the activities of IPR holders when commercializing their IP products/services.

It is clear that the scope of IP abuse under Article 8 of the *TRIPS Agreement* is very broad. As the *United Nations TRIPS and Development Resources Book* has recognised, member states may consider conduct of IPR holders to be abusive 'regardless of whether the enterprise in question dominates the market or not, and regardless of whether there is an anticompetitive use or simply a use of an IPR which defeats its purpose, e.g., the purpose of innovation or of dissemination of technology'.²¹ In the other words, it is not limited to prohibitions under the antitrust law (i.e. abuse of dominant market position), but may cover any 'illegitimate use of IP' which is 'contrary to the basis and/or the objectives of IPR protection'.²² There are various types of IP abuse, such as using IP lawsuits as a tool against competitors, using IP licensing agreements against new entrants to the market, and using contract law to expand the scope or term of IPR protection.²³ However, most

¹³ See *TRIPS Agreement*, Art 7.

¹⁴ See *TRIPS Agreement*, Art 8.2.

¹⁵ UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, at page 127 at <http://www.iprsonline.org/unctadictsd/ResourceBookIndex.htm> at 16 December 2008

¹⁶ *TRIPS Agreement*, Sec 8, Art 40.

¹⁷ *TRIPS Agreement*, Sec 8, Art 40.1. See also *TRIPS Resource Book*, at 554.

¹⁸ UNCTAD-ICTSD, *Resource Book*, above n 15, 128.

¹⁹ Frederick M. Abbott, *Are the Competition Rules in the WTO TRIPS Agreement Adequate?*, 7 *J Int'l Econ. L* No. 3, 2004, at 693.

²⁰ UNCTAD-ICTSD, *Resource Book*, above n 15, 548.

²¹ *Ibid.*

²² *Ibid.*

²³ Gilbert, Richard & Shapiro, Carl. 'Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties' at <http://faculty.haas.berkeley.edu/shapiro/ninenono.pdf> at 10 December 2008, 307-332.(summarized some anti-competitive licensing practices)

existing legislation and legal guidelines mainly focuses on restraints of IP licensing arrangements, and technology transfer issues.

Although it is the idea of developing countries' to include provisions for prohibiting IPR abuse and promoting technology transfer as part of the objectives and principles of *TRIPS*,²⁴ regulators in most developing countries have not developed sophisticated laws and policies to enforce antitrust law in IP areas. In fact, some countries, such as China, have only set up their antitrust laws recently. By contrast, in developed countries, particularly in the US and the EU, sophisticated laws and policies on coordinating the relationship between IP and antitrust laws and enhancing technology transfer have developed over the past two decades.

For example, in Europe, the Europe Commission (EC) issued its first united *Technology Transfer Block Exemption Regulation – Commission Regulation 240/1996* ('*TTBER 1996*') – in 1996 which provide a general guideline on how to apply anti-competition provisions of the *Treaty of Rome* to certain categories of technology transfer agreements.²⁵ The EC conducted a regulatory review on the application effects of the *TTBER 1996* and enacted its New *Technology Transfer Block Exemption Regulation* ('*TTBER 2004*') – *Commission Regulation 123/2004* – in April 2004,²⁶ in order to simplify the *TTBER 1996* and to improve the certainty of application of IP licensing agreements. In the US, the U.S. Department of Justice (DOJ) issued a "watch list" for prohibiting anticompetitive restraints in patent licensing agreements in the 1970s.²⁷ Moreover, in April 1995, the DOJ and the Federal Trade Commission (FTC) enacted a jointed document *Antitrust Guidelines for the Licensing of Intellectual Property* (the Guidelines 1995), which provides some general approaches (such as Rule of Reason Approach) and principles for determining IP-related monopolistic activities.²⁸ In 2007, the DOJ and FTC issued a more detailed document - *Antitrust Enforcement & IPRs: Promoting Innovation and Competition* (hereinafter '*the Report 2007*') in order to facilitate the understanding and application of the 1995 Guidelines and to improve the degree of certainty involved in IP licensing arrangements.

The legislative experiences of the US and EC are arguably very valuable for developing countries that do not have sophisticated legal experiences in enforcing antitrust laws in IPR areas, such as China. Thus, when examining the development of the Chinese IP abuse and technology transfer laws, it is necessary to compare with the existing IP licensing and technology transfer regulations in the EC and the US.

4. Chinese Legal Regimes on Technology Transfer and IP Abuses

As noted above, China is the second-largest economy in the world and has nearly one-quarter of the world's population. China, as a new rising economy, does not need to worry about the issue – 'locked by old technology'. Thus, any international enterprises, particularly technology-driving companies, cannot afford to simply ignore a nation with such a big market.

China, like a number of other nations with high technological potential, fully understands the significance of the importance of self-innovation/indigenous-innovation ability in sustainable economic growth. Over the past decades, China has been successful in using preferential economy policy to enhance the import of foreign technology, to build up its indigenous innovation capability, and to achieve the rapid progress of science. For example, using its huge domestic market as an enticement, China often demands the sharing of technology from companies intending to enter the Chinese market.²⁹ In 2005, after signing a 150 aircrafts order, AirBus 380,

²⁴ UNCTAD-ICTSD, *Resource Book*, above n 15, 543 (introducing negotiation history of article 8).

²⁵ *Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article 85(3) of the Treaty to certain categories of technology transfer agreements* (OJ L 31, 9.2.1996, p. 2), (*TTBER 1996*).

²⁶ See *European Union's new Technology Transfer Block Exemption Regulation* ("TTBER 2004") (*Commission Regulation (EC) No. 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements*, OJ No. 123, 27.04.2004) OJ L 123, 27.4.2004, at 11-17. <http://europa.eu/scadplus/leg/en/lvb/l26108.htm> The *TTBER 2004* replaces *Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article 85(3) of the Treaty to certain categories of technology transfer agreements* (OJ L 31, 9.2.1996, p. 2).

²⁷ See Robert C. Lind, Anya V. Klymenova, Marie Miauton and Paul Muysert., *Report on Multiparty Licensing*, Charles River Associates Ltd. 22 April, 2003, at page 23.

²⁸ U.S. Department of Justice (DOJ) & the Federal Trade Commission (FTC), *Antitrust Guidelines for the Licensing of Intellectual Property*, April 6, 1995, at <http://www.usdoj.gov/atr/public/guidelines/0558.htm> at 10 December 2008.

²⁹ See generally Gantz & Rochester, above n 144, 235-6 (noting that "[i]t doesn't need their capital... but demands their knowledge in return for the right to operate in China').

France, agreed to set up an A320 assembly plant in China - its 'first such factory outside Europe'.³⁰ As a more recent example, in March 2009, after securing five of the last six contracts on the high speed rail market (the last one worth €750 million/\$1 billion), Siemen, German, announce that 'the trains would be assembled in China from parts made in German, Austrian and Chinese factories run by Siemens'.³¹

At the legislative level, after China entered the WTO in 2001 it sped up its efforts to become a part of the international IPR community, and enacted a number of laws and other regulations on technology transfer, anti-competition and IP abuse prevention. In particular, the last 12 months have seen China enact its first antitrust law - *Anti-Monopoly Law 2008 (AML)*. In line with the requirements of Article 8 of the *TRIPS Agreement*, the AML includes a special article on IP protection and IP abuse prevention (Article 55). It is the first time that China has explicitly included the term - 'the abuse of intellectual property rights' - in its domestic law. The paper will next have an overview of the Chinese legislative regime on IP abuse, and its impacts on enhancing technology transfer and defending public domain. Both the AML and non-AML laws and regulations on technology transfer and IP abuses will be examined.

General speaking, provisions focussed on IP abuse could be found in five groups of laws and regulations. These are contract law, foreign trade law, anti-unfair competition law, intellectual property law (particularly patent law), and antimonopoly law.³²

The legal group of laws involve the laws on contract. The *Contract Law 1999* contained some specific provisions on IP abuse caused by technology/technology transfer contracts. It explicitly provided that any technology contract, which 'illegally monopolizes technology, impairs technological progress/advancement or infringes on the technology of a third party, would be invalid'.³³ It further provided that the scope of the patent exploration or the use of the technical secret by the transferor and the transferee, which is set forth in technology transfer contracts, should not 'restrict technological competition and technological development'.³⁴ The *Contract Law 1999* arguably reflected the concerns on IP abuse caused by technology contracts, but it was too general and has not provided specific provision or standards for determining whether a technological contract has 'illegally monopolized technology or impaired technological progress'. Six years later, in the *Interpretation of the Supreme People's Court Concerning Some Issues on Application of Law for the Trial of Cases on Disputes over Technology Contracts*, which came into force in January 2005 (hereinafter the 'Interpretation 2005'),³⁵ the Supreme People's Court listed six specific circumstances/situations which would be deemed as 'illegally monopolizing technology and impairing technological progress' in Article 329 of the *Contract Law 1999*, including: (1) restricting one party from making new research and development on the basis of the contractual subject technology; (2) restricting one party from obtaining similar technology from competitors of the technology provider in the contract; (3) restricting the technology acceptor from reasonably exploring/commercializing the contractual subject technology; (4) restricting the technology acceptor to accept attached conditions dispensable for exploiting the technology; (5) unreasonably restricting the channels or origins for the technology acceptor to purchase raw materials, parts and components, products or equipment, and so forth; and (6) prohibiting the technology acceptor from making objections to the effectiveness of the IP of the contractual subject technology, or attaching conditions to the objections made.³⁶

The second group is the law and regulation related to foreign trade. The *Regulations on Technology Import and Export Administration of the People's Republic of China 2002* (the Regulations 2002)³⁷ may be the first

³⁰ Hopher, Timothy. 'Airbus agrees sale of 150 aircraft to China' (26 October 2006) *Mail & Guardian Online* <http://www.mg.co.za/articlePage.aspx?articleid=287798&area=/breaking_news/breaking_news_business/> at 8 December 2008.

³¹ AFP, 'Siemens lands €750 million China train deal' in *The Local: Germany's News in English*, published 20 Mar 2009, at <http://www.thelocal.de/national/20090320-18139.html> at 3 April 2009.

³² Zhang Hui, Gao Guozheng and Guo Bingna, 'Impacts of the Chinese Anti-Monopoly Law on Intellectual Property: More Expectation?' 张辉、高国征、郭冰娜：中国反垄断法的颁布对知识产权影响：更多期待？ in *China IP Law Website* at <http://www.chinaiprllaw.cn/file/2008080213416.html> at 12 December 2008.

³³ *Contract Law of the People's Republic of China 1999 (Contract Law 1999)*, see section 329, at <http://www.lehmanlaw.com/resource-centre/laws-and-regulations/contract.html> at 12 January 2009.

³⁴ *Contract Law 1999*, section 343.

³⁵ Chinese title of the document: 《最高人民法院关于审理技术合同纠纷案件适用法律若干问题的解释》

³⁶ See the *Interpretation of the Supreme People's Court concerning Some Issues on Application of Law for the Trial of Cases on Disputes over Technology Contracts 2005 ('Interpretation 2005')*, section 10.

³⁷ *The Regulations of the People's Republic of China on Administration of Import and Export of Technologies* have been adopted by the 46th Regular Meeting of the State Council and are hereby published. These Regulations shall be implemented starting from January 1, 2002 ('Regulation 2002'), at <http://www.lehmanlaw.com/resource-centre/laws-and->

regulation in China which deals with illegitimate restraints in technology contracts. Article 29 of the *Regulation 2002* explicitly lists seven types of restrictive clauses that a technology import contract shall not contain.³⁸ Most of these clauses have been adopted by the later *Interpretation 2005* (introduced above) to interpret the specific circumstances/situations of 'illegally monopolizing technology and impairing technological progress' under Article 329 of the *Contract Law 1999*.³⁹ Moreover, in compliance with the *TRIPS Agreement*, the amended *Foreign Trade Law 2004* includes a special chapter on 'Foreign-trade-related IP protection'.⁴⁰ Article 30 of the law explicitly prohibited any of three acts committed by IPR holders: (1) hindering the licensee from questioning the validity of the IPR involved in the license agreement; (2) conducting forced package licensing; or (3) providing exclusive sale back conditions in the license agreement, etc. and, at the same time, endangering the fair competition order of foreign trade.⁴¹ Generally speaking, these provisions⁴² are similar with the counterparts of the EC's new *Technology Transfer Block Exemption Regulation* of April 2004 ("*TTBER 2004*").⁴³ But unlike the EC laws, neither the *Regulation 2002* nor the *Foreign Trade Law 2004* has provided any useful exemptions for activities on their licensing practice prohibition lists.

The third group is anti-unfair competition law. The *Anti-unfair Competition Law of the People's Republic of China 1993* includes some general provisions on 'tying' arrangement. It explicitly prohibits sellers from selling products to consumers by forcing them to purchase additional products that they are unwilling to purchase, or by imposing unreasonable conditions.⁴⁴ It is noteworthy that, as some have commentators pointed out, the *Anti-Unfair Competition Law* in China does 'not deal with matters pertaining to anti-trust issues' (such as the abuse of dominant position),⁴⁵ but mainly focuses on maintaining a sound market order and protecting the rights of managers and consumers.⁴⁶

The fourth group is IP law. Like patent laws in other countries, the *Chinese Patent Law 2000* contains some general provisions on 'compulsory licensing' as one of the possible remedies for IP abuse.⁴⁷ The *Patent Law 2000* allows any applicant, which is qualified to exploit the invention or utility model, to make requests for 'authorization from the patentee of an invention or utility model to exploit its or his patent on reasonable

[regulations/contract/regulations-on-technology-import-and-export-administration-of-the-peoples-republic-of-china-2002.html](#) at 12 January 2009.

³⁸ *Regulation 2002*, Article 29.

³⁹ See *Interpretation 2005*, section 10.

⁴⁰ See *Foreign Trade Law 2004*, Chapter V Foreign-trade-related Intellectual Property Protection.

⁴¹ *Foreign Trade Law*, article 30, [Chinese and English] at <http://www.seabay.cn/freightknowledge/20050615/1968347.html>

at 12 January 2009. (第三十条: 知识产权权利人有阻止被许可人对许可合同中的知识产权的有效性提出质疑、进行强制性一揽子许可、在许可合同中规定排他性返授条件等行为之一, 并危害对外贸易公平竞争秩序的, 国务院对外贸易主管部门可以采取必要的措施消除危害。) See also English version at <http://www.lehmanlaw.com/resource-centre/laws-and-regulations/foreign-investment/foreign-trade-law-2004.html> at 12 January 2009.

⁴² Provisions in the *Foreign Trade Law 2004*, the *Regulations 2002* and the *Interpretation 2005*

⁴³ See *European Union's new Technology Transfer Block Exemption Regulation ("TTBER 2004") (Commission Regulation (EC) No. 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements*, OJ No. 123, 27.04.2004) OJ L 123, 27.4.2004, at 11-17. <http://europa.eu/scadplus/leg/en/lvb/l26108.htm> at 12 January 2009. The *TTBER 2004* replaces *Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article 85(3) of the Treaty to certain categories of technology transfer agreements* (OJ L 31, 9.2.1996, p. 2).

⁴⁴ It is noteworthy that, as some foreign practitioners have observed, 'the Anti-Unfair Competition Law in China does not deal with matters pertaining to anti-trust issues, but as the market develops in China, it is likely to gain importance'. See LEHMAN, *What is the situation between IPRs and unfair competition in China?* at <http://www.lehmanlaw.com/resource-centre/faqs/intellectual-property/general-ip/what-is-the-situation-between-iprs-and-unfair-competition-in-china.html> at 12 December 2008.

⁴⁵ *Ibid.*

⁴⁶ See *Anti-unfair Competition Law of the People's Republic of China 1993*, Article 1. (Providing 'This law is drawn up in order to safeguard the healthy development of the socialist market economy, encourage and protect fair market competition, prohibit unfair competition, safeguard the legal rights and interests of managers and consumers.')

⁴⁷ See *Patent Law of the People's Republic of China (2000 Revision)* (Adopted at the 4th Session of the Standing Committee of the Sixth National People's Congress on March 12, 1984, Articles 48 and 49.

Article 48: Where any entity which is qualified to exploit the invention or utility model has made requests for authorization from the patentee of an invention or utility model to exploit its or his patent on reasonable terms and such efforts have not been successful within a reasonable period of time, the patent administrative department of the State Council may, upon the application of that entity, grant a compulsory license to exploit the patent for invention or utility model.

Article 49: Where a national emergency or any extraordinary state of affairs occurs, or where the public interest so requires, the patent administrative department of the State Council may grant a compulsory license to exploit the patent for invention or utility model.

terms'.⁴⁸ If an applicant has not been successful in obtaining the relevant authorization within a reasonable period of time, upon the application of the applicant, the patent administrative department of the State Council may grant the applicant a compulsory license to exploit the patent for invention or utility model.⁴⁹ It is also noteworthy that *the Patent Law 2000* was recently amended, and the *Patent Law 2009* further clarifies and revised the requirements on compulsory licensing. Article 50 of the *Patent Law 2009* entitles the State Intellectual Property Office (SIPO) to grant a compulsory license in three circumstances: (1) the patentee's exploitation of the patented technology is found to be insufficient within a prescribed timeframe; (2) the patentee's exploitation of the patented technology is found to be eliminating or restricting competition; or (3) the application is for the making and exportation of a patented medicine to certain countries and regions for the benefit of public health in accordance with international treaties.⁵⁰ However, like other regulations introduced above, the new patent law has not provided specific guidelines on the application of 'compulsory licensing' provisions, such as how to determine 'elimination or restriction of competition'.

The *fifth* group is antitrust law. After 13 years of discussion and three revisions, China's Anti-Monopoly Law (AML) was promulgated on 30 August 2007 and has come into effect on 1 August last year. The AML is an important supplement to the current IP abuse regulations. Like its counterparts in the *EC Treaty of Rome*, the AML contains three general prohibitions: (1) prohibition on 'monopolistic agreement'; prohibition on the 'abuse of a dominant market position'; and prohibition on *concentration activities*.⁵¹ Unlike the EC Treaty, the AML contains a special provision (Article 55) relating to IP, and provides:

This Law is **not applicable** to the undertakings which use IPRs according to the laws and administrative regulations relevant to intellectual property, **but is applicable** to the undertakings which 'abuse IP' and 'eliminate or restrict market competition'.

The provision sets out the basic relationship between the AML and IP laws.⁵² It arguably has a profound implication on the IPRs protection and enforcement in China. It is clear that the meaning of Article 55 is two-fold. On the one hand, it provides a broad exemption for legitimate use of IPR. Article 55 implies that the laws governing IPRs are considered to be 'equivalent in status' to the AML.⁵³ It provides IPR holders with a safe harbor/immunity for their legitimate conducts on exercising their IPRs. In the other words, the prohibition provisions in the AML do not apply to the legitimate conducts of the IPR holders under the IP laws.⁵⁴ Since it is a general international practice to provide a safe harbour/immunity for an undertaking's lawful conduct in accordance with its legitimate IPRs, Article 55 is deemed as '*further evidence* that reflects China's embrace of global concerns'.⁵⁵

Moreover, the AML provides a number of exceptions relating to the purposes of the agreements, which other IP abuse laws do not have.⁵⁶ Article 15 of the AML authorizes a competent anti-monopoly authority to approve exemptions for certain monopoly agreements, if they are found beneficial to: (1) improve technology or research and develop new products; (2) upgrade product quality, reduce costs, improve efficiency, unify product specifications and standards, or realize division of work based on specialization; (3) improve operational efficiency and enhance competitiveness of small and medium-sized undertakings; (4) serve public welfare such as conserving energies, protecting the environment, and providing disaster relief; (5) mitigate serious decrease

⁴⁸ Patent Law 2000, Article 48.

⁴⁹ Patent Law 2000, Article 48.

⁵⁰ Patent Law 2009, Article 50. Granting a compulsory license "for the making and exportation of a patented medicine to certain countries and regions for the benefit of public health in accordance with international treaties" is a newly introduced circumstance, which the old law does not have. See also, Zeldin, Wendy. 'China: Major Amendment of Patent Law', in *Law Library of Congress: News and Events*, 27 Feb 2009, at http://www.loc.gov/lawweb/servlet/lloc_news?disp3_1059_text at 12 March 2009.

⁵¹ AML, Chapters II, III and IV.

⁵² Jones, 'Licensing in China', above n9, 2

⁵³ *Ibid.*, 3.

⁵⁴ In the other word, Art 55 appears to recognize that the simple exercise of IP rights, without more, will not be a violation of the AML. See also Masoudi, Gerald F. 'Some comments on the abuse-of dominance provisions of China's draft antimonopoly law' - remarks presented to the UIBE Competition Law Center Conference on Abuse of Dominance: Theory and Practice, Beijing, China, July 21, 2007 at <http://www.usdoj.gov/atr/public/speeches/225357.htm> (Gerald F. Masoudi, Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice), para 2., 9. (Note: the article 54 that Masoudi referred to (the draft of the AML) in his remark is the article 55 of the AML enacted on 30 August 2008. The report further states: 'Since the right to exclude others from using the invention is the essence of an intellectual property right, the unilateral decision of the right holder to exclude some or all applicants from using its protected intellectual property is the most simple exercise of IP rights and should not be subject to antimonopoly attack as an abuse'.)

⁵⁵ Bingham's Antitrust and Trade Regulation Group, *China Passes New Antitrust Law With Additional Scrutiny on Foreign M & As*, 5 Sep 2007, at <http://www.bingham.com/Media.aspx?MediaID=5667> at 10 January 2009.

⁵⁶ AML, Art 15.

in sales volume or obviously excessive production during economic recessions; (6) safeguard the justifiable interests in the foreign trade or foreign economic cooperation; or (7) other circumstances as stipulated by laws and the State Council.⁵⁷ It further provided that, where a monopoly agreement falls within any of the circumstances listed in items 1 through 5, in order to obtain the immunity, the operators must additionally prove that the agreement can 'enable consumers to share the interests derived from the agreement', and will 'not severely restrict the competition in relevant market'.⁵⁸ It is clear that these provisions are designed to encourage foreign investment in research and development sectors, and to encourage the transfer of core/new technology from foreign countries to China. At the same time, it takes into account the interests of consumers and importance of a sound competition order.

5. Limitations and Achievements

5.1. General Limitations

The provisions in the existing Chinese laws (introduced above) have covered major forms of IP abuse activities, such as monopoly pricing, restrictions on the number of products, market division, cross-licensing and patent cooperation agreements, exclusive provisions (i.e. provisions to prevent licensees from questioning the validity of the IP in licensing agreements, and provisions to prohibit compulsory licensing), tying sales, monopolistic agreements and so forth.⁵⁹ However, they do have their limitations.

Firstly, the legislation is either too general or too narrow. Some only provide general requirements on prohibited IP licensing arrangements, such as *Foreign Trade Law* and *Patent Law*, but fail to provide detailed guidelines to explain how to apply these requirements in practice. Some only focus on very narrow subject matter or single forms of IP abuse. For example, the *Contract Law 1999* and the Regulation 2002 mainly focus on the protection of technology accepters in technology contracts or technology importing contracts. *The Anti-Unfair Competition Law* only focuses on tying sale. Unlike the counterparts in the US and EU laws, they have distinguished licensing transactions that occur between competing and non-competing undertakings.⁶⁰

Secondly, they have failed to explain the general approach that the competent agencies employ in their evaluations of licensing agreements under the applicable antitrust law, and the way that they determine IP abuses, such as Rule of Reason Approach in the US. Neither have they provided any specific examples to show how the laws will be enforced.⁶¹ This arguably increases the uncertainty of the enforcement of the Chinese IP abuse laws.

Thirdly, some provisions in the current IP abuse law are still unclear. For example, the language of Article 55 of the AML (IP Provision) is overly general. Neither has it provided a clear definition of the 'IP abuse', nor has it detailed potential liability or penalty for IP abuses. And judicial interpretations and more specific implementing regulations on the AML have not yet appeared. These arguably create legal uncertainties for business operations of foreign technology-driven undertakings in China.⁶² Many multinational companies fear that domestic IP companies may use Article 55 to restrain foreign IP holders from enforcing their IPRs against their competitors in China.⁶³ They may attempt to avoid or at least delay infringement actions brought against them by using Article 55 as a 'defence', and claim that the bringing of the infringement action against them constitutes an abuse of IPRs or a restriction of market competition. As such, some commentators believe that the enactment of the AML has paved the way for software firms in China to bring anti-trust lawsuits against foreign software companies, such as Microsoft, for their business practices in China.⁶⁴

⁵⁷ AML, Art 15.

⁵⁸ AML, Art 15.

⁵⁹ Zhang, Gao and Guo, above n 29.

⁶⁰ For example, the *TTBER 2004* distinguished licensing transactions that occur between competing and non-competing undertakings. It provides the immunity for licensing arrangements that do not contain 'certain "hardcore" restrictions between non-competitors with market shares below 30% and between competitors with market shares below 20%' See Gilbert, Richard. "Converging Doctrines? US and EU Antitrust Policy for the Licensing of Intellectual Property" 2004, at 3, at http://works.bepress.com/richard_gilbert/3, at 12 January 2009..

⁶¹ Both the US Guideline 2005 and the Report 2007 provides many specific examples in order to facilitate the understanding and application of IP licensing arrangements.

⁶² *Ibid.* (stating: 'While the AML is a milestone in Chinese economic policy, its substance has been particularly newsworthy for alleged weaknesses which may have a **negative impact** on foreign firms and investors doing business in China'.)

⁶³ Wang, Harris and Zhang, above n 77.

⁶⁴ Nicholson & Liu, above n 79.

Lastly, unlike the US and the EC, until now, China does not have a single regulation and legal guideline that systematically dealt with IP abuse, technology transfers and the interrelationship between IP and antitrust law. As introduced above, the provisions related to IP abuse could be found across various legislation, such as contract law, foreign trade laws and patent law, and antitrust law. The recently enacted AML does not have a provision to clarify the interrelation between AML and other existing legislations related to IP abuse and technology transfers. Although the AML contains a special provision on IPR and a number of exemptions for legitimate use of IPRs, it has not clarified whether these exemptions can also be applied to the prohibition provisions under other non-AML legislations, such as prohibitions under the *Contract Law 1999* and the *Interpretation 2005* (as introduced above). The lack of a unified regulation or legal guidelines for coordinating all existing IP abuse legislations would arguably create uncertainty regarding the applications of laws and business operations of foreign technological companies/investors in China.

5.2. Achievements – Balancing the rights

Nevertheless, these limitations cannot outweigh the achievement. The current IP abuse laws, particularly the AML, have arguably reflected concerns and interests of different stakeholders, such as IP holders, public consumers and late comers of the market.

Firstly, the IP abuse laws, including the AML, are important to protect the benefits of small-medium enterprises (including late comers to the Chinese market). They set up a number of specific prohibitions against monopolistic activities on technology transfers and misuses of IP licensing arrangements. These prohibitions would arguably serve as an effective avenue for small-medium enterprises for defending their rights, and being successful in legal actions against IP giants. For example, the AML, as important legislation designed to maintain and improve the fair competition order in the Chinese market, arguably provides an opportunity for foreign software companies to more fairly participate in market competition in China. It enables them, particularly late comers of China's IP market, to initiate an anti-monopoly investigation/lawsuit against monopolistic activities of software giants that have achieved dominant positions in Chinese market. Using Microsoft as an example, as we have seen previously, Microsoft has become entangled with antitrust disputes around the world for more than a decade. In Europe, after losing its antitrust case in 2004, Microsoft has been repeatedly fined.⁶⁵ Since the 2004 decision, Microsoft has been fined more than \$2.4 billion in total by the European Commission.⁶⁶ In Asia, Japan's Fair Trade Commission found Microsoft in violation of Article 19 of its Antimonopoly Act for provisions in its licensing agreement with PC makers that unduly restrict their business operations in July 2004.⁶⁷ Korea's Fair Trade Commission levied a fine of \$32 million USD against Microsoft in 2005, and ordered Microsoft to 'create versions of Windows XP that did not include Windows Media Player and Windows Messenger.'⁶⁸ As such, it will be unsurprising if any foreign technological companies owned domiciled in these countries initiate antitrust lawsuits against the business operations of Microsoft in China in order to help them to maintain and expand their market share in China. It is clear that a sound and fair competitive environment, which is underpinned by the IP abuse laws, is not only good for domestic companies but also good for foreign companies, particularly late comers of the Chinese market.

Secondly, the IP abuse laws, particularly the AML, are good for the benefits of public consumers. For example, the enactment of the AML has arguably strengthened the protection given to public consumers from the threat of monopolistic conduct by big undertakings, such as monopoly pricing. On 31 July 2008, one day before the AML took into effect, Dong Zhengwei, a partner with Beijing-based Zhongyin law firm, has submitted a document - '*Application and Proposal for Protecting Citizen Property Rights*'⁶⁹ - to the anti-monopoly

⁶⁵ On 24 March 2004, the EC ruled that 'Microsoft abused its Windows monopoly and fined the company 497.2 million euros as well as ordering it to reveal more of its software code and limiting its bundling of its software into Windows XP. See Jennings, John P. 'Comparing the US and EU Microsoft Antitrust Prosecutions: How Level is the Playing Field?' in *Erasmus Law and Economics Review* 2, No. 1 (March 2006), 79.

⁶⁶ Keizer, Gregg. 'EU fines Microsoft another \$1.3B' in *Computer World*, at <http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=9065018> at 10 November 2008. (Pointing out: 'Microsoft had already been fined a total of \$1.16 billion by the EU in two previous levies, including the original March 2004 ruling and a 2006 penalty for noncompliance. Including today's fine, the company will have been hit with penalties that total just under \$2.5 billion'.)

⁶⁷ Microsoft, *Microsoft Corporation's Response to the Japanese Fair Trade Commission's Recommendation*, at www.microsoft.com/presspass/press/2004/Jul04/07-26JFTCResponsePR.asp at 10 November 2008.

⁶⁸ Keizer, Gregg. 'China denies reports of Microsoft antitrust investigation - Microsoft says it's 'in compliance' with Chinese law', in *Computer World*, at <http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=9100818> at 10 January 2009.

⁶⁹ Chinese Title of the document - 《请求保护公民财产权益的建议申请书》

enforcement agency, and requires for initiating an anti-monopoly investigation against the global software giant Microsoft.⁷⁰ He alleged that Microsoft was using its dominant market position to manipulate software prices in China, and breached articles 6, 17 and 19 of the AML (on the ground of abuse of market dominance).⁷¹ He further called for a US\$1 billion fine for Microsoft's violation of China's AML by virtue of article 47 of the AML.⁷² The Ministry of Commerce (MOFCOM) replied on 15 August 2008 and informed that the application was transferred to its Treaty and Law Division to process.⁷³ If the investigation of the Chinese MOFCOM is completed and the anti-monopoly lawsuit is filed in IP courts, China will become the fifth jurisdiction taking aim at Microsoft's business practices, after the U.S., EC, Japan and South Korea.

Thirdly, the IP abuse laws are good for protecting the legitimate benefits of IP giants in China. Although IP-abuse regulations mainly focussed on the 'prohibition' of IP-abuse conducts and the protection of consumers and competitors, the Chinese regulators have also taken into account of the benefits of existing IP giants and the protection of the incentives of innovation. For example, as noted above, Article 15 of the AML introduced a few exemptions/defences – such as a national development defence – for certain agreements which have monopolistic effects. It entitles the competent anti-monopoly authority to grant exemptions from the prohibitions on certain monopoly agreements, if the operators of these agreements are beneficial to national development, such as technology progress, improving business operational efficiency, enhancing competitiveness of small and medium-sized undertakings, and serving public welfare.⁷⁴

It is clear that these provisions have effects on encouraging foreign investment in the research and development sector, and encourage the transfer of core/new technology from foreign countries to China. Many foreign technology-driven companies, such as Microsoft, Intel, Google and Dell, have now made huge investments in China, and are expected to continue to do so. As some commentators have observed, these foreign companies are adopting a long-term view that the Chinese government will not restrict their business operations in China so long as their activities do not conflict with or undermine the development of the Chinese economy.⁷⁵ Thus, they are prepared to 'continue to bring their core technologies to China and will continue to share and/or license them to Chinese domestic companies', so long as China adopts practical measures to improve its IPR protection environment.⁷⁶ Therefore, those technology-driven companies may use Article 15 as potential defence for IP abuse claims against them. For example, they may claim that their business operations in China are beneficial to 'improve technology or research and develop new products' (Article 15 (i)). Again, we can use Microsoft as an example. As we have seen, Microsoft has set up the China Research & Development Group in China.⁷⁷ Most recently, in November 2008, Microsoft announced that it will invest more than \$1 billion on its research and development center in China over the next three years.⁷⁸ Thus, Microsoft may arguably use Article 15 (i) as a defence for any potential IP abuse lawsuits in China. The immunity in the AML is arguably good for protecting the benefits of IPR holders, particularly licensors to exploit their IPRs.

In summary, although the current Chinese IP abuse laws have their inherent problems, they have arguably reflected a good intention in balancing benefits of different stakeholders and striking a sound balance between preventing IP abuse, protecting competition and encouraging incentives of innovation. In turn, this would arguably contribute to strike encouraging innovation and protecting competition, and . In turn, this would arguably contribute to strike a balance of IPR and public domain.

⁷⁰ Xinhua News Agency, 'Chinese Lawyer applying for an anti-monopoly investigation against Microsoft and suggesting impose 1 billion USD fine', [in Chinese] 17 August 2008, at http://news.xinhuanet.com/legal/2008-08/17/content_9424867.htm at 10 November 2008.

⁷¹ *Ibid.* Arts 17 and 19 are all in Chapter III Abuse of Market Dominance of the AML.

⁷² *Ibid.* Article 47 provides: 'Where any business operator abuses its dominant market status in violation of this Law, it shall be ordered to cease doing so. The anti-monopoly authority shall confiscate its illegal gains and impose thereupon a fine of 1% up to 10% of the sales revenue in the previous year'. See ALM, Art 47.

⁷³ Gao, Lingyun & Tan, Xiaolan, 'Civil Lawyer initiating antitrust lawsuits against Microsoft', [in Chinese] in Southern City Daily 8 August 2008 <http://sc.stock.cnfol.com/080820/123,1764,4631746,00.shtml> at 10 January 2009.

⁷⁴ AML, Art 15. See above section 3.

⁷⁵ Liu, Ying. 'BCCC cautiously optimistic over impact on FDI of new Anti-Monopoly Law', China IP, Issue 21, 2008, at <http://www.chinaipmagazine.com/en/journal-show.asp?id=401> at 15 November 2008.

⁷⁶ *Ibid.*

⁷⁷ See the website of the Microsoft, China Research & Development Group at <http://www.microsoft.com/china/CRD/EN/aboutus.msp> at 16 November 2008.

⁷⁸ Hardcastle, Elaine. 'Microsoft to spend \$1 bln on R&D in China', *Reuters*, Beijing, November 13, 2008 at <http://www.sciam.com/article.cfm?id=microsoft-to-spend-1-bln> at 16 November 2008.

6. Conclusion and Remarks

This paper has examined both interrelation between IPRs and public domain, and the necessity of IP rules. It also examined the *TRIPS*'s requirements and recent development of the Chinese IP abuse legislation, including both the AML and non-AML regulations on technology transfer and IP abuse prevention. The paper then examined both achievements and limitations of these regulations. It particularly examined the way in which the AML balance the interests of different stakeholders, and facilitate technology transfer from developed nations to China, by referring to some recent antitrust lawsuits, including the antimonopoly investigation against Microsoft in China.

It may be too early to tell the effectiveness and successfulness of the Chinese IP abuse law regime, since this regime has its inherent problems and some laws (such as the AML 2008 and the Patent Law 2009) have just taken into effect. However, in the current IP expansion environment, the Chinese IP abuse law regime may arguably help to strike a sound balance of benefits of for different stakeholders in IP laws, which the IP laws alone may not be able to strike. It may serve as an important supplement to current approaches to enhance the public domain, consumer interests and fair competition.

It is imperative to make IP abuse laws, IP law (such as fair use and fair dealing doctrine in copyright law), and other public rights measures (such as open source movement), preferential economic policies, and any other possible measures work collectively to protect the public domain and to strike a sound balance between enhancing innovation and public rights.