2012 年度　財団法人交流協会フェローシップ事業成果報告書

Reflections on CD-R Case of Taiwan from Perspectives of Pachinko Case of Japan

国立台湾大学法律学院
黄銘傑

招聘期間（2012 年 12 月 20 日～11 月 30 日）

2013 年 3 月
公益財団法人　交流協会

Reflections on CD-R Case of Taiwan from Perspectives of Pachinko Case of Japan

Ming-jye Huang

A. Foreword

For the last decades, the most important case regarding interaction between intellectual property laws and competition law in Japan is definitely the Pachinko Case decided on 6 August 1997 by Fair Trade Commission of Japan (JFTC). In the Pachinko case, 10 Pachinko machine manufactures were said to form a patent pool which contain patents essential to the manufacturing of Pachinko machines as their standards were set by a law, named Huuzoku Eigyo Ho. As a result, no one can manufacture Pachinko machines without acquiring licensing from the patent pool at issue. The patent pool was managed by a corporation named Nittokuren. Nittokuren granted licenses to members of a business association, Nikkouso, under the conditions that all the licensees cannot cut their prices and their output be restricted. In the same time, Nikkouso demanded and monitored its observation.

Later on, mavericks entered the Pachinko machine market and gradually threatened the positions of the incumbents. Nittokuren and other ten major members of Nikkouso reached a licensing policy to exclude those new entrants and refused to license to them. However, a so-called termination clause was also imposed if licensees change their operation policies disadvantageous to members of Nikkouso. The policy or agreement in this case in fact inhibited new market entrances, especially those manufacturers of a similar but different amusement machine, Pachinko Slot Machine.

The JFTC found that Nittokuren and ten other members of Nikkouso violated Art.3 of Anti-Monopoly Act, the prohibition of private monopoly through such conduct under the policy of eliminating new entrance, and issued a cease and desist order (“Elimination Measures”). It ordered those ten enterprises and Nittokuren to cease enforcing the policy and any measures adopted under that policy, including refusal of license and the termination clause. In the meantime, the JFTC issued a

warning against them to refrain from restrictive conduct such as limiting price cuts, which are against Art. 3 and Art. 19. The JFTC also issued a warning under Art. 8 (1) against Nikkouso to refrain from committing the exclusion scheme and restricting cutting prices.

The Pachinko case as stated above demonstrated how owners of intellectual property rights may abuse their rights in restraint of competition. Every competition law authority would like to regulate any anti-competitive conducts involving abuse or misuse of intellectual property rights. It's, then, interesting to compare different approaches each competition law authority uses to regulate those anti-competitive conducts. This report tries to pick up the CD-R case of Taiwan, which in its facts is similar to Pachinko case in Japan, to make clear the possibility that different competition law authority would use different approaches to balance or coordinate the interaction between intellectual property laws and competition law.

It follows an brief introduction of Fair Trade Act of Taiwan. Then, it will pick out the famous CD-R patent pool case which accompanied compulsory licensing issue during the course of their resolution. As it will become clear that Fair Trade Commission of Taiwan's (TFTC's) treatments of the CD-R case is obviously different from those of its Japanese counterpart. However, the different treatments may to some extent reflect different political, economic and commercial environments confronted by TFTC other than its counterparts in Japan. They also remind us that even globalization is inevitable, enforcement of competition law in each country is still affected by their own political, economic, social and commercial contexts.

B. Regulatory Framework of the Fair Trade Act of Taiwan

Before devoting to discuss the above-stated three cases (examples), it may be necessary to deliver an overview of the Fair Trade Act to make you understand general regulatory framework of the Act and relevant substantive provisions which were applied in each case.

The Fair Trade Act is divided into seven parts: (1)general principles (Chap.1); (2)monopolies, mergers and concerted actions(cartels) (Chap.2); (3)unfair competition (Chap.3); (4)Fair Trade Commission (Chap.4); (5)compensation for

damages (Chap.5); (6) punishment (Chap.6); (7) supplementary provisions (Chap.7).[1] One important feature, which distinguishes the Fair Trade Act from other nations' competition laws, is that antitrust regulations and unfair competition regulations are put together in the same Act, and both are under jurisdiction of TFTC. That is, TFTC, being an independent agency empowered by Article 28 of the Fair Trade Act,[2] is responsible to enforce the unfair competition regulations, which belong to court's jurisdiction in most other countries, as well. While many unfair competition issues involve disputes between private parties for their own benefits and are not suitable to be intervened or adjudicated by administrative agency such as TFTC, TFTC, however, has no choice but follow directions from the Fair Trade Act to investigate facts concerned and deliver decisions for these disputes. That is the reason why some observers said that TFTC has become more and more passive recently in its enforcement activities against these traditionally unfair-competition conducts.

The Fair Trade Act's most important antitrust regulations are stipulated in Chap. 2. Chap. 2 contains provisions regarding abuse of monopolistic position, cartels and merger. Cartel regulations only reach to those enterprises which are in horizontal competition with each other, excluding vertical cartels. Merger regulation imposes pre-merger notification and waiting period obligations on participating parties and empower TFTC to approve a merger when it determines that "the overall economic benefit of the merger outweighs the disadvantages resulted from competition restraint." Regulation on abuse of monopolistic position deserves more detailed description here. Monopoly regulations in the Fair Trade Act embrace both monopoly and oligopoly as they are defined in economic literature. Paragraph 1 of Article 5 says that "The term "monopolistic enterprise" as used in this Act means any enterprise that faces no competition or has a dominant

---

[1] English edition of the Fair Trade Act is available at < http://www.apeccp.org.tw/doc/Taipei/Competition/su022010.htm> (last visited 2010/11/15).

[2] Article 28 of the Fair Trade Act stipulates that "The Fair Trade Commission shall carry out its duties independently in accordance with the law and may dispose of the cases in respect of fair trade in the name of the Commission."

position to enable it to exclude competition in a relevant market." Paragraph 2 goes on to stipulate that "Two or more enterprises shall be deemed monopolistic enterprises if they do not in fact engage in price competition with each other and they as a whole have the same status as the enterprise defined in the provisions of the preceding paragraph." In Article 10, monopolistic enterprises are prohibited from conducting the following behaviors: (1) directly or indirectly prevent any other enterprises from competing by unfair means; (2) improperly set, maintain or change the price for goods or the remuneration for services; (3) make a trading counterpart give preferential treatment without justification; (4) otherwise abuse its market power. While (2) is about excessive pricing, (3) concerns buying power. Both cannot find their counterparts in monopolization regulation in the United States and Japan, but have their relatives in EC and Korean competition laws. In Microsoft case, which will be discussed later, the excessive priceing problem was raised by consumer protection groups accusing Microsoft abuse its monopolistic position and set prices in relevant products higher than those in other countries.

As set forth above, entitled as "Unfair Competition," Chap. 3 is characteristic of Taiwan's Fair Trade Act. However, attention should be paid to its regulatory categories. In Chap. 3, the Fair Trade Act regulates not only the traditionally unfair-competition conducts such as counterfeiting on well-known marks, misleading advertising and commercial slandering, but resale price maintenance, vertical restraints as well. The latter category is deemed to belong to antitrust regulations in other countries. Especially, many IP licensing activities involve vertical restraints and are at risk of violating the relevant provisions. Article 19 of the Fair Trade Act in its Subparagraph (1), (2) and (6) devotes to such vertical restrain regulation, it prescribes that "No enterprise shall have any of the following acts which is likely to lessen competition or to impede fair competition: (1) causing another enterprise to discontinue supply, purchase or other business transactions with a particular enterprise for the purpose of injuring such particular enterprise; (2) treating another enterprise discriminatively without justification……..(6) limiting its trading counterparts' business activity improperly by means of the requirements of business engagement."

Subparagraph (1) prohibits indirect refusal to deal, (2) deals with discriminatory treatment, including direct refusal to deal, and (6) regulates

improper impediment of trading counterparts' business activities, including exclusive dealing, tying, territory and consumer restrictions. In the present practice of TFTC, in order to prove violations of these subparagraphs, one threshold should be cleared first. Usually, only enterprises who gain more than 10% market shares in their own relevant market are "qualified" for these violations. Of course, enterprises do not spontaneously become illegal only because they satisfy the threshold and perform the conducts stipulated by Subparagraph (1), (2) and (6). TFTC will take into considerations such factors as the intent, purposes, market position of the parties, structure of the market, the characteristics of the goods, etc. before it determines that enterprises under investigation do conduct illegal actions according to Subparagraph (1), (2) and (6) of Article 19. To make clearer the relationship between IP licensing activities and these subparagraphs, TFTC adopted a guideline titled "Fair Trade Commission Disposal Directions on Technology Licensing Arrangements."[3] In this guideline, TFTC distinguishes different conduct types according to their effects on competition and declares that some conducts are usually deemed legal under the Fair Trade Act, while others are usually deemed illegal.

Chap. 3 of the Fair Trade Act also contains a probably most important and frequently enforced clause. That is Article 24. Article 24 of the Fair Trade Act prescribes as follows: "In addition to what is provided for in this Law, no enterprise shall otherwise have any deceptive or obviously unfair conduct that is able to affect trading order." The "deceptive" and "unfair" terms are reminiscent of Sec. 5(a)(1) of the American 1914 Federal Trade Commission Act when the latter stipulates "Unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful." In its practice, TFTC interprets Article 24 even more broadly than American FTC to embrace consumer protection, comparative advertising, famous trademark, dead-copy, unduly free-riding, abuse of relatively dominant position, coercing or harassing a trading counterpart to suppress its free will, etc.. Article 24 is dubbed by some Taiwanese scholars as an "Emperor Clause" to demonstrate its broad

[3] English edition of the Guideline is available at < http://www.apeccp.org.tw/doc/Taipei/Decision/ctdec001.htm> (last visited 2010/11/15).

regulatory scope. In terms of IP, Article 24 is the main legal authority to prohibit IP right-holder from improperly sending or issuing warning letters to those enterprises whom they deem to have infringed on their IP rights. TFTC issued a guideline for this, named "Fair Trade Commission Disposal Directions on the Reviewing of Cases Involving Enterprises Issuing Warning Letters for Infringement on Copyright, Trademark, and Patent Rights."[4] We will discuss this guideline in later part of this paper.

In terms of administrative procedures, TFTC initiates investigation procedures against enterprises which are suspected of in violation of the Fair Trade Act, upon complaints or ex officio. If result of the investigation confirms the violation, TFTC will issue an cease-and-desist order against the relevant enterprises and can order enterprises concerned to pay an administrative penalty of 50,000-2,500,000 New Taiwan Dollars (NT$). Disobeying the cease-and-desist order will cause TFTC to further impose an administrative penalty of 100,000-5,000,000 NT$ successively for each disobeying conduct until the cease-and-desist order is actually followed, in accordance with Article 41 of the Fair Trade Act.

In terms of criminal punishment, the Fair Trade Act does not criminalize violation of antitrust regulation directly. In its amendment in 1999, the Act introduced the so-called "first apply administrative sanctions, then criminal punishment" rule. Upon its introduction, TFTC ascertains as follows: "Criminal punishment for illegal activity is the most severe punishment and should be a measure of last resort. Where administrative sanctions are sufficient to meet regulatory objectives, such administrative sanctions should be used before applying criminal punishment based on the principle of proportionality."[5] Thus, when an enterprise disobeys a cease-and-desist order against it or later on conducts the same

---

[4] The English edition of the Guideline is available at < http://www.apeccp.org.tw/doc/Taipei/Decision/ctdeccas.html> (last visited 2010/11/15).

[5] See TFTC, Explanatory Material Relevant to the Revised Articles of the Fair Trade Law (1999), available at < http://www.apeccp.org.tw/doc/Taipei/Policy/comemrra.html> (last visited 2010/11/16).

or similar violation again, natural person(s) who perform(s) the later violation will be punished by imprisonment for not more than three years or detention, or by a fine of not more than 100,000,000 NT$, or by both. Be reminded, violation of the "Emperor Clause" (Article 24) does not initiate any criminal punishments.

Anyone injured by violations can bring a civil suit to injunct the violations and ask for damages. The damages can be up to treble of actual damages at court's discretion if violations were done intentionally. The injured can also ask for damages based on profits gained from pertinent violations. It seems that the Fair Trade Act provide better civil remedies than its counterpart in Japan, however, they have not been actively pursued since the Act was enacted.

Finally, the Fair Trade Act devotes one provision to handle its relationship with IP. Article 45 stipulates that "No provision of this Law shall apply to any proper conduct in connection with the exercise of rights pursuant to the provisions of the Copyright Law, Trademark Law, or Patent Law." How one defines "proper" according to what context is still a problem unresolved. In the above-mentioned Guideline regarding warning letters issued by IP right-holder, TFTC seems to adopt a strict standard, while courts in the United States and Japan use a relatively looser standard to review the relevant cases.

C. CD-R Patent Pool Case

(A) Overview of the Facts

In 1989, Koninklijke Philips Electronics, N.V. (the Netherlands), Sony Corporation (Japan), and Taiyo-Yuden Co., Ltd. (Japan) (hereinafter referred to as Philips et al.) jointly set standards for production of CD-R (generally called "Orange Book"). Later on, Philips et al. formed a patent pool for CD-R technologies and entrusted Philips to administer that patent pool, collecting royalties and distributing them to pool members according to the pool agreement. Royalty of using patents in the patent pool is set to 3% of net profit for each CD-R sold or 10 ¥, whichever is higher. In its early time, profits from manufacturing CD-R were very lucrative, and high profits attracted other producers to enter the CD-R market. While CD-R market became more and more competitive, profits earned for each CD-R manufactured were diminishing, and finally far lower than

10 ¥. Royalty 10 ¥ for each CD-R sold became a heavy burden for CD-R producers. They then pushed Philips to approach to negotiation table and asked for reduction of royalty. Philips denied their request. Licensees then complained to TFTC.

According to TFTC's records, the complaint's assertions were as follows[6]: (1) the joint licensing practices (i.e. the patent pool at issue, noted by this author) of the respondents (i.e. Philips et al., noted by this author) were in violation of provisions of the Fair Trade Law (FTL) regarding concerted actions; (2) the method employed by the respondents that set the amount of royalties was in violation of provisions of the FTL regarding price setting by monopolistic enterprises; (3) the respondents' acts of joint licensing caused such important trading information as patent terms and contents to be unclear and was in violation of provisions of the FTL regarding abuse of market position by a monopolistic enterprise.

After investigation, TFTC found the following facts:[7]

(1) Considering the competition relations among the respondents (TFTC) found that, although Sony and Taiyo-Yuden licensed Philips to handle matters pertaining to the negotiating and entering into of patent licensing agreements, Sony and Taiyo-Yuden actually had considerable influence and decision-making authority over the contents of the licensing agreements and royalties. Their consent was essential for using related patents. Consequently there were certainly competition relations among the respondents. With respect to the licensing of the CD-R patent technology in this case, the respondents adopted a joint licensing or "patent pool" arrangement in which a consensus was reached on royalties and others. Hence this joint licensing practice certainly constituted a concerted action under Article 7 of the FTL .

(2) With respect to the setting of royalties, the FTC found that the

---

[6] See TFTC, A complaint alleged that the CD product patent licensing practices in Chinese Taipei by Koninklijke Philips Electronics, N.V. (the Netherlands), Sony Corporation (Japan), and Taiyo-Yuden Co., Ltd. (Japan) were in violation of the Fair Trade Law, available at < http://www.apeccp.org.tw/doc/Taipei/Case/D0575201.htm> (last visited 2010/11/17).

[7] Ibid.

respondents possessed an overwhelming advantage due to the patent technologies owned by them and the joint licensing practices among them. They were thus able to exclude other competitors from participating in competition, which was in violation of Article 5(2) of the FTL. The FTC also found that the licensing agreement in issue stipulated royalties to be paid as "3 % of the net selling price with a minimum of 10 Yen [per licensed product]." Furthermore, because CD-R prices had fallen substantially at the time, 10 Yen was obviously the larger figure. Hence royalties was up to at least 20 or 30 % of the selling prices. On several occasions the local firms requested the royalties to be reduced, but the respondents always refused.

(3) Concerning the refusal of providing important information such as licensing agreements and others during the process of negotiating patent licensing with CD-R producers on behalf of the three patent holders, Philips, who represented the three above-mentioned companies, granted nearly 200 patents to an individual firm. Philips did not provide individual patent licensing offer; instead, it merely listed the numbers and names of the patents at issue in the U.S. and Japan. Obviously Philips failed to disclose whether any corresponding patents existed in other countries and the valid terms of the foreign patents. Philips also failed to state concretely the patents that individual firms might be able to use in specific products and the scopes of such patents. However, Philips required local firms signing the licensing agreement and paying royalties.

(B) Order of TFTC

Based on the facts stated-above, TFTC delivered an administrative order listing Philips et al.'s violations of the Fair Trade Act as follows[8]:

(1) The respondents owned every important patent on CD-R technology patents; all manufacture and sale of CD-R products in the world had to obtain CD-R technology patents from the respondents. By joint agreement Sony and Taiyo Yuden gave up their individual licensing right, which forced potential licensees having no opportunity to choose trading partner but turning to Philips to obtain

[8] Ibid.

patent. Moreover, the respondents, by agreeing on the method of calculating royalties, blocked potential licensees' opportunity to pursue more favorable terms. Therefore, the respondents' agreement apparently affected the market function of supplying and demanding for CD-R patent. Because of concerted act's restricting market competition, impeding the functioning of price mechanisms and damaging consumer rights and interests the FTL imposes a relatively strict prohibition on concerted action. On the other hand, the FTL allows special exemptions under the circumstances enumerated in Article 14 where the action is beneficial to the overall economy, is in the public interest, and has been approved by the FTC. The respondents failed to apply to the FTC for such an exemption, and therefore were found to be in violation of Article 14, provision of which prohibits concerted act.

(2) Article 10(1)(ii) of the FTL provides that monopolistic enterprises shall not improperly set, maintain or change the price for goods or the remuneration for services. The joint licensing agreement among the respondents enabled them to obtain an overwhelming position in the CD-R patent licensing market; hence they constitute monopolistic enterprises under Article 5 of the FTL. Although supply and demand in the market had changed, the respondents, who maintained their method of calculating royalties, and failed to effectively respond to changes in supply and demand in the market, were in violation of Article 10(1)(ii) of the FTL, provisions of which prohibit enterprises' monopolistic acts.

(3) Article 10(1)(iv) of the FTL provides that monopolistic enterprises shall not abuse their market position by other acts. The joint licensing agreement among the respondents enabled them to obtain an overwhelming position in the CD-R patent licensing market; hence they constituted monopolies as defined in Article 5 of the FTL. On behalf of Sony and Taiyo Yuden, Philips signed the contested licensing agreements with the licensed manufacturers. In negotiating the royalty arrangements, Philips, together with the names of Sony and Taiyo Yuden, took advantage of its dominant position in the CD-R technology patent licensing market. While refusing to provide the licensees with important trading information such as the specific content, scopes, or valid periods of the patents, Philips demanded that the licensees signed the contested licensing agreement, and sought payment of royalties. Under the patent licensing arrangement, it also demanded that the licensees withdraw any invalidation actions against the patents at issue. Relying on

its dominant position Philips obviously compelled the licensees to accept the licensing agreement. Its actions were an abuse of its position in the market for patent licensing of the technology at issue, and violated Article 10(1)(iv) of the FTL.

(4) After considering the unlawful acts' impact on the functioning of market mechanisms of the technology patent licensing markets and associated products at issue, as well as the respondents' motives for the violation, benefits obtained thereby, and considerable business scales and prominent market standing, the FTC imposed administrative fines of NT$ 8 million on Philips, NT$ 4 million on Sony, and NT$ 2 million on Taiyo Yuden, and ordered the companies to immediately cease the illegal practices pursuant to the fore part of Article 41 of the FTL.

Though orders (1) to (4) all deserve detailed discussion, the author will only take issue with orders (1) and (2), which are more interesting and theoretically controversial than the other two.

(C) Issue concerning Cartel

The most contentious issue in this case is that does the patent pool at bar constitute a concerted action or cartel, which is inhibited by Article 14 of the Fair Trade Act. Philips et al. contended that patents in the patent pool are complementary, and not interchangeable among them, they thus are not in competition with each other. The patent pool at bar, therefore, could not be a cartel, which requires that enterprises in the cartel be in horizontal competition with each other. TFTC, however, denied to accept this assertion and rebutted that even patents in the patent pool are complementary, since Philips et al. were located at the same manufacturing and marketing level, and since they are in a position to compete with each other to induce CD-R producers to gain licenses from them, they thus satisfy the requirement that cartel member be in competition with each other. This argument is highly disputable.

In its “Fair Trade Commission Disposal Directions on Technology Licensing Arrangements” guideline, TFTC follows its American counterpart and differentiate relevant market into three categories: (1) "Goods markets" to which the goods manufactured or provided through use of the licensed technology belong; (2)

"Technology markets" defined by technology that is substitutable with the licensed technology; (3) "Innovation markets" in which research and development of relevant goods may take place. None of these categories conforms to the “market” defined by TFTC in CD-R case. It seemed that TFTC defined the relevant market in CD-R case not from a static point of view, but a “dynamic” point of view instead. Since Philips et al. were able to license to CD-R producers by themselves and induced the latters to deal with them by proposing better prices or conditions, they, therefore, were theoretically in a position to compete with each other. While admitting that patents in the patent pool may be complementary, TFTC, at the same time, claimed that they are in competition with each other, and thus their patents are interchangeable. It’s inconceivable “complementary” and “interchangeable” can coexist without contradicting each other.

If there exists any possibility that even patents in the patent pool are complementary, they can nonetheless in the same relevant market. In the course of CD-R dispute, “cluster” market idea was once brought forward. However, grouping complementary products into a “cluster” market is usually premised on that relevant products provided jointly will enjoy substantial economy of scope. When TFTC constructed a “dynamic” market definition by emphasizing that Philips et al. can license respectively and compete to induce CD-R producers to deal with them, it disregarded the economy of scope premise, and thus abandoned the possibility of introducing the “cluster” market theory by itself.

Philips et al., being ordered by TFTC to cease their concerted action, dissolved the patent pool and licensed their own patents respectively in Taiwan. One management science scholar and I were entrusted by TFTC to conduct an investigation regarding price changes in CD-R patents’ license royalties before and after TFTC’s administrative order. We found that though after the administrative order CD-R producers can negotiate with Philips et al., almost all of them cannot manage to get a favorable royalties, some even paid higher royalties than before. The most troublesome issue lies not on the price change, but the overhead cost expended to negotiate with all three of CD-R patents’ right-holders. It also ensued an opportunistic behavior. Philips et al. may have incentives to be the last one to negotiate with CD-R producers and ask higher royalties than the other two did, knowing that if CD-R producers do not accept its conditions, the license contracts

concluded with the other two enterprises are meaningless. Without acquiring licenses from all of the three enterprises, any manufacturing of CD-R would infringe certain patents hold by Philips et al.. The administrative order eventually did not profit CD-R producers. On the contrary, it put them in a more difficult dilemma.

Dissatisfied with the administrative order, Philips et al. appealed to the Taipei High Administrative Court, which in its judgment vacated TFTC's order regarding cartel violation.[9] The judgment denied the reasoning that patents which are complementary can be located in the same relevant market. These patents, therefore, are not in competition with each other. Patents holders who are not in horizontal competition relationship do not give rise to violation of cartel regulation. Even expert witness testified that Philips et al. should be deemed competitors when they worked out the "Orange Book." The judgment did not follow this argument because it thought that argument was irrelevant of this case, for the sake that the "Orange Book" involves the innovation market, not technology market of the case at issue. TFTC appealed to the Supreme Administrative Court on this issue. Failing to submit more convincing reasons and evidences, the Court dismissed the appeal.

Perhaps, originally, TFTC expected to dissolve the patent pool at issue in order to stimulate competition among Philips et al. and benefit CD-R producers in Taiwan. However, neglecting the complementary characteristics of patents concerned, TFTC's decision not only did not help CD-R producers, it further harmed them by creating opportunistic incentives among Philips et al.. TFTC's intention to bail CD-R producers out of their misery caused by cut-throat competition in manufacturing CD-Rs became clearer when we go on to discuss the monopolization issue in its administrative order (2).

(D) Abuse of Monopolistic Position

Remember that in (2) of its administrative order, TFTC ascertained that "Although supply and demand in the market had changed, the respondents, who maintained their method of calculating royalties, and failed to effectively respond to

---

[9] See 2003 Decisions Su-Tzu No. 00908, 01132, and 01214).

changes in supply and demand in the market, were in violation of Article 10(ii) of the FTL….” As set forth above, Article 10(ii) of the Fair Trade Act forbids monopolistic enterprise to “improperly set, maintain or change the price for goods……” According to TFTC, since patent pool at issue conferred monopolistic position on Philips et al., they thus are prohibited to maintain the same royalty after economic situation and environment surrounding CD-R producers had been changing in such a vehement way that almost none of them could ever profit from manufacturing CD-R. Here, TFTC’s ambivalence toward Article 10(ii) of the Fair Trade Act came into play.

On the one hand, TFTC thought that excessively high royalty transferred almost all the wealth created by CD-R manufacturing to Philips et al., leaving nothing to CD-R producers of Taiwan. This result is not what equity teaches. On the other hand, TFTC was well informed that, once intruding the sphere of price setting, it would have to take place of market mechanism and play the function of the “invisible hand.” Eventually, concerns over wealth transferring led TFTC to step in the price issue in the case. It declared that maintenance of royalty by Philips et al. was an improper abuse of monopolistic position, and thus violated Article 10(ii) of the Fair Trade Act. However, since TFTC was not able to answer the question of how much royalty is appropriate in the case at issue, it thus could only demand abstractly Philips et al. should reduce their royalty and refused the complainants’ request that TFTC set a concrete price for Philips et al. to collect from them. According to TFTC, how much should be reduced to reach an appropriate level should be negotiated further between Philips et al. and CD-R producers. As stated above, after the administrative order, Philips et al. dissolved the patent pool almost voluntarily. The negotiation thereafter would have to be conducted between CD-R producers and each patent holder. When the circumstance changed, the order that was directed against the patent pool as a whole became meaningless. As stated above, our study showed that after the administrative order, totaling their respective royalty paid to each patent holder of the former patent pool, many CD-R producers paid higher royalties than before.

Dissatisfied with the TFTC’s decision, Philips et al. appealed to the Taipei High Administrative Court on this issue, too. Contrary to their prevailing in the cartel issue, this time the judgment was delivered in TFTC’s favor. Though Philips

et al. appealed further to the Supreme Administrative Court, the Court upheld lower court's decision. Both TFTC and courts' decisions took the view that Philips et al. are monopolistic enterprises. As stated above, monopoly regulation in the Fair Trade Act contains oligopoly as well as monopoly. The problem here is that to which category Philips et al. belonged to and were thus deemed monopolistic enterprises. In the (2) of TFTC's administrative order, it stated that "The joint licensing agreement among the respondents enabled them to obtain an overwhelming position in the CD-R patent licensing market; hence they constitute monopolistic enterprises under Article 5 of the FTL." It seemed from this paragraph that TFTC contemplated CD-R technology market was an oligopolistic one comprising only three enterprises, i.e. Philips et al., and the jointly licensing practice under the patent pool enabled Philips et al. to jointly monopolize the technology market at issue. However, when courts' decisions above upheld assertions from Philips et al. that patents in the patent pool at issue are complementary, not substitutable or interchangeable, they must be located in different relevant markets. How enterprises holding patents in different relevant markets jointly constituted a monopolistic position in "a" relevant market? If TFTC insisted on identifying Philips et al. as monopolistic enterprises in accordance with Article 5 of the Fair Trade Act, it had to redefine the relevant market at issue. Relevant market must be defined to include those patents which are substitutable or interchangeable, not complementary. And when TFTC opined that Philips et al. each held one or more essential patent(s) for manufacturing CD-R, can we jump into conclusion that any essential patent, being complementary with each other, constitutes a relevant market itself, and thus enterprise holding such a patent is a monopolistic enterprise in accordance with Article 5 of the Fair Trade Act. Both TFTC and courts' decision, however, refused to work on this issue in any more detailed way.

(E) Episode--Compulsory Licensing

As set forth above, Philips et al. dissolved the patent pool at issue following TFTC's administrative order declaring the pool violated cartel provision of the Fair Trade Act, and negotiated respectively thereafter with CD-R producers in Taiwan for the royalties the latter should pay for continuing manufacturing CD-Rs. CD-R producers, even after prevailing in the issue regarding monopoly provisions, were

unable to use the administrative order or courts' decisions to extract favorable royalties from the patent pool as a whole. They had to pay almost the same royalties as before, and in some cases even higher. The administrative order did not remedy them from high royalty, which was the really underlying reason CD-R producers in Taiwan brought their complaint to TFTC. If the administrative order was unable to reach their objectives, they had to find other alternatives to force Philips et al. to lower their royalties. Patent Act of Taiwan was deemed to provide them the necessary tool.

Article 76(1) of Taiwan's Patent Act prescribes that "In order to cope with the national emergencies, or to make non-profit-seeking use of a patent for enhancement of public welfare, or in the case of an applicant's failure to reach a licensing agreement with the patentee concerned under reasonable commercial terms and conditions within a considerable period of time, the Patent Authority may, upon an application, grant a right of compulsory licensing to the applicant to put the patented invention into practice; provided that such practicing shall be restricted mainly to the purpose of satisfying the requirements of the domestic market." In July 30, 2002, one CD-R producer of Taiwan applied for compulsory licensing in accordance with Article 76(1) under reason that it had negotiated with Philips for the latter to license it in "reasonable commercial terms" for a long time, but failed to reach an agreement with Philips. Regarding "reasonable commercial terms", the applicant asserted that the reasonable royalty should be set as it was done in the common practice of computer industry, that is 2-5% of net profit for each item sold. However, Philips' royalty for its CD-R patents had reached to a high level of more than 33% of net profit for each CD-R sold. That royalty was obviously unreasonable. The applicant, therefore, asked the Intellectual Property Office of Taiwan (hereinafter referred to as TIPO) to approve its application and set a reasonable royalty for the compulsory licensing.

To many observers' surprise, TIPO approved the application. Though TIPO had approved another compulsory licensing application before, yet that application was concerned with Tamiflu drug under condition of "national emergency." CD-R case was a dispute of two private parties trying to gain themselves more share of the wealth created in a declining industry. Government agency should not step in, especially when it was requested to declare the royalty at issue was unreasonable

and instead set a royalty it deemed reasonable. If TIPO decided to approve the application, it would no doubt be confronted with the same dilemma as TFTC was. While most expected that TIPO would avoid stepping into the trouble water, it finally approved the application. It was rumored that TIPO was under strong political pressures to approve the application. However, that rumor was never confirmed. Paradoxically, while TIPO approved the compulsory licensing application, it nevertheless refused to set a royalty for the applicant under reason that the Patent Act in no clause empowers it to set a royalty for the applicant. Determination of royalty should remain to be negotiated by relevant parties. The applicant won the case, but as it had encountered in TFTC's case, the objective to lower royalty which it had pursued from the very beginning failed.

Philips, irritated by the order of compulsory licensing, complained to the European Commission, declaring that the compulsory licensing at issue violated Article 28 and 31 of WTO/TRIPS. European Commission decided to launch an investigation on the issue on March 1, 2007. In January 30, 2008, European Commission completed the investigation and published a report entitled "EXAMINATION PROCEDURE CONCERNING AN OBSTACLE TO TRADE, WITHIN THE MEANING OF COUNCIL REGULATION (EC) No 3286/94, CONSISTING OF MEASURES ADOPTED BY THE SEPARATE CUSTOMS TERRITORY OF TAIWAN, PENGHU, KINMEN AND MATSU AFFECTING PATENT PROTECTION IN RESPECT OF RECORDABLE COMPACT DISCS."[10] In the report, European Commission strongly claimed that "reasonable commercial terms and conditions" is a procedural requirement rather than a substantive one for granting compulsory licensing. Its claim was based on two reasons: (1) permitting compulsory licensing where there is a refusal to deal on reasonable commercial terms eviscerates the patent protection set out in the TRIPs Agreement, and is clearly inconsistent with Article 28 TRIPs; (2) the reference to "reasonable commercial terms" in Article 31 of the TRIPs is clearly no more than a procedural requirement and treating it as a substantive requirement clearly runs

[10] Available at < http://trade.ec.europa.eu/doclib/docs/2008/january/tradoc_137633.pdf> (last visited 2010/11/19).

counter to Article 31 (also when read in conjunction with Article 28).[11] European Commission, therefore, reprimanded TIPO's granting of the compulsory licensing and threatened that if TIPO did not withdraw its order of compulsory licensing, it would bring the case to WTO.

In addition to complaining to European Commission, Philips also appealed to the Taipei High Administrative Court for revoking the compulsory licensing order. That court, after reviewing the parties' assertions, decided in favor of Philips and vacated the order. However, Taipei High Administrative Court did not involve itself in the dispute about whether "reasonable commercial terms and conditions" is a procedural requirement or a substantive one, instead it only declared that TIPO failed to fully take into consideration all the relevant factors when it decided that the royalty at issue to be "unreasonable" commercial terms. TIPO, under pressures both from European Commission and domestic climate toward this case, gave up appealing to the Supreme Administrative Court. European Commission, receiving that friendly response from TIPO, closed the case, too.

To be a hindsight, since none of the parties concerned benefited from the CD-R dispute, in might be better that the case should have never been brought forward. CD-R producers prevailed in the issues on monopolization and compulsory licensing at TIPO level, but never accomplished their objective to lower the royalty at issue. On the other hand, Philips et al. won the issue on cartel issue and compulsory licensing at European Commission and Taiwan's court, but expended so much money and resource to cope with the suits. TFTC, trying to protect CD-R producers in Taiwan from excessive royalties set by Philips et al., issued an administrative order dictating Philips et al. lower their royalties, but the order was circumvented when the pool was dissolved following its own order on cartel issue, and proved to be meaningless, even harmful to some CD-R producers. TIPO, granting compulsory licensing upon application, almost triggered a trade war between Europe Union and Taiwan, was thereafter scrutinized strictly by many other countries for its compulsory-license granting regulation and practice. It seemed that the only winners in CD-R dispute are lawyers who provided legal

[11] Id. at 28-29.

services to relevant parties.

D. Concluding Remarks

The interface between competition law and IP laws can differ in different time in different places and according to a country's economic development level and its own political circumstance. American Court once, being afraid of monopolistic power a patent could bring about, required that patent registered be a "flash of creative genius." [12] However, 1980s' pro-patent policy has greatly loosened the standards for acquiring a patent and has given rise to the so-called "patent trolling", with which the competition law is trying hard to figure out how to cope. Some commentators called this development a "patent failure."[13] It seems that the present interface between competition law and IP laws in America tilts against IP laws.

In Taiwan, even under great pressures from American government to protect IP and that many IP laws' amendment were strongly influenced by American legal system, the balance of legal enforcement between competition law and IP laws seems to be lead a different direction from America, perhaps even from Japan. Legally, TFTC is an independent agency according to Article 28 of the Fair Trade Act. However, the appointment procedure of its commissioners has been more or less influenced by political considerations till now. Not few commissioners have their own viewpoints about what role competition law should play in Taiwanese society, which may be seen as unorthodox in current antitrust regulatory philosophy. They sometimes put more emphasis on equality among society than free enterprise system. Recent populist trend in Taiwan gives them more justifications to interfere with some areas which are deemed belonging to enterprise's autonomy.

In CD-R case, the real concerns were not that Philips et al. formed a cartel, but that the prices or royalties they set were too high to be acceptable from the eyes of Taiwanese enterprises and consumers. The inequality should be corrected.

---

[12] Cuno Eng. Corp. v. Auto. Devices Corp. 314 U.S. 84 (1941).

[13] See James Bessen & Michael J. Meurer, Patent Failure—How Judges, Bureaucrats, and Lawyers Put Innovators At Risk (2008).

Article 10(2) of the Fair Trade Act, which forbids excessive pricing, provided them regulatory tool. TFTC has shown generous attitude toward enforcement of Article 10(2) in its history. The line between industrial policy and competition policy becomes blurred in these cases. What troubled competition law researchers more is the “emperor clause,” i.e. Article 24 of the Fair Trade Act. When in shortage of commodities due to catastrophes or price-soaring in international markets, TFTC has from time to time been asked by Executive Yuan (Prime Minister of Taiwan) to step in and take legal measures against those who were hoarding and profiteering the commodities in order to keep economic stability. Here, TFTC plays a role implementing social policy.

Justice Oliver Wendell Holmes, Jr. once said, "The life of the law has not been logic; it has been experience." Logic may be identical globally, but experience is nation dependent. We may criticize from a point of view of the prevailing western antitrust regulatory philosophy that TFTC’s enforcement has gone astray, however, being the first independent agency in Taiwan, TFTC has met many difficulties in gaining respects from other administrative branches and Taiwanese people. If TFTC hopes to keep its independence under Taiwanese special political and popularist environment, it has to localize itself to satisfy the expectation of Taiwanese people about what is a “fair trade” agency for. Experience of TFTC tells a different story from its counterparts in the United States and Japan.