PROCEDURES RELATING TO THE IMPLEMENTATION OF THE COMMON COMMERCIAL POLICY

COMMISSION

Notice of initiation of an examination procedure concerning obstacles 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

(2007/C 47/11)

On 15 January 2007, the Commission received a complaint under Article 4 of Council Regulation (EC) No 3286/94 (1) (hereinafter ‘the Regulation’).

1. Complainant

The complaint was lodged by Koninklijke Philips Electronics N. V. (hereinafter ‘Philips’).

Philips is a company formed in accordance with the law of the Netherlands, having its registered office in Eindhoven, the Netherlands. Philips invented some of the core technologies for recordable compact discs (hereinafter ‘CD-Rs’) and holds a number of patents in respect of these technologies. The complaint alleges that the Separate customs territory of Taiwan, Penghu, Kinmen and Matsu (hereinafter referred to as ‘Chinese Taipei’) has illegally granted compulsory licences in respect of those patents.

Philips is a Community enterprise within the meaning of Articles 4(1) and 2(6) of the Regulation.

2. Product and intellectual property rights concerned

The complaint concerns intellectual property rights in the form of patents which the complainant licenses to third parties for the manufacture of CD-Rs. CD-Rs are an optical storage medium for digital data or music. The complainant developed some of the core technologies for CD-Rs and has sought patent protection in respect of five inventions linked to CD-R technology. The complainant has obtained patent protection for these five inventions in Chinese Taipei.

3. Subject

The complaint focuses on the grant by the authorities of Chinese Taipei of compulsory licences in respect of the complainant’s CD-R patents to Gigastorage Corporation (hereinafter ‘Gigastorage’) a producer of CD-Rs in Chinese Taipei.

Article 76 of the Patent Act of Chinese Taipei provides for the granting of compulsory licences in certain specified circumstances. Pursuant to this provision, Gigastorage filed an application for compulsory licences in respect of five patents held by the complainant with the Intellectual Property Office (hereinafter ‘IPO’) of Chinese Taipei on 30 July 2002. On 26 July 2004 the IPO granted Gigastorage’s request. This decision was appealed to the Ministry of Economic Affairs of Chinese Taipei on 26 August 2004. On 16 June 2006 the Ministry of Economic Affairs rejected the appeal.

4. Allegations of Obstacles to Trade

The complaint considers that the measures described in Section 3 constitute an obstacle to trade within the meaning of Article 2(1) of the Regulation.

The complaint alleges that the decision of the IPO, as confirmed on appeal by the Ministry of Economic Affairs, is inconsistent with several provisions of the World Trade Organisation Agreement on Trade Related Aspects of Intellectual Property Rights (hereinafter ‘TRIPs’).

The complaint alleges that the measures are inconsistent with Article 28(1)(a) of the TRIPs Agreement because the exclusive rights pertaining to the patent holder on the basis of that provision have not been respected. Article 31 of the TRIPs Agreement permits the granting of compulsory licences in respect of the subject matter of a patent. However, the complainant alleges Article 31 has been incorrectly applied by the granting of compulsory licences in circumstances not provided for under that provision.

In particular, the complainant argues that Article 31 has been incorrectly applied in the following respects. First, it alleges that no justification is available under Article 31(b) of the TRIPs Agreement. The complainant alleges that the measures at issue effectively require a patent holder to grant a licence to a third party where that third party offers ‘reasonable’ terms. The complainant alleges that such a substantive requirement cannot be derived from the terms of Article 31(b) which the complaint alleges is purely procedural. The complainant also alleges that the measures rely on a misapplication of the ‘reasonableness’ test in Article 31(b) of the TRIPs Agreement by analysing only the reasonableness of the commercial terms from the perspective of the individual proposed user of the licence while ignoring that the patent holder had successfully concluded licensing agreements with a number of other producers operating in the same market as the proposed user of the licence. The complainant further alleges that the analysis of the reasonableness of the terms offered leading to the measures was flawed because it was found that the terms were unreasonable in light of the cost structure of the proposed user of the licence without analysing whether other factors led to the proposed user not being able to reach agreement with the complainant.

Second, the complainant alleges that the Chinese Taipei has failed to respect Article 31(c) of the TRIPs Agreement by failing to specify the purpose for which the licence was granted and by failing to limit the scope and duration of the use of the licence to such a purpose. Third, the complainant alleges that the Article 31(f) of the TRIPs Agreement has been incorrectly applied by authorising the use of the compulsory licences concerned for export given that they had knowledge at the timing of granting the licences that Gigastorage would use the licences to produce for export.

In light of the factual information available and the evidence submitted, the Commission is satisfied that the complaint contains sufficient prima facie evidence of the existence of obstacles to trade within the meaning of Article 2(1) of the Regulation.

5. Allegation of adverse trade effects

The alleged obstacles to trade identified in the complaint appear to deny the complainant the enjoyment of its patent rights in respect of CD-Rs and therefore can be considered as causing and threatening to cause adverse trade effects.

The complaint contains evidence that the measures have actual adverse trade effects and contains estimates of the losses which the complainant has suffered as a result of the compulsory licenses granted by the measures at issue. The complaint further alleges a threat of adverse trade effects arguing that other CD-R producers in Chinese Taipei will be encouraged to request compulsory licences, and that this effect might even extend to producers in other WTO Members, given the highly competitive and global nature of the market for CD-Rs. The complainant also alleges that the measures complained of create, or threaten to create, adverse effects for the EC licensees of the complainant’s patents who compete with CD-R exports from Chinese Taipei. Finally, the complainant argues that the measures complained of threaten to create adverse trade effects for all EC patent owners who are charging royalties to licensees in Chinese Taipei or countries likely to be influenced by this interpretation of the relevant provisions of the TRIPs Agreement.

The Commission considers that the complaint contains sufficient prima facie evidence of the adverse trade effects of the measure on the complainant and a sector or sectors of economic activity in the Community within the meaning of article 2 (4) of the Regulation.

6. Community Interest

Community industry is estimated to invest approximately EUR 195 billion annually in research and development with 2 million persons employed in such activities. Patents are one of the fruits of such investment and it is consequently of importance to the Community to protect intellectual property rights and ensure that international agreements protecting intellectual property rights are correctly enforced. Enforcing such agreements is particularly important where there is a risk, as alleged by the complainant, of the measures at issue creating a precedent for other WTO Members.

In view of the above, it is considered to be in the Community's interest to initiate an examination procedure.

7. Procedure

Having decided, after due consultation of the Advisory Committee established by the Regulation, that there is sufficient evidence to justify initiating an examination procedure for the purpose of considering the legal and factual issues involved, and that this is in the interest of the Community, the Commission has commenced an examination in accordance with Article 8 of the Regulation.

Interested parties may make themselves known and make known their views in writing on specific issues raised by the complaint, providing supporting evidence.

Furthermore, the Commission will hear the parties who so request in writing when they make themselves known, provided that they are primarily concerned by the result of the procedure.

This notice is published in accordance with Article 8(1)(a) of the Regulation.

8. Time limit

Any information relating to the matter and any request for a hearing should reach the Commission not later than 30 days following the date of publication of this notice and should be sent in writing to:

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