

Global opportunities for Taiwanese companies and investors

Managing your international
business risks in 2019





Contents

Executive summary

[Page 1](#)

How to avoid becoming collateral damage in the US-China “tech war”

[Page 2](#)

Risks and risk management for Taiwan exporters using China-origin parts

[Page 6](#)

Gale force momentum in Taiwan’s offshore wind sector

[Page 10](#)

US design patents: An increasingly useful option

[Page 12](#)

Taiwanese companies beware: A new dynamism in EU antitrust enforcement?

[Page 16](#)

How to take advantage of the new US antitrust compliance credit

[Page 18](#)

Executive summary

Amid global market uncertainties and shifting regulatory priorities, where the only constant is change, Taiwanese businesses still can plot strategic pathways to success

Welcome to our fourth report on global trends and opportunities for Taiwanese companies and investors conducting business internationally.

Although disruptive forces continue to buffet markets worldwide, advantages exist for savvy business leaders who pay close attention to global trends and act accordingly.

With the United States focusing more and more on China's technology industry as a national security priority, Taiwanese companies should take specific steps to decrease their risk of becoming collateral damage in a US-China "tech war." Similarly, despite a heightening US-China trade war, careful assessments of any supply chains that include China-made parts and related actions can help protect Taiwanese companies' access to US markets.

Design patents offer increasingly useful protections for design-focused Taiwanese companies that operate in the US. In the energy sector, Taiwan's offshore wind sector demonstrates vibrant potential for growth, particularly if Taiwan successfully resolves a few key challenges.

A new dynamism in the European Union's approach to antitrust enforcement provides guidance for growth-focused Taiwanese companies. And a recent change to US antitrust enforcement policy provides a compelling incentive for Taiwanese businesses to review their internal compliance programs and controls.

We hope you find this useful, and we look forward to seeing Taiwanese businesses grow and thrive in the year ahead.



David Li
Taiwan Practice Head

How to avoid becoming collateral damage in the US-China “tech war”

The benefits of paying close attention to details of US export controls and economic sanctions

By Cristina Brayton-Lewis

Over the past ten years, the United States has increased its focus on the Chinese technology industry as a national security matter and a key issue in trade dealings. Most recently, this focus is evident in the US-China trade negotiations and in the US government’s high-profile actions against ZTE, Huawei and others on China-related issues.

The “weapons” on the US government’s side of this battle include export controls, economic sanctions, foreign investment review and other trade restrictions:

- Export controls are licensing requirements for items subject to US export jurisdiction, including certain items made outside the US, based on their destination, end user or end use. New export controls on certain “foundational” and “emerging” technologies are under development
- Economic sanctions are prohibitions on dealings with certain targeted persons, countries and regions that have a direct or indirect connection to the US (in some cases, even without a US nexus)
- Foreign investment review means the US government can reject or require divestment of foreign investment in US businesses on national security grounds and can impose “mitigation measures” as a condition of approving foreign investments
- The US is locked in a protracted “trade war” with China that has resulted in numerous

rounds of tariffs on Chinese goods. In addition, the US may restrict imports on telecommunications technology from “foreign adversaries”

With so much at stake, what can Taiwanese businesses do to protect themselves from US export controls, economic sanctions and similar issues?

As the US expands its playbook and takes an increasingly combative approach to trade, you can decrease your company’s risk of becoming collateral damage in the US-China tech war by taking proactive steps to comply with applicable US laws. As an added benefit, it can also increase your marketability as a reliable trade partner.

Here’s where to start:

KNOW WHERE YOU STAND

Companies of all industries, sizes and nationalities have been caught in the crossfire of the US-China tech war. Regardless of your location, to defend against fallout from the US-China conflict, you need to know how it can impact your business.

Start by examining the extent of your exposure to the US and Chinese markets:

- **Exposure to the US market**—Is your supply chain dependent on US technology or components? Are you considering investment (direct or indirect) into the US?
- **Exposure to the Chinese market**—Who are your customers? Do your customers indirectly rely on US-origin goods or technology for their products?



As the US expands its playbook and takes an increasingly combative approach to trade, you can decrease your company’s risk of becoming collateral damage in the US-China tech war by taking proactive steps to comply with applicable US laws.

Undertake this evaluation before you become a casualty of the conflict: for example, by suddenly losing access to your US supply chain. A wait-and-see approach to compliance with US law can be costly.

EVALUATE YOUR RISKS

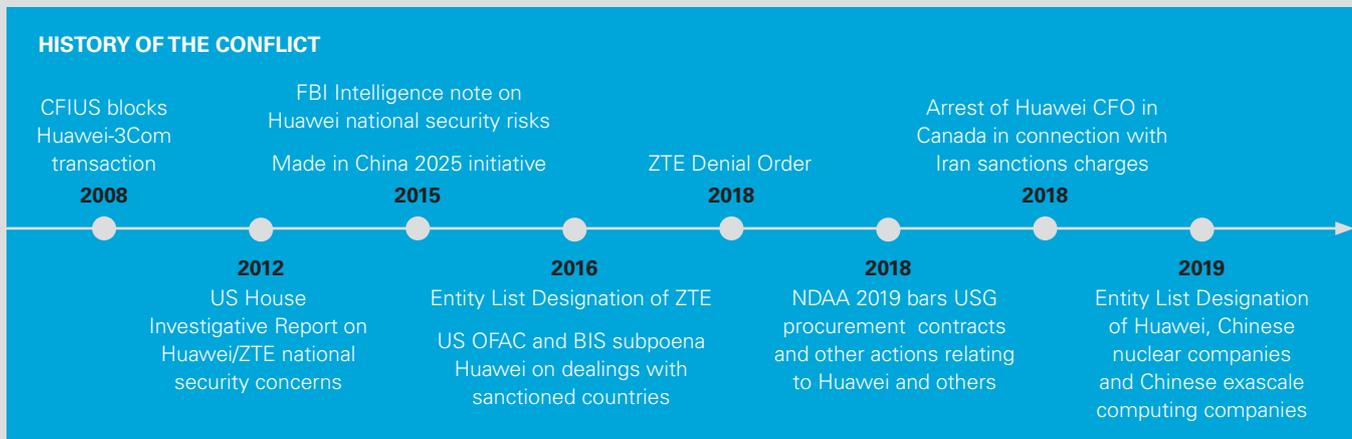
Once you understand your exposure to the US and Chinese markets, evaluate where you could face risks. Effective protective measures will require a full understanding of your risk profile to calibrate an appropriate compliance response. Most of the US-China tech war’s “weapons” depend on a connection to the US.

Initial risk factors to consider include:

- Whether and how you use US-origin goods or technology, including intellectual property



BACKGROUND ON THE CONFLICT



THE "COMBATANTS"



US Department of Commerce
Bureau of Industry and Security (BIS)
Administers US export controls



US Department of the Treasury
Office of Foreign Assets Control (OFAC)
Administers US sanctions



US Department of the Treasury
Chairs the Committee on Foreign Investment in the United States (CFIUS)
Conducts national security reviews of foreign investment in US businesses



US and Chinese industry
Caught on both sides of conflict

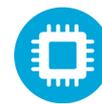


US Congress
Supports anti-China policies, introduces restrictive legislation



Chinese government
Made in China 2025 initiative, moving to counter US trade policy

THE "TARGETS"



Semiconductors
This is the foundation of the global electronics market and a flashpoint of the US-China tech war



5G/Telecommunications
The US maintains that 5G network infrastructure poses a national security concern



Emerging and foundational technology
Certain technology areas that pursue global research and development face possible US export controls (e.g., AI, quantum computing, drones/unmanned aerial vehicles)

THE "WEAPONS"

Export controls

Licensing requirements for items subject to US export jurisdiction, including certain items made outside of the US, based on destination, end user or end use. New export controls on certain "foundational" and "emerging" technologies are under development.

Economic sanctions

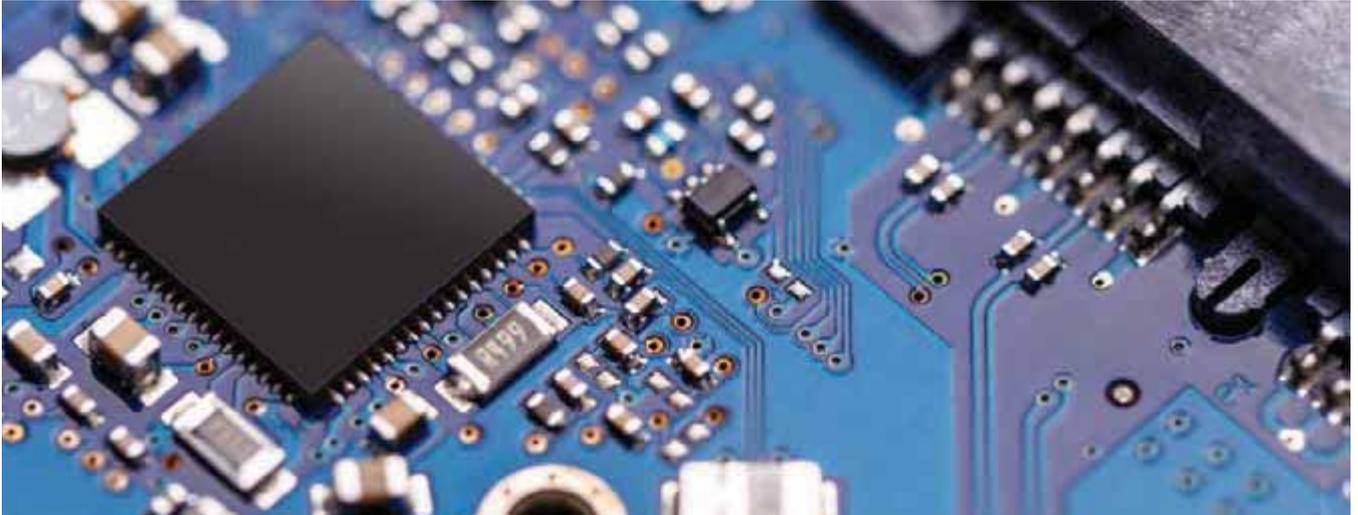
Prohibitions on dealings with certain targeted persons, countries and regions with a direct or indirect connection to the US (and in some cases, absent a US nexus).

Foreign Investment Review

The US government can reject or require divestment of foreign investment in US businesses on national security grounds and can impose "mitigation measures" as a condition of approval.

Other trade restrictions

The US is locked in a protracted "trade war" with China resulting in numerous rounds of tariffs on Chinese goods. In addition, the US may restrict imports on telecommunications technology from "foreign adversaries."



- Whether your products contain US-origin components, software or technology

- Whether your transactions are denominated in US dollars

- Your plans for future investments into the US

The next set of risk factors to evaluate is whether your business involves Chinese counterparties subject to US scrutiny. These include Chinese counterparties that are:

- Designated on a US restricted parties list (e.g., Huawei)

- Involved in military or defense activities

- Involved in drone development or manufacturing

- Involved in artificial intelligence or surveillance technology development or manufacturing

And although US restrictions can apply regardless of your industry, consider whether you operate in any “targeted” higher-risk areas, such as:

- **Semiconductors and integrated circuits**—This sector is a flashpoint of the US-China tech war

- **Telecommunications/5G**—The US maintains that 5G network infrastructure poses a national security concern

- **Emerging and foundational technologies**—Technology areas

that pursue global research and development in particular face possible US export controls

- **Artificial intelligence**

- **Quantum computing/ Supercomputing**

- **Drones/Unmanned aerial vehicles**

SET UP COMPLIANCE PROGRAMS AS DEFENSIVE MEASURES

You can mitigate your risk exposure by implementing a US economic sanctions and export control compliance program. A properly executed compliance program could save you significant costs, such as loss of suppliers or customers, as well as possible civil and criminal penalties.

Robust corporate compliance programs that lead to fewer or less stringent US actions generally contain these key elements:

- Management commitment

- Policies to comply with applicable laws

- Procedures to administer and enforce the policies, acknowledging concepts such as “Know Your Customer” diligence, export classification and licensing, and recordkeeping

- Routine audits to identify and correct deficiencies

- Ongoing training of relevant personnel

There is no one-size-fits-all program. Rather, you should tailor an effective compliance program to your business and risk profile, including by working with US lawyers to develop and implement appropriate compliance systems.

PROACTIVELY MONITOR

The US-China tech war is developing rapidly, driven by political considerations against the backdrop of a relatively unpredictable US administration.

This means that Taiwanese companies should consider a proactive approach to monitor and, as needed, engage in this shifting landscape. A few tools can provide useful support in these uncertain times:

- **Media coverage**—The media, including social media, widely reports on breaking developments in the US-China tech war

- **Industry associations**—Members often receive real-time information and a platform for US government outreach and engagement

- **Governmental relations consultants (lobbyists)**—These consultants often provide insight into US government policies and upcoming actions, as well as formal engagement with policymakers. They may be required to register publicly in the US

Risks and risk management for Taiwan exporters using China-origin parts

Despite a volatile, uncertain trade environment, you can take steps to protect your US market share

By Chris Corr

One year into the US-China trade war, after several waves of unprecedented punitive US tariffs on US\$250 billion worth of China-origin goods and retaliatory Chinese tariffs on US\$110 billion worth of US-origin goods, global companies have begun diversifying their supply chains by moving some or all of their production out of China. Other factors, such as rising costs in China, are contributing to this trend.

As a result, many businesses are relocating their manufacturing operations from China to other Asian countries, primarily Taiwan and members of the Association of South East Asian Nations (ASEAN) region (Figure 1).

Some exporters believe that obtaining a certificate of origin for their finished goods from a third country such as Taiwan will keep them safe. But regulatory scrutiny of imports containing parts made in China has never been higher.

Shipping finished goods that contain China-made parts from Taiwan to the US can entail significant risks. A wise strategy includes proactively understanding these risks, assessing your potential exposure and taking action to protect your access to US markets.

THE RISKS FOR TAIWANESE EXPORTS TO THE UNITED STATES

US authorities may accuse Taiwanese exporters—and the US importers they work with—of trying to evade duties on China-made finished goods or parts, contrary to one or more trade laws. The consequences can be

harsh, including high duties and penalties, blocking or limiting access to US markets and, in some cases, criminal charges and possible prison time. These trade laws include:

– Country-of-origin inquiry or penalty action by US Customs and Border Protection.

US Customs and Border Protection (CBP) may investigate the accuracy of the country-of-origin (CoO) declarations for the goods during importation into the US. In particular, CBP will check whether the production or assembly processes in Taiwan “substantially transformed” the China-made parts enough for the finished goods to have originated in Taiwan for purposes of CoO duties. If not, CBP may demand underpaid duties, assess substantial penalties and, in some instances, detain, exclude or seize the goods.

– Scope inquiry by US Department of Commerce.

The US Department of Commerce may conduct its own CoO assessment, using its own rules, if the China-made parts are subject to anti-dumping (AD) and countervailing duty (CVD) actions or if the finished product would be subject to AD/CVD duties (if the country of origin were China). The Department of Commerce’s rules do not rely only on “substantial transformation” or interpret the phrase the same way that CBP does. Even if a CoO is correct for CBP purposes, the Department of Commerce can issue an apparently conflicting



Shipping finished goods that contain China-made parts from Taiwan to the US can entail significant risks. A wise strategy includes proactively understanding these risks, assessing your potential exposure and taking action to protect your access to US markets.

determination and rule—even retroactively—that the goods are subject to China AD/CVD duties.

– Anti-circumvention inquiry by US Department of Commerce.

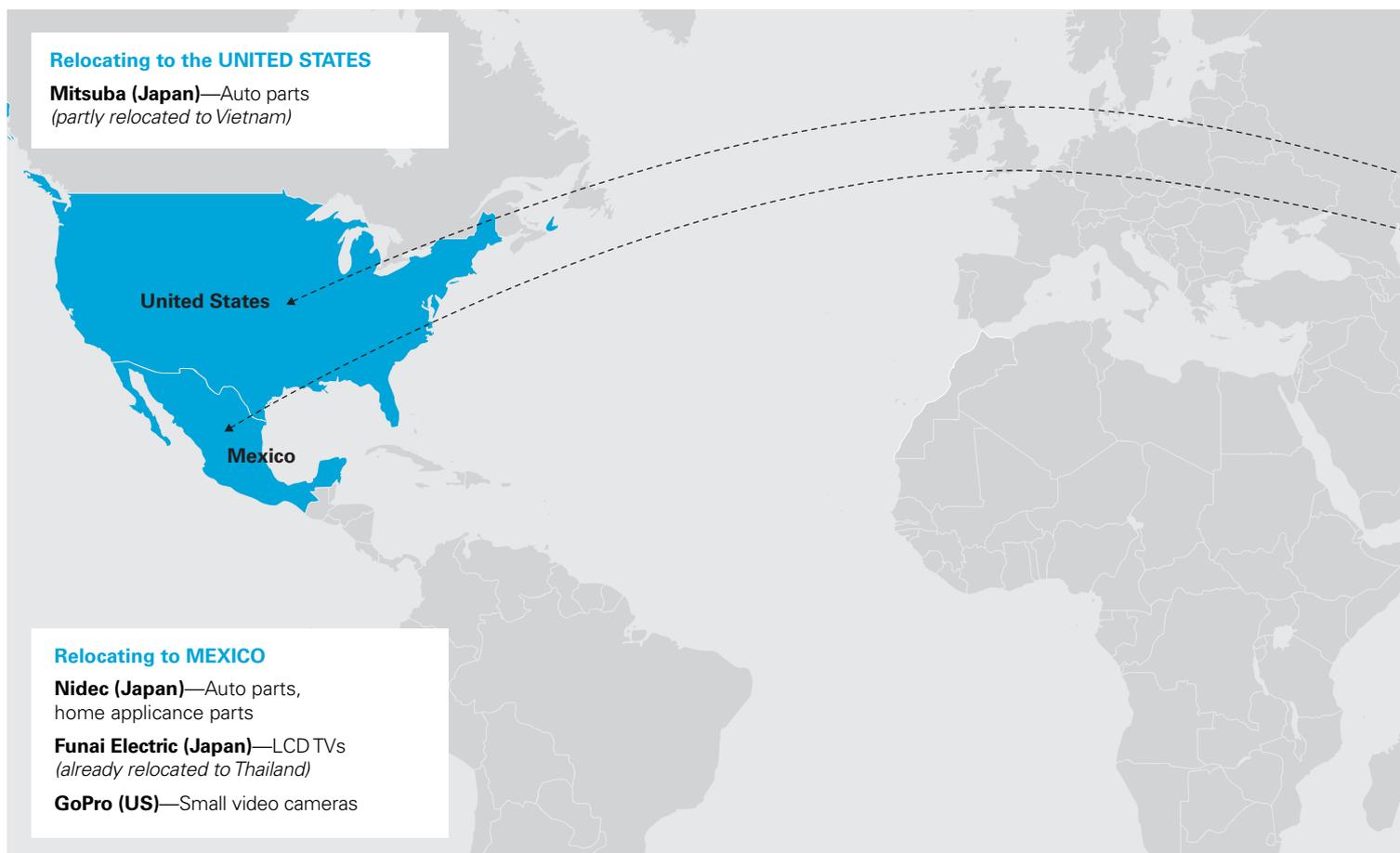
Even if both CBP and Department of Commerce CoO rules deem specific goods as originated in Taiwan, the Department of Commerce can inquire whether the goods otherwise circumvent US AD/CVD duties. If it determines the Taiwan operations were minor and/or would otherwise “circumvent” those duties in the future, it can enter an adverse finding.

– Anti-evasion inquiry by CBP.

Under the US Enforce and Protect Act (EAPA), CBP may investigate whether Taiwanese goods are “evading” AD/CVD duties. In most EAPA cases, CBP



Figure 1: Many businesses are relocating their manufacturing operations from China to other Asian countries



Source: Nikkei.com

checks whether the goods were actually produced in Taiwan, not merely trans-shipped through the country. Even before it decides whether the importer made any false statements, CBP may demand AD/CVD cash deposits on entries made during the investigated period. According to CBP's annual Trade and Travel Report for 2018, CBP initiated 20 EAPA investigations during the previous two years and conducted 18 onsite audits of producers in Asia, thus preventing the evasion of US\$50 million "in AD/CVD duties annually."¹

WHAT CAN YOU DO TO MANAGE THESE RISKS?

If goods you produce contain significant China-made parts, US authorities may decide they do not originate in Taiwan or otherwise that they should be subject to duties on goods from China. This risk

usually increases if your exports increase, especially when there is a parallel decrease in exports from China, or if your production facility is a subsidiary or affiliate of a Chinese company.

Know your risk based on your particular circumstances

The first step toward managing these potentially significant risks is to get a clear understanding of your company's exposure.

Start by assessing:

- 1 The origin and value of all of your inputs and components. It is prudent to involve experts to assist in performing this technical analysis
- 2 The relative value and importance of your China-made inputs
- 3 The nature and extent of your production or assembly operations in Taiwan

- 4 The tariffs applicable to these parts or goods if they had been exported directly from China, including normal most-favored nation (MFN) duties, special duties from the trade war—including under Section 301 (unfair practices) and Section 232 (national security threats)—as well as anti-dumping duties, anti-subsidy countervailing duties and Section 201 duties (safeguards against injurious import surges)

Take action to eliminate or mitigate your particular risks

Depending on your circumstances, these actions can include:

- **Obtaining a CBP country-of-origin ruling where existing precedent is inapplicable or unclear.** This generally takes approximately one month and is binding on the facts presented, but is also public.

Relocating to INDIA

Pegatron (Taiwan)—Some telecom equipment (*may also relocate to Vietnam*)

Skechers USA (US)—Shoes (*may also relocate to Vietnam*)

Apple (US)—Latest iPhone model

Relocating to SOUTH KOREA

Iris Ohyama (Japan)—Fans

Relocating to JAPAN

Komatsu (Japan)—Construction equipment components (*already relocated some production to US and Thailand*)

Toshiba Machine (Japan)—Injection molding machines for plastic parts (*already relocated to Thailand*)

Keihin (Japan)—Auto parts

Sumitomo Heavy Industries (Japan)—Robot components

G-Tekt (Japan)—Auto parts

Mitsubishi Electric (Japan)—Laser processing machines

Relocating to THAILAND

Casio Computer (Japan)—Wristwatches

Ricoh (Japan)—Printers

Citizen Watch (Japan)—Wristwatches

Panasonic (Japan)—Stereos, other in-car equipment

Relocating to VIETNAM

Asics (Japan)—Running shoes

Kyocera (Japan)—Printers

Sharp (Japan)—Personal computers

Nintendo (Japan)—Video game consoles

Brooks Sports (US)—Running shoes

TCL (China)—TVs

GoerTek (China)—Manufacturer of wireless earphones for Apple

Relocating to TAIWAN

Asustek Computer (Taiwan)—Personal computers

Compal Electronics (Taiwan)—Routers, other telecom equipment

HP (US)—Personal computers (*may also relocate to Vietnam or Philippines*)

Dell (US)—Personal computers (*may also relocate to Vietnam or Philippines*)

– Ensuring adequate recordkeeping.

Your production, accounting and shipping record-keeping systems should enable you to trace particular exports of finished goods through production or assembly from the parts and components purchased. It is advisable to involve expert consultants for this exercise.

– Requesting a US Commerce Department advisory opinion.

If US domestic industries may claim that your goods are circumventing US duties, then this type of request can give you some assurances of the US Department of Commerce's likely views.

– Conducting EAPA due diligence.

This can include assessing the sensitivity of the exports, recent trade patterns and the nature of your operations in the context of evolving CBP precedents, especially as EAPA investigations

involving duty evasion allegations against assemblers throughout Asia have increased significantly.

– Adjust your export or assembly operations.

If other measures do not sufficiently address your risks, then make appropriate changes to your production arrangements, including enhanced or more extensive production operations, and/or changes to how you source inputs.

WAITING FOR THE US-CHINA TRADE WAR TO END IS A RISKY STRATEGY

No matter how the current US-China talks conclude, it is very likely that this bilateral trade relationship will remain volatile, with US regulators continuing to scrutinize goods containing China-made parts.

The controversial "Made in China 2025" strategic plan for China's dominance in key sectors may gain

traction over the next five years and add to tensions. If the current US president is re-elected in 2020, this administration's trade policies may continue at least until 2024. And with China's domestic consumption projected to roughly double in the next ten years, the powerful incentive for Chinese and other global companies to increase capacity in China could have unintended consequences for global markets. Unexpected drops or capacity overshoots in China could result in surplus exports distorting global markets, resulting in a continued resort to tariffs against Chinese goods and stringent scrutiny of third-country products containing China-made parts.

Therefore, prudent exporters must plan for this possibility, rather than waiting and hoping for the US-China trade war to blow over.

¹ <https://www.cbp.gov/sites/default/files/assets/documents/2019-Jul/CBP%20FY18%20Trade%20and%20Travel%20Report-compliant.pdf>

Gale force momentum in Taiwan's offshore wind sector

After many years of careful planning the Taiwan offshore wind sector is gaining traction, but challenges remain

By Fergus Smith

This year is proving to be a threshold year of achievement for the Taiwan offshore wind sector, with many years of careful planning and development activity starting to deliver results.

German developer wpd's 640 MW Yunlin offshore wind project reached financial close in June 2019, becoming the first large-scale offshore wind project to reach financial close in Asia-Pacific. A strong pipeline of projects follows hot on the heels of Yunlin's success, including Macquarie/Swancor's 378 MW Formosa 2 project, Copenhagen Infrastructure Partners' 600 MW Changfang and Xidao project, Ørsted's 605 MW Changfang 1 project and wpd's 350 MW Guanyin project. A string of further planned Taiwan offshore wind projects are forming an orderly queue.

This impressive rollout of development activity promises to keep Taiwan's offshore wind market participants busy for many years to come.

In addition, the success of the offshore wind sector in Taiwan is also encouraging activity in other new offshore wind markets in the region, including Japan, Korea, India, Vietnam and Australia. The offshore wind sector took its first cautious steps off the coast of Denmark in 1991, and it is now making confident strides around the Asia-Pacific region.

YUNLIN AS A KEY STEP FORWARD

The Yunlin project was an important milestone in the offshore wind sector for many reasons:

- Although the earlier 128 MW Formosa 1 project proved the

concept, the much larger Yunlin project rigorously tested the international and local New Taiwanese Dollar debt capacity for offshore wind power in Taiwan

- It attracted the support of three export credit agencies (ECAs)—from Denmark, Germany and the Netherlands—together with further cover provided by IPEX-KfW Bank. Broad ECA support is critical to the continuing viability of this sector in the near term
- It was the first to test the market's acceptance of the complicated "Grid Contract" concept introduced by Taiwan's Ministry of Economic Affairs
- It reaffirmed the basic bankability of the risk allocation dynamic of the Taiwan offshore wind sector, centered around a pragmatic analysis of Taipower's power purchase agreement

The successful equity sell-down process on Yunlin was an equally important step forward for the market. A consortium of Japanese investors led by Sojitz Corporation acquired a 27 percent stake, emerging victorious from a hotly contested auction process involving a number of large players in global infrastructure investment.

CURRENT CHALLENGES TO RESOLVE

The Taiwan offshore wind sector has been a key catalyst in attracting the attention of many of the world's largest infrastructure fund investors to the Asian infrastructure market. The exceptionally deep pools of global infrastructure fund capital are increasingly focused on infrastructure in the region.



The success of the offshore wind sector in Taiwan is also encouraging activity in other new offshore wind markets in the region, including Japan, Korea, India, Vietnam and Australia.

This trend is certain to have important consequences both for Taiwan specifically and for the Asian infrastructure market more broadly. If well-structured projects can tap into this interest effectively, it will fundamentally improve the prospects for addressing the region's huge gap between infrastructure demand and development.

Still, important challenges remain to be addressed for the Taiwan offshore wind project pipeline to prove itself sustainable in the medium term:

- **Step-in rights**—Discussions with Taiwanese authorities continue as to the nature of direct step-in rights that can be accommodated for the benefit of finance parties. Direct step-in rights are widely accepted internationally as fundamental for limited recourse infrastructure financing, and it is critical to the near-term sustainability of the Taiwan offshore wind sector that these rights be accommodated.
- **Taiwanese bank participation**—Taiwanese authorities ask project developers to commit to a minimum of 20 percent Taiwanese bank debt funding, yet the appetite



and capacity of local banks remain a challenge. In particular, only privately owned Taiwanese banks participated in the funding of the Formosa 1 and Yunlin projects, with the large state-owned Taiwanese banks remaining on the sidelines. The participation of Taiwanese state-owned banks would be a significant boost to the sustainability of the project pipeline, and developers are eagerly seeking this. In addition, there are also prospects of funding from Taiwan life insurance companies in the sector. Achieving this milestone would be a similarly important step forward.

–**ECA coverage and local content requirements**—To attract Taiwanese bank funding, developers are seeking to maximize the available debt

guarantee coverage from ECAs. Therefore, a conundrum is emerging for developers: Taiwanese authorities are also driving a strong local content agenda for construction of the projects. This has the inherent impact of reducing international content, which is the necessary pre-condition for the support of international ECAs. A pragmatic and flexible approach by the authorities to the application of local content requirements is necessary. We expect the range of ECAs active in the Taiwan offshore wind sector will continue to increase in the near term, as developers seek to manage these competing priorities.

–**Environment and community**—The ECAs active in the offshore wind market focus intently on the

treatment of local communities—including, importantly, fishing communities—as well as the protection of local habitats and wildlife. These responsibilities are at the forefront of developers’ minds, including effectively managing compliance with a convergence of local regulation and international standards.

–**Insurance market capacity**—An expanding offshore wind project pipeline in Taiwan depends on the insurance market having sufficient capacity to absorb the key risks involved in the construction and operation of the projects.

Although challenges remain, the Taiwan offshore wind sector is surging forward. Other offshore wind markets around the region will follow in its wake.

US design patents: An increasingly useful option

How design-focused Taiwanese businesses can craft a design patent protection strategy

By Bijal Vakil

Aesthetics matter in 2019. Companies are investing more resources to design sleek, modern products that let customers feel they own the technology of the future. This means that options for protecting those investments are also becoming more important.

For design-influenced Taiwanese companies operating in the United States, owning a portfolio of US design patents can provide more protection for your investments in product design than solely traditional options, such as copyrights and trademarks. At the same time, the US legal landscape surrounding design patents is in flux. A 2016 US Supreme Court decision in *Apple v. Samsung* sparked a legal regime shift, with significant and developing implications for how companies can and should protect their technologies and designs.

If design is a critical product component in your business, then design patents may prove particularly important, especially as you consider alternate proposed designs for a product in your pipeline or minor design alterations for the next generation of a product already on the market. The first step is to understand which designs are patentable in the US, how you can prove infringement and what amount of damages you could recover.

THE INCREASING IMPORTANCE OF US DESIGN PATENTS

The US Patent and Trademark Office has been receiving design patent applications at increasing rates over the past decade (See Figure 1).

The number of both design and utility patent applications has steadily continued to increase, as the global economy recovered from

the 2008 financial crisis. Still, design patent applications constituted a greater proportion of the total patent applications during this time period, especially after the 2016 US Supreme Court decision in *Apple v. Samsung*.

PATENTABILITY OF DESIGN PATENTS

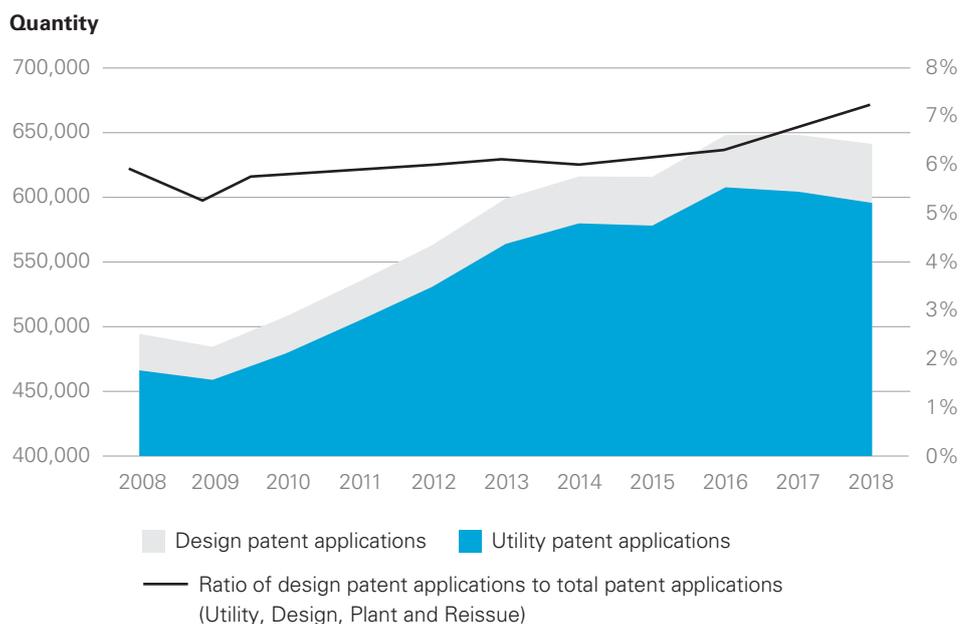
Design patent applications in the US must meet the same novelty and non-obviousness requirements as utility patents, but with slightly different standards:

- The standard for novelty in the design patent context is the "ordinary observer test." A proposed design is not anticipated by a prior art design (i.e., is novel) if an ordinary observer would view

the new design as different, rather than a modified version of an already existing design (*Int'l Seaway Trading Corp. v. Walgreens Corp.*, 589 F.3d 1233 (Fed. Cir. 2009))

- The standard for non-obviousness in the design patent context is measured by what an ordinary designer of the type of product at issue would think—rather than a person with ordinary skill in the art, as is used for utility patents. If an ordinary designer in the field would not have thought to combine existing designs, or features of existing designs, the proposed design is non-obvious (*High Point Design LLC v. Buyers Direct, Inc.*, 730 F.3d 1301, 1313-14 (Fed. Cir. 2013))

Figure 1: Application trends



Source: uspto.gov



If you are trying to protect alternate potential designs or minor design alterations to your existing products, should you seek a new design patent?

First, decide if the new design satisfies these novelty and non-obviousness requirements for patentability. If the incremental design change is so small that the "new" design is non-novel or obvious in light of prior design patents, then the "new" design is not patentable. On the other hand, if the incremental design change is significant enough to satisfy both patentability requirements, you could obtain a new design patent, and you likely should.

If you have existing design patents that do not render your new design unpatentable, then it is very likely your existing design patents do not protect your new design. Also important is your risk tolerance

combined with your ability and willingness to absorb the patent prosecution costs (including filing fees, diligence fees, attorneys' fees and the opportunity costs of those expenditures). Whether a design is legitimately patentable subject matter may not be decided until years later when a court reviews the application file in the course of litigation. So, you should consider this carefully when deciding whether additional design patents are necessary or worthwhile to enhance your portfolio.

DETERMINING INFRINGEMENT OF DESIGN PATENTS

A product design infringes a US design patent if, under the "ordinary observer test" (the same test used to evaluate novelty), an ordinary observer would think the product design is either identical to or a slightly modified version of the patented design. To be clear,



Companies are investing more resources to design sleek, modern products that let customers feel they own the technology of the future. This means that options for protecting those investments are also becoming more important.

infringement occurs even when there are slight differences between a patented design and an infringing one; the “test for design patent infringement is not identity, but rather sufficient similarity” (*Pac. Coast Marine Windshields Ltd. v. Malibu Boats, LLC*, 739 F.3d 694, 701 (Fed. Cir. 2014)).

So what exactly infringes a design patent?

According to 35 U.S.C. §289 (2019), the operative design patent statute, whenever a design patent is infringed by an “article of manufacture” (AOM), the patent owner is entitled to damages. And it is very possible for an infringing AOM to be a component of a product, rather than an entire product.

This issue was the crux of *Apple v. Samsung*. Apple asserted design patents, which included the shape of the front of the phone and the grid of 16 colorful icons on a black screen, and then claimed that Samsung’s phones were infringing AOMs, because they employed those design aspects. Samsung countered that only parts of its phone infringed on Apple’s design patents, so only the infringing portions were the AOMs. The US Supreme Court agreed with Samsung that the AOM under §289 could be an individual product component rather than the entire product, but it declined to conclude whether Samsung’s entire phone or individual parts constituted the AOMs or to establish a test for that question (*Apple v. Samsung*, 137 S. Ct. 429, 436 (2016)). On remand, the Northern District of California adopted a four-factor AOM test that the US Solicitor General proposed to the US Supreme Court during oral arguments, based on whether the infringing design is an inherent, integral part of the entire, finished infringing product or only a portion of it. Specifically, the relevant AOM is based on:

- The scope of the design claimed in the patent (the drawing and written description)
- The prominence of the design within the product as a whole
- Whether the design is conceptually distinct from the product as a whole
- The physical relationship between the patented design and the rest

of the product (including whether the design is applied to a discrete component that is easily separated from the product as a whole)

Although it could be some time before the US Supreme Court weighs in to officially accept or reject this test, it has started to meet with approval in other US district courts (e.g., *Nordock, Inc. v. Sys., Inc.*, Case No. 11-CV-118, 2017 U.S. Dist. LEXIS 192413, at *15 (E.D. Wis. Nov. 21, 2017)). Over time, as more design patents are tested in US trial courts and reviewed by US appellate courts, the legitimacy and contours of this four-part AOM test will be clarified.

MEASURING DAMAGES FOR DESIGN PATENTS

In traditional US utility patent infringement cases, the two standard theories of recovery for damages are the patent owner’s lost profits and reasonable royalties. But with design patents, §289 authorizes a third, alternative, simpler-to-prove metric for damages: the total profits the infringing party earned from the AOM.

If a patent owner opts to use total profits as the damages metric, it is critical that the AOM be the entire product (or as close to it as possible). Demonstrating the infringer’s total profits from the sale of a product to a jury is far easier (and will allow for much higher damages) if the AOM is a finished product, rather than one individual component of a product.

The *Apple v. Samsung* dispute offers a clear example of why the AOM matters. If the AOM infringing Apple’s design patents was entire Samsung phones, Apple could recover all of Samsung’s profits from the sale of the infringing phones. However, if the AOM was only components of the Samsung phones (only the shape of the front of the phone and the grid of colorful icons), then Apple could only recover Samsung’s total profits derived directly from the infringing components, a damages amount that is presumably much less than the total profits from the entire phones. Although the jury verdict did not specifically identify the AOM, the US\$533 million damages award (greater than the US\$399 million from the original jury trial prior to

US Supreme Court review) suggests that the jury likely found entire Samsung phones constituted the infringing AOMs.

DESIGN PATENT STRATEGY: DOLLARS DETERMINE DECISIONS

The special patentability, infringement and damages considerations for design patents are useful when planning a broad design patent portfolio to protect your new inventions.

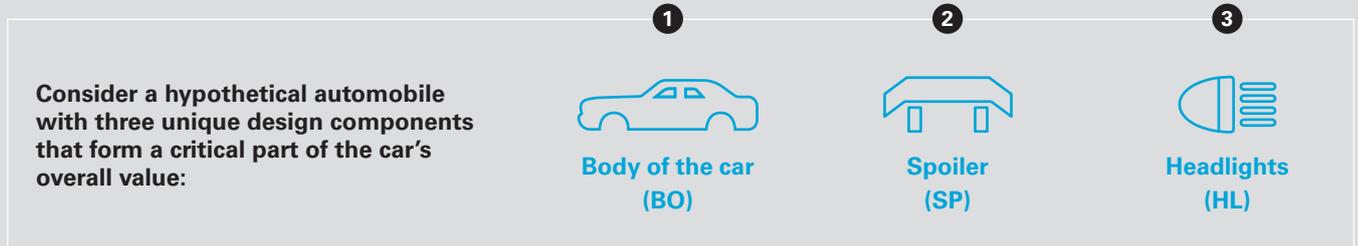
To determine the optimal business strategy for protecting your design-first hardware products:

- **Analyze the breadth of coverage per patent**—If a product has multiple components or design aspects, should they be covered through one omnibus design patent that covers the entire finished product or through a number of different design patents covering individual design components?
- **Review the patent robustness for each design patent**—Should it claim with particularity the specifics of one exact design, or should it be drawn more generally to cover various potential products or design iterations? Design patent claims must include drawings to demonstrate the claimed design, with solid lines that indicate design aspects claimed by the patentee and dashed lines that indicate parts of the product depicted for context but not claimed by the patent. In other words, patent robustness refers to how much of a product is claimed in solid lines vs. dashed lines.

The optimal design patent strategy for you should balance patent breadth and robustness interests, taking into consideration patent prosecution costs, patentability, the ease of protecting a range of designs and products, the ease of proving infringement and the recoverable damages in the case of infringement.

At the end of the day, the unique needs of your company, coupled with the depth of your intellectual property budget and your specific tolerance for risk, will define the right design patent portfolio strategy to protect your market position.

DESIGN PATENT STRATEGY CONSIDERATIONS: ONE EXAMPLE



This chart below shows the potential benefits and disadvantages of the different patent strategy choices if another car contained at least one infringing design component.

		Benefits	Disadvantages
Breadth of coverage per patent	Single omnibus design patent: BO + SP + HL	<ul style="list-style-type: none"> - Minimized patent prosecution costs - If patent is infringed, the AOM is likely the entire car 	<ul style="list-style-type: none"> - Harder to find infringement unless all three components are infringed (e.g., there is no car if the Spoiler is different, even if the Body and Headlights are the same)
	Three separate design patents: BO SP HL	<ul style="list-style-type: none"> - Easier to find infringement of at least one part (e.g., the Headlights can be infringed even if the Body and Spoiler are not) 	<ul style="list-style-type: none"> - Increased patent prosecution costs (repeated attorney work product and filing fees) - If any patents are infringed, the AOM can't be the entire car so no total profits from the entire car
Patent robustness	Particularized patents claiming all design details	<ul style="list-style-type: none"> - Highly specific designs are more patentable (i.e., resistant to novelty and obviousness attacks) - Infringement by identical car or close copies is easy to prove 	<ul style="list-style-type: none"> - Multiple alternative designs, or new design iterations, will require new design patents - Easy to design around the patent by changing minor details (e.g., same Body except for hood)
	Generalized patents claiming major design features	<ul style="list-style-type: none"> - Multiple alternative designs, or new design iterations, can be protected by the same patent - Hard to design around the patent by changing minor details 	<ul style="list-style-type: none"> - Generalized designs are less patentable (i.e., vulnerable to novelty and obviousness attacks) - Infringement by the car copying major features but altering notable but unclaimed features is hard to prove (e.g., layperson jurors likely to see "different" cars if unclaimed grill is changed)

Taiwanese companies beware: A new dynamism in EU antitrust enforcement?

The European Commission is moving quickly in a new investigation, seeking interim measures for the first time in two decades

By James Killick

The European Commission attracts plaudits from some commentators for its ability to undertake major antitrust cases in the technology sector and for its willingness to investigate sector giants like Microsoft, Intel, Google and Qualcomm. Still, it has received frequent criticism for the length of time that these investigations take compared to the fast-moving world of the technology sector. For example, the Commission's most recent antitrust decision, a €242 million fine imposed on Qualcomm in July 2019, involved conduct that started in 2009 and ended in 2011.

While the Commission would say that the time it takes is due to the complexity of its investigations and the need to respect defendants' rights, it may have absorbed some of this criticism. For the first time in nearly two decades, the Commission is seeking interim measures to suspend anti-competitive provisions, pending the outcome of a recently opened investigation.

In June 2019, the Commission began a formal investigation into US chip manufacturer Broadcom for possible restrictions of competition through exclusivity practices. Simultaneously, it issued a Statement of Objections as a first step towards imposing "interim measures" on the company.

For Taiwanese companies doing business in the European Union (EU), the use of interim measures in an ongoing antitrust investigation suggests an increasingly dynamic focus on enforcing EU competition law.

WHAT ARE "INTERIM MEASURES"?

Under EU law, interim measures enable the Commission to act quickly to prevent suspected anti-competitive actions that could irreparably damage competition and the market. By adopting interim measures, the Commission can order the termination of suspected anti-competitive behavior while its investigation is still ongoing—and thus before it has been able to adopt a final decision.

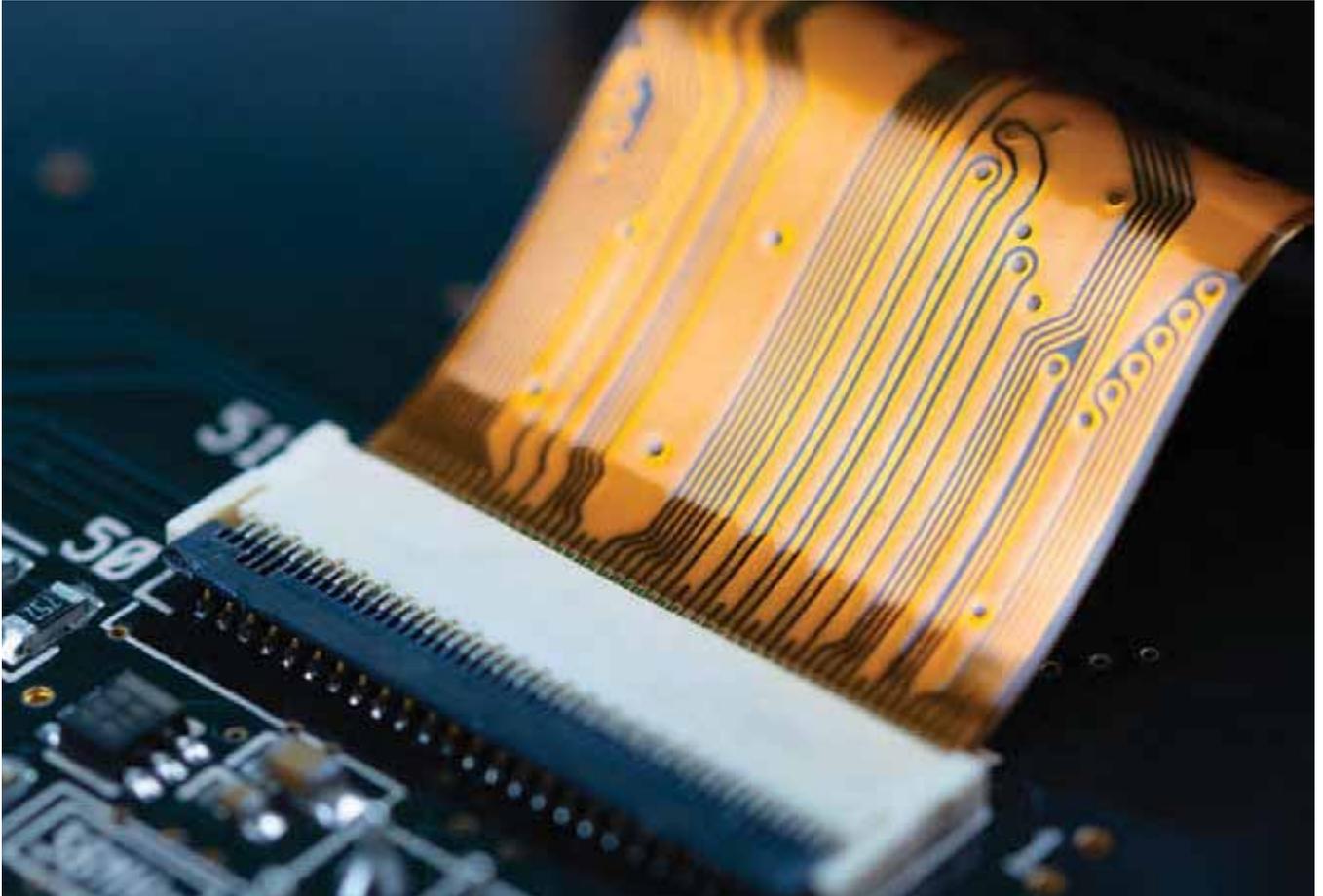
EU competition law allows the Commission to adopt interim measures in antitrust cases, provided that there is:

- 1 a prima facie infringement of competition rules and
- 2 a risk of serious and irreparable harm to competition.

The EU's General Court first recognized the Commission's power to adopt interim measures in its 1980 *Camera Care* judgment, stipulating that the Commission has "the power to take interim measures which are indispensable for the effective exercise of its functions, and, in particular, for ensuring the effectiveness of any decisions requiring undertakings to bring to an end infringements which it has found to exist." Since then, the Commission has had recourse to interim measures in only four other instances, the last time being in 2001.



For Taiwanese companies doing business in the European Union (EU), the use of interim measures in an ongoing antitrust investigation suggests an increasingly dynamic focus on enforcing EU competition law.



THE BROADCOM INVESTIGATION

Broadcom is the first time in 18 years that the Commission has sought interim measures in an antitrust case. (Having been involved in that last case (*IMS Health*) as a young lawyer, it seems a distant epoch: There were no smartphones; people still sent faxes; and Facebook had not even been founded.)

In the Broadcom investigation, the Commission considers interim measures warranted, because:

- Broadcom is likely to hold a dominant position in the TV and modem chipset markets and
- Broadcom has concluded agreements with seven of its main customers containing restrictions that may result in those customers purchasing exclusively or (almost) exclusively from Broadcom

According to the Commission, the serious nature of the alleged competition concerns may lead to the elimination or marginalization of Broadcom's competitors before

the end of the investigation, making interim measures indispensable.

The Commission's decision to pursue interim measures with Broadcom was not unexpected.

Margrethe Vestager, the EU's Commissioner for Competition, had publicly stated that she was looking for a "test case" to revive interim measures. With Broadcom, the Commission seems to have found its test case.

A POTENTIAL HARBINGER OF CHANGE

This test case will continue to unfold. Broadcom has the right to respond to the Commission's Statement of Objections and to request a hearing to argue its case against interim measures. Moreover, the full investigation's allegations against Broadcom are broader than those covered by the interim measures case. They also include granting rebates or other advantages conditioned on exclusivity or minimum purchase requirements,

product bundling, abusive IP-related strategies and deliberately degrading interoperability between Broadcom products and other products. These will be fully investigated according to normal procedures, and Broadcom will have a separate right to respond to a Statement of Objections in the full investigation.

In addition, it remains to be seen whether the Broadcom case will lead to a general revival of interim measures in EU competition enforcement, and whether the Commission will consider using this procedure in sectors other than technology.

However, the Commission's decision to seek interim measures for the first time in two decades does suggest a renewed dynamism in EU competition law. Taiwanese companies that could be at risk for allegations of anticompetitive actions in Europe should keep an eye on this potential trend.

How to take advantage of the new US antitrust compliance credit

What a change in US criminal antitrust charging policy means for Taiwanese businesses

By Noah Brumfield

In July 2019, the Antitrust Division of the US Department of Justice (DOJ) announced a new policy to encourage the implementation of robust antitrust compliance programs by companies with any US business. The DOJ's new policy would reward companies that have developed a strong compliance and remediation program when deciding whether to bring criminal antitrust charges.

For Taiwanese businesses, the new US policy provides a compelling incentive to review your compliance programs and internal controls—and to adjust them, if necessary.

THE HIGH STAKES OF ANTITRUST COMPLIANCE

In the US—as in Taiwan and other countries—antitrust laws strictly prohibit agreements between competitors (or potential competitors) on pricing elements and other methods of competing for customers or markets. So-called price-fixing and market allocation or bid-rigging agreements can be prosecuted, even without any evidence of actual harm and without regard to a person's market share or harmful intent.

In the US, this risk is amplified by the possibility of criminal prosecution. Companies have paid hundreds of millions of dollars in fines. These criminal fines are in addition to civil liability that might be pursued by customers for alleged overcharges.

Individuals bear great personal risk for a criminal antitrust violation. The US government has charged many executives and employees over the last decade, with US law providing for up to ten years in prison.

Robust and effective compliance has therefore always been important to help mitigate company and employee risk. The recent changes to the US government's sentencing policy add an extra "sweetener" to incentivize companies to assess and update their policies.

NEW US CRIMINAL ANTITRUST CHARGING POLICY

As of July 2019, the DOJ had both revised its Justice Manual and released a new document on Evaluation of Corporate Compliance Programs in Criminal Antitrust Investigations (the Guidance) to guide US federal prosecutors' assessments of companies' compliance programs in the context of criminal antitrust violations.¹

The DOJ deleted a statement in its Justice Manual that used to deny a company any credit for having an existing compliance program at the charging stage of an investigation and prosecution. Previously, the DOJ considered an antitrust violation to be evidence that a company's compliance program had failed to work effectively. And under its prior all-or-nothing self-reporting leniency program, only the first company to report criminal conduct could receive immunity from prosecution.

Now, the DOJ will evaluate each corporate compliance program on a case-by-case basis. The new compliance credit is not granted automatically. Instead, it may consider multiple factors affecting how specific compliance programs are designed, whether they are likely to prevent antitrust violations, and how they are implemented and operated.



For Taiwanese businesses, the new US policy provides a compelling incentive to review your compliance programs and internal controls—and to adjust them, if necessary.

THE FACTORS THAT DETERMINE COMPLIANCE PROGRAM EFFECTIVENESS

The Guidance explains some of the essential components that a compliance program must demonstrate to qualify for DOJ credit and a deferred prosecution agreement (DPA).

The Guidance sets out nine factors:

- 1 The program's design and comprehensiveness
- 2 Culture of compliance within the company
- 3 Responsibility for antitrust compliance
- 4 Antitrust risk assessment techniques
- 5 Compliance training and communication to employees



- 6 Periodic review, monitoring and auditing
- 7 Reporting mechanisms
- 8 Compliance incentives and discipline
- 9 Remediation and role of the program in the case of violation

Among these, the reporting mechanisms are particularly important. The DOJ mentioned the need for “prompt” self-reporting by companies both in its July 2019 announcement of the new policy and throughout the Guidance. Although the definition of “prompt” remains unclear, the new policy appears to provide more flexibility in timing.

WHAT TO CHECK FOR IN YOUR CORPORATE COMPLIANCE PROGRAM

Taiwanese companies should consider whether they have a sufficiently practical, sophisticated reporting channel for any US antitrust violations.

This generally means creating a channel that enables all internal reports to move upwards efficiently and quickly while fully assessing every report before it leaves the company. In planning this type of program, it's important to make sure to take into account privilege implications.

The DOJ policy emphasis on robust compliance warrants careful adjustments for a company's business scope. According to the Guidance, “an

effective antitrust compliance program should be appropriately tailored to account for antitrust risk.”

It may not be possible to follow a one-size-fits-all approach if the goal is implementing an effective and adequate internal control and investigation mechanism to guard against all potential wrongdoings.

Instead, taking steps to demonstrate a compliance program for your unique business may be a consideration that significantly improves effectiveness at preventing specific antitrust risks while also enhancing the chance of winning compliance credit from the DOJ.

¹ <https://www.justice.gov/atr/page/file/1181891/download>

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