
THE CARTELS AND LENIENCY REVIEW

SECOND EDITION

EDITOR
CHRISTINE A VARNEY

LAW BUSINESS RESEARCH

THE CARTELS AND LENIENCY REVIEW

Reproduced with permission from Law Business Research Ltd.

This article was first published in *The Cartels and Leniency Review*, 2nd edition
(published in January 2014 – editor Christine A Varney).

For further information please email
nick.barette@lbresearch.com

THE CARTELS AND LENIENCY REVIEW

Second Edition

Editor
CHRISTINE A VARNEY

LAW BUSINESS RESEARCH LTD

THE LAW REVIEWS

THE MERGERS AND ACQUISITIONS REVIEW

THE RESTRUCTURING REVIEW

THE PRIVATE COMPETITION ENFORCEMENT REVIEW

THE DISPUTE RESOLUTION REVIEW

THE EMPLOYMENT LAW REVIEW

THE PUBLIC COMPETITION ENFORCEMENT REVIEW

THE BANKING REGULATION REVIEW

THE INTERNATIONAL ARBITRATION REVIEW

THE MERGER CONTROL REVIEW

THE TECHNOLOGY, MEDIA AND
TELECOMMUNICATIONS REVIEW

THE INWARD INVESTMENT AND
INTERNATIONAL TAXATION REVIEW

THE CORPORATE GOVERNANCE REVIEW

THE CORPORATE IMMIGRATION REVIEW

THE INTERNATIONAL INVESTIGATIONS REVIEW

THE PROJECTS AND CONSTRUCTION REVIEW

THE INTERNATIONAL CAPITAL MARKETS REVIEW

THE REAL ESTATE LAW REVIEW

THE PRIVATE EQUITY REVIEW

THE ENERGY REGULATION AND MARKETS REVIEW

THE INTELLECTUAL PROPERTY REVIEW

THE ASSET MANAGEMENT REVIEW

THE PRIVATE WEALTH AND PRIVATE CLIENT REVIEW

THE MINING LAW REVIEW

THE EXECUTIVE REMUNERATION REVIEW

THE ANTI-BRIBERY AND ANTI-CORRUPTION REVIEW

THE CARTELS AND LENIENCY REVIEW

THE TAX DISPUTES AND LITIGATION REVIEW

THE LIFE SCIENCES LAW REVIEW

THE INSURANCE AND REINSURANCE LAW REVIEW

THE GOVERNMENT PROCUREMENT REVIEW

THE DOMINANCE AND MONOPOLIES REVIEW

THE AVIATION LAW REVIEW

THE FOREIGN INVESTMENT REGULATION REVIEW

THE ASSET TRACING AND RECOVERY REVIEW

THE INTERNATIONAL INSOLVENCY REVIEW

THE OIL AND GAS LAW REVIEW

PUBLISHER
Gideon Robertson

BUSINESS DEVELOPMENT MANAGERS
Adam Sargent, Nick Barette

MARKETING MANAGERS
Katherine Jablonowska, Thomas Lee, James Spearing, Felicity Bown

PUBLISHING ASSISTANT
Lucy Brewer

MARKETING ASSISTANT
Chloe Mclauchlan

EDITORIAL ASSISTANT
Eve Ryle-Hodges

HEAD OF PRODUCTION
Adam Myers

PRODUCTION EDITOR
Anne Borthwick

SUBEDITOR
Anna Andreoli

MANAGING DIRECTOR
Richard Davey

Published in the United Kingdom
by Law Business Research Ltd, London
87 Lancaster Road, London, W11 1QQ, UK
© 2014 Law Business Research Ltd
www.TheLawReviews.co.uk

No photocopying: copyright licences do not apply.

The information provided in this publication is general and may not apply in a specific situation, nor does it necessarily represent the views of authors' firms or their clients.

Legal advice should always be sought before taking any legal action based on the information provided. The publishers accept no responsibility for any acts or omissions contained herein. Although the information provided is accurate as of January 2014, be advised that this is a developing area.

Enquiries concerning reproduction should be sent to Law Business Research, at the address above. Enquiries concerning editorial content should be directed to the Publisher – gideon.roberton@lbresearch.com

ISBN 978-1-907606-91-5

Printed in Great Britain by
Encompass Print Solutions, Derbyshire
Tel: 0844 2480 112

ACKNOWLEDGEMENTS

The publisher acknowledges and thanks the following law firms for their learned assistance throughout the preparation of this book:

A&L GOODBODY

ALLEN & OVERY LLP

ANDERSON MŌRI & TOMOTSUNE

ANTITRUST ADVISORY LLC

BNT ATTORNEYS-AT-LAW

BREDIN PRAT

CORRS CHAMBERS WESTGARTH

CRAVATH, SWAINE & MOORE LLP

CREEL, GARCÍA-CUÉLLAR, AIZA Y ENRÍQUEZ, SC

DAVIES WARD PHILLIPS & VINEBERG LLP

DE BRAUW BLACKSTONE WESTBROEK

ELIG, ATTORNEYS-AT-LAW

G ELIAS & CO

GLEISS LUTZ

J SAGAR ASSOCIATES

KING & WOOD MALLESONS

LEE AND LI, ATTORNEYS-AT-LAW

LINKLATERS LLP

MAMO TCV ADVOCATES

MANNHEIMER SWARTLING

NCTM

NIEDERER KRAFT & FREY LTD

PAPADOPOULOS, LYCOURGOS & CO LLC

PINHEIRO NETO ADVOGADOS

POSAVEC, RAŠICA & LISZT

SLAUGHTER AND MAY

URÍA MENÉNDEZ

WIESNER & ASOCIADOS ABOGADOS

WKB WIERCÍŃSKI, KWIECIŃSKI, BAEHR

YULCHON LLC

CONTENTS

Editor's Prefacevii
	<i>Christine A Varney</i>
Chapter 1	INTRODUCTION 1
	<i>Christine A Varney</i>
Chapter 2	AUSTRALIA 5
	<i>Ayman Guirguis and Mark McCowan</i>
Chapter 3	BRAZIL 24
	<i>José Alexandre Buaiz Neto</i>
Chapter 4	CANADA..... 39
	<i>George Addy, Anita Banicevic and Mark Katz</i>
Chapter 5	CHINA..... 56
	<i>Susan Ning and Hazel Yin</i>
Chapter 6	COLOMBIA..... 70
	<i>Dario Cadena and Eduardo A Wiesner</i>
Chapter 7	CROATIA 79
	<i>Marijana Liszt</i>
Chapter 8	CYPRUS 90
	<i>Myria Chamatsou</i>
Chapter 9	EUROPEAN UNION 100
	<i>Philippe Chappatte and Paul Walter</i>
Chapter 10	FRANCE..... 115
	<i>Hugues Calvet and Olivier Billard</i>

Chapter 11	GERMANY.....	134
	<i>Ingo Brinker and Matthias Karl</i>	
Chapter 12	HONG KONG.....	145
	<i>Joshua Cole</i>	
Chapter 13	HUNGARY.....	159
	<i>Levente Szabó and Réka Vizi-Magyarosi</i>	
Chapter 14	INDIA	175
	<i>Farhad Sorabjee and Amitabh Kumar</i>	
Chapter 15	IRELAND.....	184
	<i>Vincent Power</i>	
Chapter 16	ITALY.....	195
	<i>Luca Toffoletti and Emilio De Giorgi</i>	
Chapter 17	JAPAN.....	209
	<i>Hideto Ishida and Yuhki Tanaka</i>	
Chapter 18	KOREA.....	220
	<i>Sai Ree Yun, Cecil Saecheon Chung and Seung Hyuck Han</i>	
Chapter 19	MALTA	230
	<i>Annalies Azzopardi</i>	
Chapter 20	MEXICO	241
	<i>Luis Gerardo García Santos Coy and Mauricio Serralde Rodríguez</i>	
Chapter 21	NETHERLANDS.....	252
	<i>Jolling de Pree and Stefan Molin</i>	
Chapter 22	NIGERIA.....	264
	<i>Gbolahan Elias and Obianuju Ifebunandu</i>	

Chapter 23	POLAND.....	270
	<i>Aleksander Stawicki, Bartosz Turno and Tomasz Feliszewski</i>	
Chapter 24	PORTUGAL.....	283
	<i>Carlos Pinto Correia</i>	
Chapter 25	RUSSIA.....	295
	<i>Evgeny Khokhlov</i>	
Chapter 26	SPAIN.....	304
	<i>Alfonso Gutiérrez and Ana Raquel Lapresta</i>	
Chapter 27	SWEDEN.....	316
	<i>Tommy Pettersson, Johan Carle and Stefan Perván Lindeborg</i>	
Chapter 28	SWITZERLAND.....	326
	<i>Nicolas Birkhäuser</i>	
Chapter 29	TAIWAN.....	339
	<i>Stephen Wu, Rebecca Hsiao and Wei-Han Wu</i>	
Chapter 30	TURKEY.....	353
	<i>Gönenç Gürkaynak</i>	
Chapter 31	UNITED KINGDOM.....	364
	<i>Philippe Chappatte and Paul Walter</i>	
Chapter 32	UNITED STATES.....	379
	<i>Christine A Varney and John F Terzaken</i>	
Appendix 1	ABOUT THE AUTHORS.....	419
Appendix 2	CONTRIBUTING LAW FIRMS' CONTACT DETAILS...	439

EDITOR'S PREFACE

Cartels are a surprisingly persistent feature of economic life. The temptation to rig the game in one's favour is constant, particularly when demand conditions are weak and the product in question is an undifferentiated commodity. Corporate compliance programmes are useful but inherently limited, as managers may come to see their personal interests as divergent from those of the corporation. Detection of cartel arrangements can present a substantial challenge for both internal legal departments and law enforcement. Some notable cartels managed to remain intact for as long as a decade before they were uncovered. Some may never see the light of day. However, for those cartels that are detected, this compendium offers a resource for practitioners around the world.

This book brings together leading competition law experts from more than two dozen jurisdictions to address an issue of growing importance to large corporations, their managers and their lawyers: the potential liability, both civil and criminal, that may arise from unlawful agreements with competitors as to price, markets or output. The broad message of the book is that this risk is growing steadily. In part due to US leadership, stubborn cultural attitudes regarding cartel activity are gradually shifting. Many jurisdictions have moved to give their competition authorities additional investigative tools, including wiretap authority and broad subpoena powers. There is also a burgeoning movement to criminalise cartel activity in jurisdictions where it has previously been regarded as wholly or principally a civil matter. The growing use of leniency programmes has worked to radically destabilise global cartels, creating powerful incentives to report cartel activity when discovered.

The authors of these chapters are from some of the most widely respected law firms in their jurisdictions. All have substantial experience with cartel investigations, and many have served in senior positions in government. They know both what the law says and how it is actually enforced, and we think you will find their guidance regarding the practices of local competition authorities invaluable. This book seeks to provide both breadth of coverage (with chapters on 31 jurisdictions) and analytical depth to those practitioners who may find themselves on the front lines of a government inquiry or an internal investigation into suspect practices.

Our emphasis is necessarily on established law and policy, but discussion of emerging or unsettled issues has been provided where appropriate.

This is the second edition of *The Cartels and Leniency Review*. We hope that you will find it a useful resource. The views expressed in this book are those of the authors and not those of their firms, the editor or the publisher. Every endeavour has been made to make updates until the last possible date before publication to ensure that what you read is the latest intelligence.

Christine A Varney

Cravath, Swaine & Moore LLP

New York

January 2014

Chapter 29

TAIWAN

*Stephen Wu, Rebecca Hsiao and Wei-Han Wu*¹

I ENFORCEMENT POLICIES AND GUIDANCE

i Definition

Cartels are regulated by the provisions governing concerted actions under the Taiwan Fair Trade Act (the TFTA). A concerted action is a conduct of any enterprise, by means of contract, agreement or any other form of mutual understanding,² with a competing enterprise, to jointly determine the price of goods or services, or to limit the terms of quantity, technology, products, facilities, trading counterparts or trading territory with respect to such goods and services, thereby restricting each others' business activities. A concerted action is limited to a horizontal action that is conducted by enterprises competing at the same production or sale stage, and that may interfere with the market mechanism with regard to production or supply and demand of goods or services.³

ii Exemption

Under the TFTA, a concerted action is prohibited unless it meets one of the requirements stipulated in Article 14 of the TFTA and is beneficial to the economy as a whole and in the public interest, and the application filed with the Taiwan Fair Trade Commission (the TFTC) for the concerted action has been approved.

1 Stephen Wu is a partner, Rebecca Hsiao is a counsellor and Wei-Han Wu is a senior associate at Lee and Li, Attorneys-at-Law.

2 Any other form of mutual understanding means a meeting of minds other than a contract or agreement, regardless of whether it is legally binding, which would in effect lead to joint actions. A resolution of an association's general meeting of members or a board meeting of directors or supervisors to restrict the activities of its member enterprises will also be deemed a horizontal concerted action.

3 Article 7 of the TFTA.

Article 14 of the TFTA provides the following seven requirements for a concerted action to be approved by the TFTC:

- a* unification – it unifies the specifications or models of goods for the purpose of reducing costs, improving quality or increasing efficiency;
- b* joint research and development – it entails joint research and development for the purpose of enhancing technology, reducing costs, improving quality or increasing efficiency;
- c* specialisation – it develops a separate and specialised area for the purpose of rationalising operations;
- d* exportation – it is to enter into agreements concerning solely competition in foreign markets for the purpose of securing or promoting exportation;
- e* importation – it is for the importation of foreign goods for the purpose of strengthening trade;
- f* economic downturn – it is to limit the quantity of production and sales, equipment or prices for the purpose of meeting the demand expected during an economic downturn, in which the market price of products is lower than the average production costs, so that the enterprises in a particular industry have difficulties in maintaining their business or face overproduction; and
- g* small to medium-sized enterprises – it is for the purpose of improving operational efficiency or strengthening the competitiveness of small to medium-sized enterprises.

Since a prior approval system is adopted for a concerted action, enterprises participating in a concerted action must submit the documents specified in Article 14 of the Enforcement Rules to the TFTA for a prior approval. The TFTC is required to make a decision within three months of receipt of an application, and may extend the three-month period once. The three-month period starts to run from the time when all the required documents are submitted to the TFTC. The approval granted by the TFTC shall specify a time limit not exceeding three years for the implementation of a concerted action, and may attach conditions to the approval. At least three months prior to the expiration of the approval the enterprises may, with justification, file a written application with the TFTC for extension of approval for a period of no more than another three years.

iii Enforcement rules

The TFTC has enacted several guidelines and regulations detailing the concrete steps that the TFTC should take in reviewing a cartel case.

The following are guidelines related to the application for concerted action approval:

- a* the TFTC's Guidelines on Handling Filing for Approvals of Concerted Actions by Enterprises;
- b* the TFTC's Guidelines for Concerted Petroleum Purchasing by Individual Petrol Stations;
- c* the TFTC's Guidelines on Approval of Concerted Pricing among Small or Medium-sized Enterprises; and
- d* the TFTC's Guidelines for Handling Cases of Local Airlines' Combination and Concerted Action.

The following are regulations that are relevant to the Leniency Programme, which were introduced into the TFTA at the end of 2011:

- a* Regulations on Immunity and Reduction of Fines in Illegal Concerted Action (the Leniency Programme; see Section III, *infra*, for details); and
- b* Regulations for Calculation of Administrative Fines for Serious Violations of Articles 10 (i.e., monopoly) and 14 (i.e., cartel) of the TFTA (the Fine Formula; see Section IV, *infra*, for details).

iv Key policies

The TFTC is in charge of the enforcement of the TFTA and policymaking. For cartel enforcement, the TFTC's priority objectives for 2013 to 2016⁴ are:

- a* to take more aggressive action against illegal conduct that may undermine competition in the market, including conspiracies among basic commodity and consumer product enterprises so as to ensure proper functioning of the market mechanism and to protect consumers' interests;
- b* to promote international anti-cartel projects to help Taiwanese enterprises understand the antitrust regulations of other jurisdictions. In addition to holding seminars on this topic, the TFTC also plans to issue several guidelines, such as 'How TFTC Helps Taiwanese Enterprises Respond to International Cartel Investigations', 'TFTC's SOP for Handling International Cartel Cases' and 'Compliance Project of Taiwanese Enterprises'; and
- c* to supervise industries exposed to a high risk of violating the cartel regulations. The targets include the LCD, DRAM and LED industries, which have been suspected or even fined in several large cartel cases.

v Controversies

Exemption requirements

The rigid exemption requirements have been criticised since the enactment of the TFTA. Although collaboration with horizontal competitors that meets one of the requirements under Article 14 of the TFTA may be implemented with the TFTC's approval, the seven requirements provided under Article 14 of the TFTA hardly cover all types of pro-competition cooperation given the myriad business models in modern times. Without adding a catch-all provision to Article 14, some enterprises will have difficulty in finding a legal ground under Article 14 of the TFTA to justify their cooperation that does not entail price fixing or other acts of conspiracy. They may either give up the cooperation projects or decide to go ahead and try their luck. The inadequate legislation has resulted in few case precedents regarding the concerted action approval.⁵

Leniency Programme

The newly introduced Leniency Programme helped the TFTC disband a cartel of optical disk drive (ODD) manufacturers in September 2012 (see Section VII, *infra*, for details).

4 www.ftc.gov.tw/internet/main/doc/docDetail.aspx?uid=1133&docid=11930.

5 Lawrence S Liu and Stephen Wu, 'Reconsideration of Antitrust Regulations on Concerted Actions', *The Taiwan Law Review*, No. 98 (2003).

A remarkable aspect of the case is that the TFTC did not disclose the identity of the enterprise that applied for leniency at the enterprise's request. While this non-disclosure option is unheard of in some jurisdictions, whether such option is appropriate has sparked intense debate. In any event, since the Leniency Programme under the TFTA is still in the nascent stage, it may be further shaped by issues arising in the future.

II COOPERATION WITH OTHER JURISDICTIONS

Please see Section VII, *infra*, for details.

III JURISDICTIONAL LIMITATIONS, AFFIRMATIVE DEFENCES AND EXEMPTIONS

The TFTA's jurisdiction is determined based on the effect of a conduct. A coordination between or among foreign enterprises conducted either in Taiwan or other jurisdictions is subject to the TFTA if this conduct may affect the Taiwanese market. The TFTA has conducted investigations into foreign enterprises' conduct, and has issued directives confirming that foreign enterprises' conduct may violate the TFTA if it affects the Taiwanese market. A noteworthy example is the *ODD* case (see Section VIII.i *infra*).

IV LENIENCY PROGRAMMES

i Overview

On 23 November 2011, the President announced the amended TFTA, introducing a Leniency Programme for enterprises participating in a cartel (Article 35-1) and imposing a higher fine for violation of cartel provisions (Article 41). On 6 January 2012, the Leniency Programme came into effect. The Leniency Programme specifies, *inter alia*, the requirements for leniency, the maximum number of cartel participants eligible for leniency, the fine reduction percentage, the required evidence and confidentiality treatment. Adoption of the Leniency Programme is expected to significantly affect the enforcement of cartel regulations in Taiwan.⁶

ii Elements of leniency immunity

According to the Leniency Programme, an enterprise violating the cartel prohibitions under the TFTA can be exempted from or entitled to a reduction of fine if it meets one of the following requirements and the TFTA agrees in advance that the enterprise qualifies for the immunity or reduction:

- a before the TFTA knows about the unlawful cartel activities or commences investigation on its own initiative, the enterprise voluntarily reports in writing to

⁶ Stephen Wu, Yvonne Hsieh and Wei-Han Wu, 'Leniency programme in Taiwan: The impact of a "whistle-blower" system in Eastern culture', *Competition & Antitrust Review* (2013).

the TFTC the details of its unlawful cartel activities, provides key evidence and assists the TFTC in its subsequent investigation; or

- b* during the TFTC's investigation, the enterprise provides specific evidence that helps prove unlawful cartel activities and assists the TFTC in its subsequent investigation.

iii Markers

An enterprise that intends to apply for fine immunity, but that has not had information and evidence required by the Leniency Programme and therefore is unqualified to file the application, may submit a written statement containing the following information to the TFTC and request for preservation of the priority status for fine immunity (i.e., to obtain a marker):

- a* the information on the enterprise's name, paid-in capital, annual revenue, name of its representative, address and date of company registration;
- b* the product or service involved, the form of the concerted action, the geographic areas affected and the duration of the action; and
- c* the names, company addresses and representatives of other cartel members.

An enterprise that has been granted with a marker should provide the information and evidence required by the Leniency Programme within the period specified by the TFTC, or it will lose the marker. The application for a marker should be made in writing and follow the format designed by the TFTC.

iv Applicant's obligations to cooperate

From the time the application is filed until the case is concluded, the enterprise that files the application (the applicant) should withdraw from the cartel immediately or at the time specified by the TFTC, follow the instructions of the TFTC, and provide honest, full and continued assistance to the TFTC during its investigation. The assistance should include the following:

- a* the applicant should provide the TFTC as early as possible with all the information and evidence regarding the cartel that it currently possesses or may obtain in the future. For those applying for a fine reduction, the information and evidence provided must be of significant help in the TFTC's investigation on the cartel or able to enhance the probative value of the evidence the TFTC has already obtained;
- b* the applicant should follow the instructions of the TFTC and provide prompt descriptions or cooperation to help the investigation on related facts capable of proving the existence of the cartel;
- c* if necessary, the applicant must allow its staff members or representatives that participated in cartel-related activities to be questioned by the TFTC;
- d* the content of the statements, information or evidence provided may not contain any untruthfulness, and no destruction, forgery, alteration or concealment of any information or evidence related to the cartel will be tolerated; and

e without the consent of the TFTC, the applicant may not disclose to any other parties about filing the application or any content of the application before the case is concluded.

v Immunity or reduction of fines

Only up to five applicants can be eligible for fine immunity or a fine reduction in a case. The applicant that was the first to file the application can qualify for full immunity from a fine. The fines for the second to fifth applicants can be reduced by 30 per cent to 50 per cent, 20 per cent to 30 per cent, 10 per cent to 20 per cent, and 10 per cent or less, respectively. An applicant that has coerced any other enterprises to join or not to exit the cartel cannot be eligible for immunity or a reduction of the fine.

The board directors, representatives or managers of an involved enterprise, or others with the authority to represent the enterprise who should be jointly penalised based on the ROC Administrative Penalty Act, may be granted immunity or a reduction of the fine if the following requirements are met:

- a* the enterprise is an applicant that can be granted immunity or a reduction of fines;
- b* these persons have provided honest and full statements with regard to the unlawful act; and
- c* these persons have followed the instruction of the TFTC, and provided honest, full and continued assistance to the TFTC during its investigation before the case is concluded.

vi Non-disclosure versus discovery of materials

According to the Leniency Programme, when the TFTC grants an applicant immunity or a reduction of the fine, it must take the following measures to protect the confidentiality of the applicant's entity:

- a* not to indicate the name of the applicant, the fine imposed, and the amount of fine reduced and the reasons, unless with the consent of the applicant. Where consent is not granted, the TFTC should use aliases and other confidential means to indicate the identity of the applicant and avoid giving any information that may indicate the identity of the applicant; and
- b* send its decision letter to each violating enterprise, and the main text regarding the fine should refer only to the enterprise that receives the decision letter. The decision letter should not contain information about other violating enterprises involved in the same case.

Furthermore, the conversation records or original documents carrying information on the identity of the applicant should be kept in a file and stored appropriately. The same measure should be taken for other documents that may give away the identity of the applicant. Unless otherwise stipulated by law, the conversation records and documents stated above may not be provided to any agencies, groups or entities other than investigation and judicial agencies. Despite the foregoing, if any injured party files a civil lawsuit for damages against the violating enterprises, the injured party may request

the court to ask the TFTC to provide relevant documents according to the ROC Code of Civil Procedure. The applicant will likely be identifiable during the court procedure.⁷

V PENALTIES

i Basic concept: administrative fine first, criminal liability later

If any enterprise is found to have conducted a concerted action without the TFTC's approval, the TFTC may, pursuant to Article 41 of the TFTA, order it to discontinue the illegal conduct, or set a time limit for it to rectify the conduct or take necessary corrective measures, and impose an administrative fine of between NT\$50,000 and NT\$25 million. If the violating party fails to act as ordered, the TFTC may continue to order the violating party to cease the violation, or set another time limit for the violating party to comply, and may impose successive administrative fines of NT\$100,000 to NT\$50 million until the violating party complies.

In addition to the administrative punishments mentioned above, a violation of cartel regulations may also carry criminal liability. That is, if any enterprise is ordered by the TFTC pursuant to Article 41 of the TFTA to cease, rectify or take necessary measures to correct its violation of the cartel regulations under the TFTA, but fails to follow such order or repeats the violation, its responsible person may, pursuant to Article 35 of the TFTA, face a prison term of up to three years, while the enterprise may receive a criminal fine of up to NT\$100 million.

ii Higher administrative fine for serious violation

According to the Fine Formula (see Section VII.ii, *infra*), if the TFTC considers a concerted action to be serious, it may impose a fine of up to 10 per cent of the violating enterprise's revenue in the last fiscal year. Such fine is not capped by the amount mentioned in Section IV.i, *supra*.

While calculating the revenues, the revenues from an enterprise's domestic and foreign branches should be included, but those from its subsidiaries (if any) are excluded. The reason for this is that the TFTC considers a subsidiary as a separate entity that operates independently. Given the above, the TFTC will not consider the consolidated revenues of a conglomerate, but only the revenues of the enterprise that violates the TFTA. Since some enterprises (such as holding companies) do not have actual operation activities, the fine calculated without including the consolidated revenues may be much lower than the TFTC's expectation.

A serious concerted action is one that materially affects the competition status in the relevant market by taking the following factors into account:

- a the scope and extent of the market competition and order affected;
- b the duration of the damage to market competition and order;
- c the market status of the violating enterprise and the structure of the corresponding market;

7 Stephen Wu, 'Crackdown on Cartel as Global Trend', *Chinese National Federation of Industries Magazine*, No. 512 (2012).

- d* the total sales and profits obtained from the unlawful conduct during the violation period; and
- e* the type of concerted cartel – joint price decision on product or service, or restriction on quantity, trading counterpart or trading area.

In the event of any of the following circumstances, the violation should be deemed as serious:

- a* the total amount of turnover of the relevant products or services during the period the cartel is active exceeds NT\$100 million; or
- b* the total amount of gains derived from the cartel exceeds the maximum fine under the TFTA (i.e., NT\$50 million).

iii Calculating fines for serious cartels

According to the Fine Formula, the fine imposed on a serious cartel should be reached based on the basic amount and adjusting factors. The basic amount refers to 30 per cent of the total amount of turnover of the relevant products or services during the cartel period. The adjusting factors include aggravating factors and mitigating factors.

The aggravating factors are as follows:

- a* the violating enterprise has organised or encouraged the unlawful conduct;
- b* the violating enterprise has implemented supervision or sanctioning measures to ensure that the concerted action is upheld or executed; and
- c* the violating enterprise has been sanctioned for violation of monopoly or cartel regulations within the past five years.

The mitigating factors are as follows:

- a* the violating enterprise has immediately ceased the unlawful act when the TFTC began the investigation;
- b* the violating enterprise has shown real remorse and cooperated in the investigation;
- c* the violating enterprise has established compensation agreements with the victims or has taken remedial measures;
- d* the violating enterprise concerned has participated in the concerted action under coercion; and
- e* other governmental agencies approve or encourage the fine imposed to be reduced, or the fine reduction can be granted in accordance with other laws.

iv Administrative settlement

In addition to the Leniency Programme, the administrative settlement provides another channel for seeking plea-bargaining. According to the TFTA Guidelines for Handling Administrative Settlement Cases, the TFTA may settle a case with a party if it does not have enough evidence to secure a sanction. This is a contractual arrangement between the TFTA and the party. In assessing whether to settle a case, the TFTA will have to

consider the legality and appropriateness of the settlement, the possible impact on the public interest and the possible detriment to the interested parties.⁸

How this settlement mechanism should work after the Leniency Programme comes into effect or how it should be calibrated to complement the Leniency Programme remains an open issue.

VI 'DAY ONE' RESPONSE

i Limit of the TFTC's power

Under the current legal framework, the TFTC is not entitled to apply for a search warrant with the court because it is not granted judicial power. Therefore, its investigatory power granted by the TFTA and other administrative regulations is somehow limited compared with that of other foreign competition authorities or the prosecutors' office. Accordingly, in Taiwan, while a dawn raid may be initiated by a prosecutor based on a search warrant, the TFTC cannot take such action.

If the TFTC has carried out unscheduled visits to target enterprises, it may request the enterprises to provide necessary documents and information; however, it cannot compel those enterprises to submit documents and information to it or search the enterprises' premises to obtain the requested documents and information.⁹

ii TFTC's investigatory tools

According to the TFTA, the TFTC has the following three types of investigatory tools.¹⁰ It can:

- a* order the parties and any related third parties to appear before the TFTC to make statements;
- b* order relevant agencies, organisations, enterprises or individuals to submit books and records, documents, and any other necessary materials or exhibits; and
- c* dispatch personnel to conduct any necessary on-site inspection of the office, place of business or other locations of the relevant organisation or enterprises.

In addition, the TFTC has to observe the principles in the Administrative Procedure Act (the Act) just like all other administrative government agencies when conducting an investigation. In particular, the principle of proportionality under the Act requires that the method adopted by a governmental agency should help achieve the intended objective; where there are several methods that could lead to the same result, the method with the least harm to the people concerned be adopted; and the harm caused by an action not be disproportionately greater than the benefits from the action.

8 The parties that have entered into a settlement agreement with the TFTC include Matra Transport International (1998), RCA Thomson Licensing Corporation (1998) and Microsoft Taiwan Corporation (2003). However, none of these settlements is related to the cartel prohibition.

9 Stephen Wu, Yvonne Hsieh and Wei-Han Wu, footnote 6.

10 Article 27 of the TFTA.

iii Punishment for non-cooperation

If any person refuses the investigation without justifiable reasons, or refuses to appear when called to answer queries before the TFTC, or to submit books and records, documents or exhibits upon request by the set time limit, an administrative penalty of between NT\$20,000 and NT\$250,000 may be imposed upon that person. If such person continues to withhold cooperation without justification upon another notice, the TFTC may continue to issue notices of investigations, and may successively impose an administrative penalty of between NT\$50,000 and NT\$500,000 each time until the person cooperates with the investigation, appears when called to answer queries, or submits books and records, documents or exhibits upon request.

VII PRIVATE ENFORCEMENT

According to the TFTA, if any enterprise violates the TFTA and thereby infringes the rights and interests of another, the injured party may demand the removal of such infringement; if there is a likelihood of infringement, prevention may also be claimed. Additionally, the injured party may claim damages from the violating enterprise.¹¹

As to calculation of damages, if the violating enterprise reaps gains from its act of infringement, the injured party may demand damages based solely on the monetary gain of the violating enterprise. Otherwise, the general principle under the civil lawsuit will apply to the damages calculation. That is, the compensation will be limited to the injury actually suffered and the interests that have been lost. 'Interests that have been lost' refers to those that were expected in the ordinary course of matters, from decided projects or equipment, or in other special circumstances.¹²

Moreover, the TFTA allows claims for punitive damages. That is, if the violation is intentional, the injured party is entitled to request the court to award damages exceeding actual damage, provided that no award should exceed three times the amount of the proven damage.¹³

Although the TFTA provides legal grounds for civil action, so far there is no TFTC case precedent in which an injured party successfully obtained compensation from an enterprise violating the cartel regulations.

The Leniency Programme offers confidentiality protection to the applicant, forbidding the TFTC from disclosing the identity of the applicant and other relevant documents while issuing the decision letter. However, as mentioned in Section III, *supra*, the applicant will likely be identifiable during the court procedure if any injured party files a civil action against the enterprises involved in the violation.

11 Articles 30 and 31 of the TFTA.

12 Article 216 of the Civil Code.

13 Article 32 of the TFTA.

VIII CURRENT DEVELOPMENTS

i The first application of the Leniency Programme: the ODD case¹⁴

Background

In September 2012, the TFTC ruled that four ODD manufacturers – Toshiba-Samsung Storage Technology Korea Corporation (TSSTK), Hitachi-LG Data Storage Korea Inc (HLDSK), Philips & Lite-On Digital Solutions Corporation (PLDS) and Sony Optiarc Inc (SOI) – had conspired during the bidding process held by Hewlett-Packard Company (HP) and Dell Inc (Dell), and hence violated the cartel provisions under the TFTA.

According to the TFTC, from September 2006 to September 2009, the four ODD manufacturers, during or before the bidding procedure held by HP and Dell, exchanged their bidding prices and expected bid ranking through e-mails, telephone calls and meetings. Additionally, in several bidding cases, they agreed on the final price and ranking in advance while exchanging other sensitive information such as capacity and amount of production among themselves. A market survey indicated that the four ODD manufacturers jointly occupied at least 75 per cent of the ODD market. Meanwhile, HP's and Dell's notebooks and desktops made up around 10 per cent of the relevant Taiwanese market. As 90 per cent or more of the disk drives used in HP's and Dell's notebooks and desktops were purchased through bidding processes, the four ODD manufacturers' bid rigging had certainly affected the supply and demand in the domestic ODD market. Therefore, the TFTC fined TSSTK, HLDSK, PLDS and SOI NT\$25 million, NT\$16 million, NT\$8 million and NT\$5 million respectively.

The TFTC indicated that it began investigating the case because some parties involved in the cartel pleaded guilty and settled the case with the US Department of Justice in November 2011. After the commencement of the TFTC's investigation, one manufacturer applied to the TFTC for leniency and provided all relevant evidence to the TFTC in accordance with the Leniency Programme under the TFTA. Having fully cooperated with the TFTC, the leniency applicant was awarded full immunity from the fine. The identity of the applicant is being kept confidential by the TFTC at the applicant's request.

Implications

This case is the first time the TFTC concluded successfully with the help of an applicant after the Leniency Programme came into effect in 2011. Before the Leniency Programme was incorporated into the TFTA in 2011, whether the 'whistle-blower' mechanism would work in Taiwan as it does in other countries was doubted by local practitioners. In Taiwan, enterprises in the same industries have close interaction, and employees of these enterprises socialise with each other regularly. In addition, the Leniency Programme requiring an enterprise to betray its business partners in return for an immunity or reduction of fines contradicts business practice in Taiwan. Nevertheless, the Leniency

14 TFTC decision announced on 24 September 2012. The full content of the decision letter is not published due to protection of the leniency applicant.

Programme, within one year of it coming into effect, assisted the TFTC in bringing the cartel members in the *ODD* case to justice.¹⁵

The case is also the first time the TFTC sought assistance from competition authorities in other jurisdictions (such as the United States and European Union) because the cartel involved foreign markets and entities. A TFTC news release also indicates that the TFTC's documents were served upon foreign entities in other countries with help from the Ministry of Foreign Affairs and its overseas offices.¹⁶

ii Record-breaking fine imposed on power producers¹⁷

Background

The TFTC rendered a decision on 13 March 2013 penalising nine independent power producers (IPPs) that are members of the Association of IPPs (the Association). From August 2008 to October 2012, during Association meetings, these IPPs had agreed en bloc to refuse to amend the existing power purchase agreements with the Taiwan Power Company, and not to adjust the sale price of electricity even when there was a decline in electricity production costs.

The TFTC found that the IPPs' joint refusal could disrupt the functioning of the market, since each participating IPP could boost its profits by maintaining the existing sale price even when its electricity production costs decreased. Eventually, this refusal to adjust the price would lead to a price hike for the public. The TFTC therefore found the joint refusal to be a material violation of the concerted action regulations. To penalise the nine IPPs for their concerted action, the TFTC invoked the newly amended punishment provision under the TFTA (the Fine Formula), in which the maximum fine imposed on each violating enterprise can be up to 10 per cent of its turnover of the previous fiscal year. By applying the Fine Formula, the total fine of the subject case is NT\$6.32 billion, which is the highest amount imposed in a single case in the TFTC's enforcement history.

The IPPs filed an administrative appeal against the TFTC's decision with the Executive Yuan. In September 2013, the Executive Yuan ruled that the TFTC had calculated the fine recklessly. In particular, the Fine Formula came into effect in April 2012, and chronologically the alleged concerted action straddled the new and old laws. Consequently, the Executive Yuan requested the TFTC to reevaluate whether the old punishment provision, which capped the fine at NT\$25 million for a first-time offence, should be considered when imposing fines on each IPP.

Implications

As the first case that has adopted the Fine Formula, the public anticipates that the interpretation of when a case should be considered as a material violation and how the 10 per cent turnover fine calculation formula should be calculated can be clarified by the subsequent appeal decision and lawsuit (if any). Furthermore, the TFTC has shown

15 Stephen Wu, Yvonne Hsieh and Wei-Han Wu, footnote 6.

16 Stephen Wu and Yvonne Hsieh, 'Taiwan: ODD manufacturers fined for global bid-rigging conspiracy', *Global Competition Review Daily Headlines* (2 October 2012).

17 TFTC decision letter dated 15 March 2013, Ref. No. 102035.

how heavy-handed it can be when the public's interests are at stake. Enterprises that receive a high degree of public attention should be cautious when interacting with their competitors.

iii Compliance programme

Guidance from the Authority

To assist Taiwanese enterprises to establish internal compliance rules to curb their risk of violating antitrust laws of other countries, in December 2011 the TFPC published the Guidelines on Setting up Internal Antitrust Compliance Programmes (the Guidelines) and the Antitrust Compliance Dos and Don'ts (the Principles of Conduct).

According to the Guidelines, an enterprise should stipulate an antitrust compliance programme appropriate for its business strategies and corporate culture. The programme should cover at least the following measures to ensure compliance:

- a* developing a corporate culture where legal compliance is essential;
- b* stipulating policies and procedures that everyone should observe;
- c* providing education or training programmes;
- d* establishing audit, review and report mechanisms;
- e* creating proper rewards and punishments; and
- f* designating a means for contact or consulting.

To allow each enterprise to grasp what actions are and are not permissible, the TFPC published the Principles of Conduct, including types of violation under the TFTA and antitrust laws of other jurisdictions. The Principles of Conduct lists dos and don'ts relating to cartels, restrictions on resale price, monopolies and abuse of market power.

The Guidelines and the Principles of Conduct are administrative directives with no binding legal effect. However, the TFPC encourages Taiwanese enterprises to take the initiative to draft their own compliance programmes so as to lower their risk of violating the relevant laws. In addition, besides referring to the Guidelines and the Principles of Conduct, the TFPC recommends that each enterprise take its corporate culture and industry characteristics into consideration while drafting such programme.¹⁸

Reaction from the enterprises

Several Taiwanese enterprises have been penalised by foreign competition authorities for their involvement in international cartels in the past decade. The most recent and notorious case ended with AU Optronics Corporation (AUO), its US subsidiary and two senior executives being convicted by a jury on March 2012 of violating the US antitrust laws for colluding to fix prices of LCDs between 2001 and 2006. In September 2012, the court fined AUO US\$500 million, and imposed on each of the executives a prison sentence of three years and a fine of US\$200,000. The severe penalties imposed on AUO and its high-ranking officers stunned the industry and alerted Taiwanese enterprises to the importance of compliance with antitrust law. In the wake of this case, Taiwanese

18 Stephen Wu, Yvonne Hsieh and Wei-Han Wu, 'Today and Tomorrow', *The 2012 Guide to Competition and Antitrust* (2012).

enterprises may be more eager to establish internal compliance programmes to monitor the risk of cartel violation in various jurisdictions, as advised by the TFTC.¹⁹

iv Outlook

In the past, the TFTC devoted most of its administrative resources to unfair competition matters, such as false advertisements or multi-level sales, while antitrust issues such as cartels received scant attention. Nonetheless, the amendment to the concerted action provisions, in particular the introduction of the Leniency Programme, may considerably transform how the TFTC enforces cartel regulations. As foreign competition authorities have vowed to take aggressive action to curb the growth of international cartels, the TFTC may follow the trend. A more mature enforcement strategy can be expected to be developed by the TFTC in the near future.²⁰

19 Stephen Wu, footnote 7.

20 Stephen Wu, Yvonne Hsieh and Wei-Han Wu, footnote 6.

Appendix 1

ABOUT THE AUTHORS

STEPHEN WU

Lee and Li, Attorneys-at-Law

Stephen Wu is the partner leading the competition law practice group in Lee and Li, and also the founding chair and an active member of the Competition Law Committee of the Taipei Bar Association. He has successfully represented domestic and international clients in handling numerous antitrust filing, cartel investigation and unfair competition cases. He has been recognised as being among the world's leading competition lawyers by *Who's Who Legal – The International Who's Who of Business Lawyers 2012* and *2013*. He keeps abreast of the latest developments in global antitrust and competition laws, and regularly contributes briefings and articles to the *Global Competition Review*, *AntitrustAsia.com* and many competition law publications.

REBECCA HSIAO

Lee and Li, Attorneys-at-Law

Rebecca Hsiao is a counsellor at Lee and Li. She began her practice when she joined Lee and Li in 2001, and has practised in the areas of antitrust and competition law, mergers and acquisitions, securities, and corporate and investment laws.

WEI-HAN WU

Lee and Li, Attorneys-at-Law

Wei-Han Wu is a senior associate at Lee and Li. She joined Lee and Li in 2008, and her practice focuses on competition law, corporate investment and mergers and acquisitions. She has assisted in several combination notifications for domestic and extraterritorial mergers, international cartel investigations and unfair competition cases.

LEE AND LI, ATTORNEYS-AT-LAW

7F, No. 201 Tun-Hua N Road

Taipei 10508

Taiwan

Tel: +886 2 2715 3300

Fax: +886 2 2713 3966

stephenwu@leeandli.com

www.leeandli.com