ANNUAL REPORT ON COMPETITION POLICY DEVELOPMENTS IN CHINESE TAIPEI
-- 2014 --

27-28 October 2015

This report is submitted by Chinese Taipei to the Competition Committee FOR DISCUSSION at its forthcoming meeting to be held on 27-28 October 2015.
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1. Changes to competition laws and policies, proposed or adopted

1.1 Summary of new legal provisions of competition law and related legislation

1. Until the end of 2014, the latest amendment to the Fair Trade Act (FTA) was on November 25, 2011. However, the FTA has been amended twice in 2015.

2. The Multi-level Marketing Supervision Act came into effect on January 29, 2014. The legislation of the Supervisory Regulations Governing Multilevel Sales was the guidelines for multi-level marketing supervision, which was originally set in accordance with the provisions specified in the FTA. However, considering that the FTA is a competition law designed to fight competition restrictions and unfair competition, and not to regulate multi-level practices, as well as the fact that multi-level marketing has become a popular sales approach in recent years and some of the unlawful multilevel marketing practices have created serious social problems, establishing a complete and independent Multi-level Marketing Supervision Act has been an important administrative objective of the Fair Trade Commission. A number of significant changes to the Multi-level Marketing Supervision Act compared to the related regulations set forth in the FTA and the Supervisory Regulations Governing Multilevel Sales are as follows: (1) the redefinition of “multi-level marketing” and deletion of the regulation regarding the “payment of certain fees”; (2) the addition of the regulation requiring multilevel marketing businesses suspending their operations to make public announcements; (3) the addition of the provision regarding the giving of written contracts to participants; (4) the revision of the participant withdrawal and the product return regulations; (5) the addition of the regulations regarding withdrawal and product return with a third party involved; (6) detailed penalty provisions and increased penalties for unlawful multi-level marketing operations; and (7) creating a multi-level marketing business protection agency to handle disputes between multi-level marketing businesses and participants.

1.2 Other relevant measures including amended guidelines

3. The Fair Trade Commission (FTC) amended the following guidelines in 2014:

- “Enforcement Rules of the Multi-level Marketing Supervision Act”;
- “Regulations for Multi-level Marketing Enterprises Filing Reports for Record and Amendments”;
- “Regulations for the Establishment and Administration of the Multi-level Marketing Protection Institution”;
- “Regulations Governing the Turnover Amount Which Multi-level Marketing Enterprises Shall Have its Financial Statements Audited and Certified by a Certified Public Accountant”;
- “Disposal Directions (Guidelines) on Investigations in Multi-level Sales Cases”;
- “Regulations for the Examination of Financial Holding Company Merger Cases”;
- “Enforcement Rules of the Fair Trade Act”;
- “Guidelines on Handling Merger Filings”;
- “Guidelines on the Procedure of Public Hearings”;


“Disposal Directions (Guidelines) on Cases Concerning Promotion by Means of Gifts and Prizes”;

“Disposal Directions on Handling Traveling Expenses for the Cases Related Person”;

“Regulations on Multi-level Marketing Operations’ Establishment of Personal Information Protection Plans and Personal Information Handling Procedures upon Participant Contract Termination”;

“Disposal Directions (Guidelines) on Unlawful Commissioning of Household OEM Cases”;


1.3 Government proposals for new legislation

4. The FTC’s proposed amendment was approved by the Cabinet on December 13, 2012, and it was pending in the Congress until the end of 2014. On January 22, 2015, the Congress approved the amendments to the FTA and the amendments to the FTA were promulgated on February 4, 2015. In addition, there was another amendment which was promulgated on June 24, 2015 by adding Article 47-1 of the FTA. The key points of these amendments include:

- Revising the pre-merger notification threshold and extending review period of merger cases;
- Recognition of circumstantial evidence for concerted actions;
- Increasing the expiration length of power to impose administrative penalties;
- Empowering the FTC to suspend investigation when accepting commitments offered by parties under investigation;
- Differentiating administrative penalties for various violations; and
- Softening applicable standard to RPM.

2. Enforcement of competition laws and policies

2.1 Action against anti-competitive practices, including agreements and abuses of dominant market positions

2.1.1 Summary of Activities

5. The Act permits the existence of monopolies as long as they do not abuse their market power. Concerted actions are strictly forbidden by the Act. However, while some exceptions are allowed for, these
do require the FTC’s prior approval and its decision is based on the public interest. The Act bans resale price maintenance in principle but requires the FTC to apply the rule-of-reason standard to other types of vertical restraints.

6. In 2014, the FTC processed 2,225 cases, including 2,001 cases received in 2014 and 224 cases carried over from the preceding year. By the end of 2014, 2,100 cases had been closed, and 125 cases were pending. A total of 278 complaint cases applicable to the Act were concluded in 2014 and, of these, 66 concerned anti-competitive practices.

7. Decision rulings on complaints and FTC self-initiated investigations were undertaken in relation to 150 cases in 2014, and only 27 of these fell into the category of anti-competitive practices. The FTC also initiated investigations into 12 anti-competitive cases.

<table>
<thead>
<tr>
<th>Year</th>
<th>Anti-competitive Practices</th>
<th>Abuse of Monopoly</th>
<th>Mergers</th>
<th>Concerted Actions</th>
<th>Resale Price Maintenance</th>
<th>Vertical Restraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>27</td>
<td>5</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>6</td>
</tr>
</tbody>
</table>

Note: The number of illegal actions may exceed the number of cases involving decision rulings because a case may involve more than one illegal action.

2.1.2 Description of significant Anti-competitive cases (including those with international implications)

- Case 1: Cartel of 16 Tainan Asphalt Businesses

The FTC decided on April 9, 2014 that 16 asphalt businesses in Tainan City had violated Paragraph 1, Article 14 of the FTA for establishing a mutual understanding and collecting stabilization funds from their downstream customers as the conduct had resulted in pushing up the prices of asphalt and was able to affect the supply-demand function of the asphalt market in the Tainan area. The FTC therefore imposed administrative fines ranging between half a million and 5 million New Taiwan dollars on the 16 businesses. The fines totaled NT$39.5 million (approximately equivalent to US$1.2 million).

The “Graft Crackdown Special Task Force” of the Tainan District Prosecutor’s Office in 2010 implemented the “Fighting Injustice Project” to investigate collusion between government officials and businesses as well as jerrybuilding. In the procedure for investigation, the Tainan District Prosecutor’s Office discovered that local asphalt businesses seemed to have jointly raised the prices of asphalt. The FTC immediately set up a task force and launched an investigation in cooperation with the Graft Crackdown Special Task Force to stop the asphalt businesses’ illegal collusion and acquisition of unlawful profit from public engineering procurement projects. The conduct had jeopardized the public interest.

Besides the involved businesses, the FTC also questioned 40 interested parties and concluded that from August 2010 to October 2011, the asphalt businesses had collaborated with other parties to manipulate transactions in the asphalt market by achieving a mutual understanding and collecting NT$200 for each tonne of asphalt from project bid winners and related builders to push up the prices of asphalt indirectly in the Tainan area.
A cartel has always been considered to involve a serious violation in every country. Once concrete evidence of violation is established, the FTC will impose heavy punishments without any mercy. After taking into consideration that the illegal activity had lasted for more than one year, the degree of involvement in decision-making, the level of cooperation throughout the investigation, scale of business, size of capital and other factors specified in Article 36 of the Enforcement Rules to the Fair Trade Act, the FTC ordered the 16 businesses to immediately cease the unlawful act and also imposed administrative fines on them.

- Case 2: KAREA restricted Members’ Bid Prices

The FTC decided on November 12, 2014 that the Kaohsiung Association of Real Estate Appraisers (KAREA) had violated the regulation set forth in the Fair Trade Act against concerted actions for restricting its members from determining their own bid prices. The FTC ordered KAREA to immediately cease the unlawful act and also imposed on it an administrative fine of NT$400,000 (approximately equivalent to US$12,171).

The FTC received a complaint accusing KAREA of violating the FTA by restricting its members from deciding their bid prices. The FTC’s investigation showed that KAREA in 2004 established its Member Self-discipline Agreement in which there was a regulation against members’ “reduction of appraisal fees by a large margin.” However, the meaning of “reduction of appraisal fees by a large margin” was not defined in the agreement. As a result, price undercutting competition between members remained an unresolved issue. KAREA therefore made the decision during its 7th Directors & Supervisors Joint Meeting of the 4th Term on January 15, 2014 to define “reduction of appraisal fees or other illegitimate measures” as “when there are three or more bidders and the winning bid is significantly lower than the offers of the other bidders.” Hence, the decision was sent to each member. In reality, KAREA also notified five bid-winning members, whose winning bids were 20% lower than the average of the offers from the other bidders in eight tenders, to provide written statements and explain their bids in person.

The bid price restriction imposed by KAREA meant that when its members decided their bid prices, besides considering “making too high an offer and not winning the bid” and “offering too low a bid price and not making enough profit,” they also had to take into account that there was the risk of violating the Member Self-discipline Agreement by “offering a bid price lower than the average of the offers from the other bidders by 20% or more.” To avoid this risk, KAREA members had to adopt a more conservative bidding strategy and make higher offers or consult with the other bidders before bidding or even make joint bid price decisions. The FTC concluded that by imposing the restriction, KAREA had not only infringed the freedom and independence of its members in the bid price decision but also suppressed price competition. The practice violated the regulation against cartels set forth in Paragraph 1 of Article 14 of the FTA and the FTC therefore decided the sanction according to the first section of Paragraph 1, Article 41 of the same Act.

2.2 Mergers and acquisitions

2.2.1 Statistics on the number, size and type of mergers notified and/or controlled under competition laws

8. Mergers involving parties reaching a certain sales volume or a particular level of market share require the giving of notification to and obtaining no objection from the FTC. The FTC makes its decision
based on whether the benefits to the economy as a whole will exceed the anti-competitive effects of the proposal.

### Notifications for Mergers (Unit: Number of cases)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cases under Processing</th>
<th>Results of Processing</th>
<th>Cases Pending at Year-end</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carried Over from 2013</td>
<td>Received in 2014</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mergers not Prohibited</td>
</tr>
<tr>
<td>2014</td>
<td>8</td>
<td>68</td>
<td>66</td>
</tr>
</tbody>
</table>

### Statistics on Enterprise Mergers (Unit: Number of cases)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cases not Prohibited</th>
<th>Type of Merger (Article 6, Paragraph 1 of the Fair Trade Act)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Subparagraph 1</td>
</tr>
<tr>
<td>2014</td>
<td>33</td>
<td>3</td>
</tr>
</tbody>
</table>

Note: More than one type of merger may be applicable to some cases. Therefore, the total number of cases under different types of mergers exceeds the total number of approved cases.

#### 2.2.2 Summary of significant cases

- **Case 1: Two Major KTV Singing Service Companies Failed to File Merger Notification**

The FTC decided on April 23, 2014 that Cashbox Partyworld Co., Ltd. (hereinafter referred to as Cashbox) and Holiday KTV Co., Ltd. (hereinafter referred to as Holiday) had violated Paragraph 1, Article 11 of the Fair Trade Act for failing to file with the FTC a merger notification regarding their frequent joint management operations. Acting according to Paragraph 1 of Article 13 and Paragraph 1 of Article 40 of the FTA, the FTC ordered both companies to cease and correct the unlawful act and also imposed administrative fines of NT$5 million on Cashbox and NT$4 million of Holiday. The fines totaled NT$9 million (approximately equivalent to US$273,848).

The FTC’s investigation revealed that between 2012 and 2013 Cashbox and Holiday rented a venue to be their headquarters where important business decisions were jointly made and the two companies were thus integrated as one business entity. All core operations in relation to their KTV singing services, including sales, planning and management, were consolidated. The staff members of both companies’ procurement sections were seated in Holiday’s office and the same employee was responsible for procuring the business equipment and products of the same category or item for both companies. The operations and personnel of each department of both companies were no longer independent but consolidated. The intranets and telephone lines of both companies were connected and business instructions and operations were thus conducted and resources were shared. The overall business operation pattern met the merger type described in Subparagraph 4 of Paragraph 1, Article 6 of the FTA and both companies had also reached the merger filing threshold. According to law, they were required to file with the FTC before merging but failed to do so. Therefore, it was a violation of Paragraph 1, Article 11 of the FTA. Since the two companies had been sanctioned previously for failing to file a merger notification regarding their jointly run customer service center and computer audio-video operations, the FTC therefore acted according to Paragraph 1, Article 13 of the FTA,
ordered the two companies to make necessary corrections within three months, and also imposed administrative fines on the two companies.

- Case 2: Merger Between 2 Cable Broadcasting and Television System Service Companies

The FTC decided at the 1192nd Commissioners’ Meeting on Sept. 10, 2014 not to prohibit Dafeng TV Ltd. from acquiring 100% of the shares of DigiTai TV Ltd. in accordance with Paragraph 2, Article 12 of the Fair Trade Law, and attached conditions for non-prohibition.

The FTC pointed out that although the merging businesses owned 100% of the cable broadcasting and television system service market in Banqiao District (including Tucheng District), New Taipei City, there was potential competition as the National Communications Commission has permitted new operators to enter the market, as well as existing operators to expand their business across districts. Hence, this merger does not restrict competition, but rather promotes the development of the video media industry, fosters the development of digital convergence, and provides consumers with more options.

After comprehensively considering the possibility and timeliness of new operators entering the market, the current legal framework, market structure and competition, and the development of digital convergence, the FTC attached 7 conditions to the non-prohibition decision in accordance with Paragraph 2, Article 12 of the FTA, so as to eliminate any possible competition restrictions and ensure overall economic benefits:

1. The merging enterprises, their subsidiaries and the companies they control may not use improper means to restrict or hinder consumers from freely changing trading counterparts.

2. The merging enterprises, their subsidiaries and the companies they control shall ensure that the prices of cable TV services, broadband network service, and digital channel value-added service are not higher than before the merger within 3 years after receiving the merger decision.

3. The merging enterprises, their subsidiaries and the companies they control may not establish any contract or agreement of any form with other cable TV services, their subsidiaries or companies under their control to make consolidated purchases from cable TV program suppliers, engage in joint pricing or boycotting activities, or undertake any conduct described in the Fair Trade Law as a concerted action.

4. The merging enterprises, their subsidiaries and the companies they control may not demand that their upstream program suppliers exclusively license programs in their operating area, or use improper means to obstruct transactions between their upstream program suppliers and other cable TV services, their subsidiaries or companies under their control.

5. The merging enterprises, their subsidiaries and the companies they control may not hinder transactions between upstream program suppliers and other cable TV services, their subsidiaries or the companies under their control by adjusting the channel of a program, taking down a program, lowering the program licensing fee, or using other improper means.

6. The merging enterprises, their subsidiaries and the companies they control shall carry out the following to ensure that the overall economic benefits apply beginning on the day after receiving the merger decision:

   a. Complete the cable TV digitalization and two-way cable TV system network construction to increase program options for consumers.
b. Achieve the digital cable TV prevalence target stated in the Digital Convergence Development Project approved by the Executive Yuan on July 8, 2010 for the expedition of digital convergence.

c. Support HD digital content and programs to drive the development of the cultural and creative industry.

(7) Dafeng TV Ltd. shall submit the following documents to the FTC before July 1 each year within 3 years after receiving the merger decision.

a. The price, quantity, discounts, and termination conditions of cable TV services, broadband network services, and digital channel value-added services provided by the merged enterprises, their subsidiaries and the companies they control.

b. A report on the achievements in the improvement of the overall economic benefits.

3. The role of competition authorities in the formulation and implementation of other policies, e.g., regulatory reform, trade and industrial policies

9. In its first amendment in 1999, the new provision of the Act required that the Act not be applied to acts performed in accordance with other laws only if such other laws do not conflict with the legislative purpose of the Act. This amendment thereby affirms that the spirit and contents of the Act be the core of economic policy.

10. The FTC has completed a comprehensive review of all relevant laws and regulations since 2001 to minimize potential conflicts among laws, to advocate free and fair competition, and to ensure the presence of a healthy operating environment in which all businesses are able to compete fairly. As a result, the FTC will continue to be aware of developments in various markets, perform reviews of other laws to determine whether they are in compliance with the Act and consult with relevant industry competent authorities to prevent related laws and regulations from impeding competition.

11. In 2014, the FTC organized and participated in various consultation meetings with other government authorities related to competition issues, as summarized in the following:

- Participated in the meeting organized by the Executive Yuan and Bureau of Energy, Ministry of Economic Affairs (MOEA) for the amendment of the “Electricity Act” (draft). After discussion, the participants drafted a conclusion for the Bureau of Energy, MOEA to analyze the pros and cons as well as the supporting measures in relation to the disputes, and provide the information to the Executive Yuan in order to make a presentation to the Premier. The FTC will track the progress of the amendment of the “Electricity Act” and provide opinions regarding competition law.

- Participated in the meeting organized by the Yilan County Government for the “Collective Procurement Working Group of Elementary Schools’ Approved Textbooks in the 2014 School Year” and exchanged opinions with the competent authority regarding the current situation in the textbook market.

- Participated in the meeting organized by the Bureau of Mines, MOEA to discuss the “Response Strategies for the Impact on the Demand and Supply of the Domestic Gravel Market due to the Remediation of the Jiulong River in Mainland China”. The representative of the FTC paraphrased the suggestions proposed by the gravel businesses toward stabilizing the gravel market and
reminded the competent authority to keep an eye on the rising price of domestic gravel which might be a result of the shortages in the supply of gravel.

- Hosted a meeting for advocating the “Fair Trade Commission Disposal Directions (Policy Statements) on the Sales of Elementary and Junior High School Textbooks” and invited representatives of the competent authority to attend and provide their opinions on the disposal directions, textbook screening system, and evaluation standards.

- Organized a meeting inviting the Financial Supervisory Commission to discuss the “Upper Age Limit Which is Set by the Life Insurance Companies for the Life Insurance and Health Insurance” and came to the conclusion that the Financial Supervisory Commission will appeal to insurance companies to sufficiently raise the age upper limit and provide insurance products which satisfy senior citizens’ demands in order to protect the senior insured’s rights and benefits.

- Organized a meeting inviting the Agriculture and Food Agency, Council of Agriculture, Taichung City, Changhua County, Chiayi County, Nantou County, Pingtung County, Taitung County, and Hualien County Government to discuss the “Availability of the Competent Authority Reporting Market Quotations of Betel Nuts After Betel Nut Suppliers were Repeatedly Punished by the FTC”. The conclusion of the meeting was to encourage the betel nut suppliers to use the “Agricultural Price Inquiring System”, a website established by the Council of Agriculture, to inquire into the prices of betel nuts at each place of production for transaction reference. The local competent authorities were advised to adopt the price information regarding betel nuts from the “Agricultural Price Inquiring System”. In addition, the Taitung County Government was required to provide the prices of betel nuts according to its authority.

- Participated in the first meeting organized by the Food and Drug Administration, Ministry of Health and Welfare for the “Intellectual Property Working Group on Drugs” and provided some competition law enforcement experiences on a drug patent system, which will be established by the Food and Drug Administration.

- Participated in the meeting organized by the Industrial Development Bureau, MOEA for the “Disaster Reduction Plan for Industrial Pipelines” meeting and elaborated on the purpose of the enactment of the FTA as well as the FTC’s authority for maintaining market trading order.

- Organized a forum inviting the Consumer Protection Committee, Executive Yuan, Ministry of Transportation and Communications, Industrial Development Bureau, MOEA, representatives of businesses, scholars, and experts to attend the “Forum on the Current Status and Competition Issues of Automobile After-sales Services in Taiwan” and discussed the practical situation of auto parts dealing restraints. The FTC will prescribe relevant disposal directions according to the opinions from the meeting participants.

4. Resources of competition authorities

4.1 Resources overall

4.1.1 Annual budget

4.1.2 Number of employees (person-years)

12. There were 209 employees at the end of the year 2014, including all staff in the operations and administrative departments and 7 full-time Commissioners. The operations departments include the Department of Service Industry Competition, Department of Manufacturing Industry Competition, Department of Fair Competition, Department of Planning and the Department of Legal Affairs. Over 91% of employees have bachelor degrees with majors in different subjects at the university level.

13. In terms of the educational background percentages, 24%, 25%, 7%, 6% and 38% of the employees majored in law, economics, business administration, accounting and other related fields (including information management, statistics, and public administration), respectively.

14. As a result, the structure of the human resources of the FTC is as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawyers</td>
<td>51</td>
</tr>
<tr>
<td>Economists</td>
<td>52</td>
</tr>
<tr>
<td>Other professionals &amp; support staff</td>
<td>107</td>
</tr>
<tr>
<td>All staff combined</td>
<td>209</td>
</tr>
</tbody>
</table>

4.2 Human resources (person-years) applied to:

4.2.1 Enforcement against anti-competitive practices and merger review

15. Apart from the Department of Fair Competition, which has 31 staff and is responsible for unfair competition practices, such as false and misleading advertisements, counterfeiting and multi-level sales cases, the Departments of Service Industry Competition and Manufacturing Industry Competition of the FTC handle all kinds of anti-competitive cases, including the abuse of dominant market positions, merger reviews, cartels and various vertical restraints.

16. The Department of Service Industry Competition is responsible for cases related to the services and agricultural sectors, and the Department of Manufacturing Industry Competition is responsible for cases related to the manufacturing sectors. There are 31 staff members in the Department of Service Industry Competition and 27 in the Department of Manufacturing Industry Competition.

4.2.2 Advocacy efforts

17. In 2014, 10 of the 25 staff members in the Department of Planning of the FTC were primarily in charge of public outreach programs. However, since most of the outreach programs for competition advocacy were case-oriented, almost every department staff member played an active role in outreach activities. The FTC organized 88 seminars in 2014 for the public, students, and local governments to introduce the regulations of the FTA.

18. Furthermore, in 2014, the FTC held 3 seminars for the various business sectors to introduce the leniency program and administrative fines to ensure acquaintance with the new provisions of the FTA. The FTC also held 1 seminar for business sectors to introduce the “Code of Conduct for the Antitrust Compliance of Enterprises.”
4.3 Period covered by the above information

- January through December 2014

5. Summaries of or references to new reports and studies on competition policy issues

19. The FTC studied and published reports on competition policy issues in 2014 with the following titles. All of them are only available in Chinese.

- A Study on Advocating Competition Policy with NPOs.
- A Study on the Strategic Alliance of Aviation Businesses Regarding the FTA.
- A Study on the Cases applicable to the FTA Concerning the Domestic Drug Market.
- A Study on the Competition Regulations and Cases of Internet Advertisement.
- A Study on Adding Search and Seize Powers to the FTC.

20. The FTC also engaged in outsourced research, and published the following research reports in 2014. A short English abstract is available for both reports.

- Regulation on Mergers between Business Groups in the Fair Trade Act.