

China fines Qualcomm record \$975M in anti-monopoly case (Update)

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In this April 18, 2011 file photo, the corporate sign of Qualcomm Inc. is seen in front of its office in Santa Clara, Calif. China fined chipmaker Qualcomm 6 billion yuan (\$975 million) in the biggest of a wave of anti-monopoly penalties that have rattled foreign companies. San Diego-based Qualcomm abused its dominance in wireless technology to charge manufacturers "unfairly high" licensing fees, a Cabinet agency announced Tuesday, Feb. 10, 2015. China is the world's biggest producer of mobile phones and other wireless devices, and Beijing has complained about the high cost of technology licenses. (AP Photo/Paul Sakuma, File)

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Qualcomm Inc. abused its dominance in wireless technology to charge manufacturers "unfairly high" licensing fees, a Cabinet agency announced Tuesday. China is the world's biggest producer of mobile phones and other wireless devices, and Beijing has complained about the high cost of technology licenses.

China has launched a series of anti-monopoly investigations over the past two years against foreign automakers, technology suppliers and other companies in an apparent effort to force down prices. Business groups say the secretive way the investigations are conducted is alienating companies, but regulators deny they are treated unfairly.

Qualcomm, one of the biggest makers of chips used in mobile phones, said Monday it also agreed to change some of its practices for licensing technology to Chinese companies.

San Diego-based Qualcomm expressed disappointment with the findings by the Chinese Cabinet's National Development and Reform Commission, but said it will not contest the matter.

The fine was the highest imposed to date by Chinese authorities on a foreign company. It was twice the size of the 3 billion yuan (\$492 million) fine for GlaxoSmithKline, a British pharmaceutical company, in September in a bribery case.

The NDRC said Qualcomm improperly bundled unrelated licenses with mobile phone technology, forcing Chinese customers to pay for licenses they didn't need.

"Qualcomm's acts to eliminate or restrict market competition, hinder and inhibit technological innovation and development and harm the interests of consumers violate China's anti-monopoly law," the agency said in a statement.

Qualcomm said it will offer licenses for its current 3G and 4G Chinese patents separately from licenses to its other patents. It also will give existing licensees in China an opportunity to adopt the new terms for sales of branded devices for use in China going back to Jan. 1.

"We are pleased that the investigation has concluded and believe that our licensing business is now well positioned to fully participate in China's rapidly accelerating adoption of our 3G/4G technology," said Derek Aberle, president of Qualcomm, in a statement.

Qualcomm makes most of its profit from licensing fees paid by companies that use its chips. China accounts for about half the company's revenue.

The NDRC said the fine was calculated on the basis of 8 percent of Qualcomm's 2013 revenue in China.

Business groups welcomed the enactment of China's anti-monopoly law in 2008 as a step toward clarifying operating conditions. Since then, they have said it is enforced more actively against foreign companies than against local rivals. That has fueled sentiment among foreign companies that they are less welcome in China.

Almost half of companies that responded to a survey by the American Chamber of Commerce in China in September said they believed they were targeted for "selective and subjective enforcement" of anti-monopoly, food safety and other rules. The chamber warned China risked damaging its status as an attractive place to invest.

Business groups complain Chinese regulators pressure foreign companies to attend regulatory proceedings without bringing lawyers and to refrain from challenging penalties.

Last year, 12 Japanese auto parts suppliers were fined a total of \$202 million after regulators said they colluded to raise prices. Audi and Chrysler were fined for enforcing minimum prices dealers could charge for vehicles and service. A regulator cited by state media said Daimler AG's Mercedes Benz unit violated the law but no penalty was announced.

In 2013, five foreign dairy companies and one from Hong Kong were fined for enforcing minimum prices for distributors.

Among technology companies, the government also is looking at Microsoft Corp.'s Windows operating system and how it handles compatibility, bundling and publication of documentation.

Qualcomm said Monday the fine will reduce its earnings for the fiscal year ending Sept. 27.

Qualcomm Inc. now forecasts earnings per share between \$3.56 and \$3.76, down from its previous estimate of \$4.04 to \$4.34.

But its adjusted earnings, which exclude charges related to the settlement, are now expected to range from \$4.85 to \$5.05 per share, up from its prior range of \$4.75 to \$5.05 per share, partly due to higher revenue.

For investors, the Chinese ruling resolves significant uncertainty about the future of Qualcomm's business in China. Its stock added \$1.93, or almost 3 percent, to \$69.04 in after-hours trading on Monday. It had ended regular trading up 76 cents to \$67.11.

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