Legal Issue 1. Antitrust Issue Update

Korean Antitrust Enforcer Amends Guidelines on Abuse of Intellectual Property Rights

On December 17, 2014, the Korea Fair Trade Commission ("KFTC") promulgated amendments to its Guidelines on Unfair Exercise of Intellectual Property Rights ("IP Guidelines"). The amendments went into effect on December 24, 2014. The amendments include: (i) clarifying the general principle governing the applicability of the Monopoly Regulation and Fair Trade Act ("MRFTA"), the primary Korean antitrust statute, to the exercise of intellectual property rights ("IPR"); (ii) reclassifying various categories of IPR abuse; (iii) establishing IPR abuse by a Non-Practicing Entity ("NPE") as separate categories of IPR abuse; and (iv) establishing IPR abuse by the holder of a Standard Essential Patent ("SEP"), including the filing of a request for injunction in some cases, as separate categories of IPR abuse.

I. Key Amendments to the IP Guidelines

A. Clarification of the general principle governing the application of the MRFTA to the exercise of IPR

(1) Standard used to evaluate "fair exercise of IPR" (Section II. 2. A. of the amended IP Guidelines)

The amended IP Guidelines specify that a totality-of-circumstances test is used to determine whether certain conduct constitutes fair exercise of IPR and therefore is exempt from the MRFTA under Article 59 of the MRFTA. Factors considered under this test include: (i) the legislative purpose and intent of relevant statutes including the Patent Act; (ii) the substance of the IPR at issue; and (iii) the effect of the conduct at issue on competition within the relevant market.

(2) Shift in analytical framework from unfair trade practices to abuse of market dominance (Section II. 2. B and C of the amended IP Guidelines)

Prior to the December 2014 amendments, the IP Guidelines were focused on setting a standard for determining whether IPR abuse constitutes an unfair trade practice. In contrast, the amended IP Guidelines make it clear that they are now focused on setting a standard for determining whether certain exercise of IPR constitutes abuse of market dominance and unfair concerted conduct, i.e., a cartel activity. As a result, in the case of the unilateral exercise of IPR, the amended IP Guidelines in principle apply only if the IPR holder possesses market dominance. Further, under the amended IP Guidelines, the mere possession of an IPR will not lead to the presumption that the IPR holder possesses market dominance. Rather, whether an IPR holder possesses market dominance will be determined under a totality-of-circumstances test. Factors considered under this test include: (i) the existence of IPR; (ii) the effect of the technology at issue; (iii) the availability of an alternative technology; and (iv) competition in the relevant market. Meanwhile, the amended IP Guidelines specify that whether certain exercise of IPR constitutes an unfair trade practice is to be analyzed under the KFTC's Guidelines on Unfair Trade Practices.

(3) Incorporation of the "innovation market" concept into the relevant market for the exercise of IPR (Section II. 3. A. (3) of the amended IP Guidelines)
Because the analysis of product and technology markets might not fully capture the impact of the exercise of IPR on competition, the amended IP Guidelines specify that the KFTC may also take into account the relevant innovation market as well as product and technology markets, where the exercise of IPR affects competition for development of new or existing goods or processes. Here, "innovation market" refers to the market for research and development of new or existing goods or processes.

B. Reclassification of various categories of IPR abuse (Section III of the amended IP Guidelines)

The amended IP Guidelines reclassify various categories of IPR abuse. This reclassification reflects the typical sequence of the exercise of IPR, namely: (i) the acquisition of IPR; (ii) the exercise of IPR through litigation; (iii) the grant of licenses; (iv) the establishment of patent pools and the grant of cross-licenses; (v) the exercise of a patent relating to a standardized technology; (vi) the settlement of patent disputes; and (vii) the exercise of IPR by an NPE. Among the reclassified categories, abuse of a patent relating to a standardized technology and IPR abuse by an NPE are new categories introduced under the amended IP Guidelines.

In addition, the amended IP Guidelines also establish certain subcategories under three existing categories of IPR abuse: (i) the unfair acquisition of IPR; (ii) the unfair exercise of IPR through litigation; and (iii) the unfair grant of a license. Under the amended IP Guidelines, a subcategory of the unfair acquisition of IPR is grant-back. Grant-back arises in the context of a licensing agreement under which a patent holder or a licensor requires a licensee to agree to grant the licensor a license for any improvements made to the licensed technology. Under the amended IP Guidelines, in analyzing whether a grant-back clause constitutes IPR abuse, the KFTC considers the exclusivity of the grant-back, the duration of the grant-back, and the scope of the grant-back (whether it covers any improvement that is irrelevant to the licensed technology) (Section III. 1. B. of the amended IP Guidelines).

The amended IP Guidelines also establish two subcategories of IPR abuse through litigation, namely patent infringement litigation based on a fraudulently obtained patent and patent infringement litigation intended to maliciously interfere with another's business (Section III. 2. of the amended IP Guidelines).

With regards to the category of the unfair grant of a license, the amended IP Guidelines note that package licensing, e.g., the licensing of multiple patents through a single license, may be a form of tying, which is prohibited under the MRFTA, if the licensing is conditioned upon the acceptance of a license of other unnecessary IPR (Section III. 3. D. (5) of the amended IP Guidelines).

C. Establishing IPR abuse by an NPE as separate categories of IPR abuse

(1) Definition of the term "NPE" (Section I. A. (7) of the amended IP Guidelines)

The amended IP Guidelines define NPE as "a business that does not manufacture or sell goods or provide services using any patented invention but generates revenue through the enforcement of its patents against others."

(2) Types of IPR abuse by an NPE (Section I. A. (7) of the amended IP Guidelines)

The amended IP Guidelines establish the following types of IPR abuse by an NPE: (i) charging a significantly unreasonable level of royalty rates in light of ordinary industry practices; (ii) charging an unreasonable level of royalty for a patent obtained from a third party while denying FRAND (Fair, Reasonable and Non-Discriminatory) terms granted by the previous holder of the patent; (iii) forming an NPE through a consortium of multiple businesses and unfairly refusing to license the NPE's patent to other businesses or granting a license on discriminatory terms against others; (iv) filing/pursuing a patent-infringement claim, or sending an infringement notice, through deceptive means such as concealing or omitting important information (e.g., specific information relating to the patent alleged to have been infringed) necessary for the alleged infringer's defense against the claim or through other misleading conduct; and (v) the holder of a patent transferring the patent to an NPE to allow the NPE to engage in conduct (i) and/or (ii) above against other businesses (i.e., "privateering.")

In particular, with regard to conduct (i) above, the amended IP Guidelines note that NPEs are more likely to abuse IPR compared to other IPR holders because NPEs have no need for cross-licensing and are not in any danger of being sued for patent infringement precisely due to their nature — they do not produce or provide products or services. The amended IP Guidelines also state that a reasonable royalty depends on a totality of factors including the objective technical value of the IPR at issue, royalties received by the patent holder from other licensees, and royalties paid by the licensee in return for other similar IPR.

D. Establishing IPR abuse by the holder of an SEP as separate categories of IPR abuse

(1) Definition of the term "SEP" (Section I. A. (6) of the amended IP Guidelines)
The amended IP Guidelines define an SEP as “a patent that is essential to implementing a technical standard and must be licensed to manufacture or provide standard-compliant products or services.”

(2) Establishing categories of IPR abuse by an SEP-holder (Section I. A. (6) of the amended IP Guidelines)
The amended IP Guidelines establish the following conduct as categories of IPR abuse by an SEP holder: (i) unreasonably evading the grant of a license on FRAND terms to strengthen the SEP holder’s dominance in the relevant market or to exclude its competitors; and (ii) granting a license on the SEP while (x) imposing unreasonable terms to restrict the licensee from exercising any relevant patent held by the licensee or (y) unreasonably requiring the licensee to cross-license non-SEPs held by the licensee.

(3) Establishing the filing of a request for injunctive relief by an SEP as IPR abuse in certain cases (Section III. 5. B of the amended IP Guidelines)
The amended IP Guidelines acknowledge that an SEP holder may seek injunctive relief against patent infringement. Under the amended IP Guidelines, however, such action may constitute IPR abuse if the SEP is committed to licensing its SEP on FRAND terms and the entity against which the injunctive relief is sought is willing to enter into a license agreement on FRAND terms. In this context, the amended IP Guidelines also specify that an SEP holder seeking an injunction against a potential licensee without first conducting meaningful negotiations is highly likely to be deemed to be engaging in IPR abuse. In addition, under the amended IP Guidelines, whether an SEP holder conducted meaningful negotiations with a potential licensee is determined on the basis of a totality of factors: (i) whether the SEP holder formally requested negotiations; (ii) whether the duration of the negotiations was adequate; (iii) whether the licensing terms offered by the SEP holder were reasonable and non-discriminatory; and (iv) whether the SEP holder sought means of resolving any contentious issue that arose during negotiations.

On the other hand, the amended IP Guidelines illustrate the following examples of an SEP holder seeking injunctive relief that is not likely to constitute IPR abuse: (i) a potential licensee found to be an unwilling licensee by, for instance, refusing to comply with a decision by a court or an arbitral institution, and (ii) a potential licensee without the means to pay compensatory damages, such as a company in bankruptcy.

II. Implications

In recent years, the KFTC has announced its intent to aggressively monitor and sanction IPR abuse, particularly by NPEs and SEPs. The amended IP Guidelines provide more specific guidance on whether certain conduct, including that by an NPE or SEP, is likely to constitute IPR abuse. Hence, companies that exercise IPR are encouraged to pay close attention to the IP Guidelines.