

Treatment of NPEs (Non-Practicing Entities) under Korean Antitrust Law*

Haksoo Ko** and Jeong Seo***

Abstract

Legal disputes surrounding non-practicing entities (NPEs) or patent-assertion entities (PAEs) have not been common in Korea yet. Nonetheless, there are concerns raised regarding possible anticompetitive effects of their behavior. In 2014, the Korea Fair Trade Commission (the KFTC) amended its Review Guidelines on Unfair Exercise of Intellectual Property Rights (the IPR Guidelines), and newly included a section addressing competitive effects of NPEs' exercise of intellectual property rights. The IPR Guidelines specifically list five types of activities as examples of NPEs abusive or unreasonable anticompetitive behavior. It remains to be seen, however, if NPEs' potential anticompetitive behavior addressed in the IPR Guidelines would form a separate and lasting category, in particular considering the lack of clear evidence suggesting NPE's anticompetitive activities in the Korean market so far. Nonetheless and more broadly, the Korean antitrust enforcement authority appears to be ready to assert jurisdiction more proactively and aggressively than before in a case involving a patent-holder's exercise of its rights, and the review of relevant court cases suggests that the court is in general willing to grant jurisdiction.

KEY WORDS: Antitrust, Competition Law, Patent Law, Intellectual Property, Non-Practicing Entity (NPE), Patent-Assertion Entity (PAE), Review Guidelines on Unfair Exercise of Intellectual Property Rights, Korea Fair Trade Commission

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** Professor, Seoul National University School of Law

*** Attorney, Kim & Chang

I. Introduction

Both intellectual property (IP) law and antitrust law strive to foster innovative activities in the marketplace. Both aim to promote consumer welfare.¹⁾ However, the main apparatus employed to attain this policy goal is different between IP law and antitrust law. That is, while IP law gives an exclusive right to its owners, antitrust law for the most part frowns upon any behavior with anticompetitive impact. Recently, in Korea, there have been an increasing number of legal disputes involving allegations that IP right holders have violated antitrust law. This type of disputes requires delineating the relationship between these two areas of law, which is not necessarily an easy and simple task. In theory, it can be understood that IP law and antitrust law play a complementary, rather than conflicting, role between them. In practice, however, there could be tensions among different market participants, each with different understanding of the relevant laws.

In the case of patents, a patent holder is granted a 20-year exclusive period, during which the patent holder is allowed to exercise its rights. While exercising its exclusive rights, however, the patent holder may try to erect a barrier to entry to the market or otherwise try to engage in various types of anticompetitive behavior. Such anticompetitive behavior, in particular when carried out by a dominant market participant, may constitute an act of unlawful abuse of market dominance. In the IP arena, holders of IP rights often grant contractual license to third parties allowing them to use the IP. Contractual terms for the license may include those that impose restrictions as to what the licensees are allowed to do in the marketplace. Some of these restrictive terms may hinder competition and may be unlawful under antitrust law.

Seen from this context, the intricate and complex relationship between IP law principles and antitrust law principles becomes more salient when the behavior of non-practicing entities (NPEs) or patent assertion entities (PAEs) is considered. While NPEs or PAEs are not standard legal terms,

1) Luc Peeperkorn, *IP Licenses and Competition Rules: Striking the Right Balance*, 26(4) WORLD COMP. 527, 527-8 (2003).

they generally refer to the entities that generate revenues by exercising their patent rights while not necessarily in the business of manufacturing or selling goods themselves or of providing services using their patents.²⁾ Often called by the derogatory term trolls, most of the media coverage in Korea about their activities has placed them in a negative light. One possible reason for this negative sentiment is because many of the major electronic goods manufacturers in Korea such as Samsung Electronics and LG Electronics fell victim to what was portrayed to be exorbitant and unreasonable demands by NPEs.³⁾ However, it is not clear if NPEs are indeed active in the Korean market.⁴⁾

Notwithstanding this, in 2014, the Korea Fair Trade Commission (the **KFTC**), Korea's antitrust enforcement agency, amended its Review Guidelines on Unfair Exercise of Intellectual Property Rights (the **IPR Guidelines**), which provides important references to the KFTC when enforcing IP-related antitrust matters. In the 2014 amendment of the IPR Guidelines, a new section was included addressing potential anticompetitive behavior of NPEs.⁵⁾ This is a noteworthy development since, prior to that, it was not clear if the KFTC would exercise its enforcement authority over competition issues involving NPEs.

In the following, it will be considered what implications can be drawn

2) Sometimes a conceptual distinction is made between an NPE and a PAE, although a consensus is yet to be reached regarding such distinction. A major differentiating factor could be whether an entity only acquires patents from other parties or, while acquiring patents from third parties, engages in its own research and development activities at the same time. For consistency and simplicity, the term NPE is used throughout this paper, without making such conceptual distinction.

3) Certain well-known NPEs, such as Intellectual Ventures and InterDigital, maintain their offices in Korea, although it is not clear how active they are in Korea. At the same time, some of Korean electronic goods manufacturers and other investors made their own equity investments in certain NPEs.

4) Certain industries, in Korea and elsewhere, have faced more frequent patent infringement allegations brought by NPEs. Among Korean companies, large electronics companies as well as automobile manufacturers have been frequent targets of NPEs, while companies in other industries such as pharmaceutical companies have rarely been subject to NPE's infringement claims. See David L. Schwartz & Jay P. Kesan, *Analyzing the Role of Non-Practicing Entities in the Patent System*, 99 CORNELL L. REV. 425, 427 (2014).

5) Jisigjaesangwonui Budanghan Haengsae Daehan Simsajichim [Review Guidelines on Unfair Exercise of Intellectual Property Rights], Korea Fair Trade Commission, Dec. 17, 2014, Section III. 7 [hereinafter IPR Guidelines].

from the IPR Guidelines regarding the activities of NPEs and, further, Korean courts' judgements will be examined that have bearings on NPE activities. Through the review, we will try to draw conclusions regarding the current status of debates regarding the antitrust aspect of NPE activities in Korea. Our review of relevant rules and recent case developments suggests that, compared to the reticence in the past, the KFTC is now more ready and willing to assert jurisdiction if antitrust law issues arise in the technology market and that the court in general is likely to grant jurisdiction.⁶⁾ This article is organized as follows. In Section II, we will summarize legal treatments of NPEs in general in the context of Korean antitrust law and, in Section III, antitrust issues surrounding IP matters are discussed. Section IV introduces provisions in the IPR Guidelines regarding NPEs' activities and explores implications of the provisions together with relevant court cases. Section V provides concluding observations.

II. Characterization of NPEs under Korean Antitrust Law

The IPR Guidelines explicitly make a reference to NPEs. According to the IPR Guidelines, NPEs conduct "businesses primarily by establishing a strong portfolio of patent after buying out patent rights from third parties, and then realizing profits by licensing or filing patent law suits based on the portfolio."⁷⁾ Although there is room for debates, this definition perhaps does not include the entities which have sizable internal R&D capabilities or manufacturing facilities. Defined relatively narrowly in this manner, there are only a small number of NPEs which have presence in Korea, and there have been only a modest number of lawsuits involving NPEs filed against Korean manufacturers.⁸⁾

6) So far, academic discussions on NPEs have been scant in Korea, whereas, in certain other countries, most notably in the U.S., there have been active discussions. *See generally*, PATENT ASSERTION ENTITIES AND COMPETITION POLICY (D. Daniel Sokol ed., Cambridge University Press, 2016 forthcoming).

7) IPR Guidelines, Section III. 7.

8) Precise hard evidence is hard to come by, but it appears that a few major Korean manufacturers, most notably Samsung Electronics, LG Electronics, Hyundai Motor, and Kia Motors, routinely become subject to NPE litigation, while so far most other Korean

About the economic role that NPEs play, the IPR Guidelines recognize that they can play an ameliorative and facilitative role, fostering innovation. That is, the IPR Guidelines state that NPEs can provide incentives to individuals and small and medium sized companies for their inventive activities and that NPEs can also facilitate financing and securitization activities based on patented technologies.⁹⁾ In fact, the Korean government considers that NPEs can possibly serve a useful purpose in maximizing the overall patent value that the country's various organizations possess as a whole. As part of the Korean government's efforts in that regard, Intellectual Discovery, a government-backed patent fund, was established in July 2010. Two state-run banks announced in July 2015, that they would each invest 50 billion Korean Won (approximately US \$45 million) to set up a patent aggregation fund which will purchase "outstanding intellectual properties" and will, with the patent portfolio, start "licensing them to other companies."¹⁰⁾

The KFTC, while acknowledging conducive and facilitative role that NPEs can play, views that NPEs are more likely to abuse their patent rights compared to other types of patent holders who are also manufacturers. The KFTC reasoned that this is because NPEs typically do not have a business need to engage in cross-licensing deals with other patent holders and also because NPEs would face a lesser risk of being subject to counter-claims or cross-claims once a lawsuit is filed.¹¹⁾ From this reasoning, it appears to be clear to the KFTC that certain anticompetitive behavior of patent holders, which goes beyond the scope of valid exercise of patent rights, should

manufacturers have been practically free from such litigation. For such litigation, typically the venue is a U.S. court, not a Korean court.

9) "NPEs can provide incentives to engage in invention activities by giving patent holders the reasonable reward in a way that purchases or manages patents owned by individuals, small and medium sized enterprises, or research institutions that are lacking expertise to exercise patent rights or have no intention to commercialize patents by themselves. And NPEs can contribute to the facilitation of trade of patented technologies by playing a role of agent so that patent rights can be transferred to those who need them." See IPR Guidelines, Section III. 7.

10) KOREA JOONGANG DAILY, *KDB and IBK partner on intellectual property fund* (Jun. 30, 2015), available at <http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=3005995> (visited on Oct. 26, 2015).

11) IPR Guidelines, Section III. 7.

become subject to antitrust scrutiny.

Specifically, the IPR Guidelines list the following types of activities as examples of NPEs' abusive or unreasonable behavior:¹²⁾

- (i) imposing royalties that are substantially unreasonable compared to normal business practices;
- (ii) imposing royalties, with patents acquired from a third-party, that are unreasonable and in denial of the previously applicable FRAND terms;
- (iii) forming a consortium and establishing an NPE, and refusing to grant licenses or granting licenses on discriminatory terms to non-members of the consortium;
- (iv) filing a lawsuit or sending cease and desist letters for patent infringements using deceptive means such as omitting material information or causing misunderstanding about such information; or
- (v) engaging in patent privateering behavior.

Although this is not a conclusive or exhaustive list, this list provides a hint regarding the policy direction that the KFTC may take in the future. Regarding the KFTC's antitrust jurisdiction, it should also be noted that the Monopoly Regulation and Fair Trade Act (the **MRFTA**), Korea's main antitrust statute, applies to foreign enterprises when their conduct shows impact on the Korean market regardless of whether the conduct was carried out inside or outside of Korea.¹³⁾ Further, jurisdiction may be exercised regardless of whether these foreign enterprises have any operations in Korea.¹⁴⁾ Therefore, NPEs which lack their presence in Korea could still be subject to jurisdiction in Korea if their activities are found to have impact in the Korean market.¹⁵⁾

12) *Id.*

13) Dogjeomgyuje Mit Gongjeonggeolae Gwanhan Beoblyul [Monopoly Regulation and Fair Trade Act], Act No.13450, Sept. 25, 2015, Article 2-2 [hereinafter MRFTA].

14) IPR Guidelines, Section I. 2.

15) Statistics reported jointly by Korea Intellectual Property Office (KIPO) and the Ministry of Trade, Industry and Energy show that international lawsuits involving Korean companies as defendants have increased to 210 in the first half of 2013. Of those, 179 were

III. Statutory Treatment of Intellectual Property under Antitrust Law in Korea

1. *Unlawful Behavior under the MRFTA*

The MRFTA provides a primary statutory source governing competition matters in Korea, including antitrust issues arising out of the exercise of IP rights. It can be said that, in general, the MRFTA's scope is wider and more flexible than the scope of U.S. or EU competition law provisions that are related to the exercise of IP rights.¹⁶⁾

IP licensing-related practices that could become subject to Korean competition authority's investigation can generally be categorized into the following: (i) licensing-related unfair collaborative acts, (ii) abuse of market dominant position, and (iii) unfair trade practices. Relevant statutory provisions in each category are reviewed below.

1) *Unfair Collaborative Acts*

ting companies agree to jointly determine important transaction terms such as price and output, or jointly impose restrictions on, for instance, territory, transaction partners or types of products, and if the parties thereby restrict competition in the relevant market, such conduct could be found unlawful under Article 19 of the MRFTA, being labelled as an Unfair Collaborative Act. Often such conduct is carried out through a licensing contract.

filed by NPEs. See BUSINESS KOREA, *Korean Government Poised to Tackle the Attacks* (Sep. 3, 2013), available at <http://www.businesskorea.co.kr/english/news/smestartups/1383-patent-trolls-korean-government-poised-tackle-attacks> (visited on Oct. 26, 2015).

16) Various types of potentially illegal behavior under the MRFTA can be cited in this context. In particular noteworthy would include the following MRFTA provisions: Article 3-2 (Prohibition of Abuse of Market Dominant Position), Article 7 (Restriction on Combination of Enterprises), Article 19 (Prohibition of Unfair Collaborative Acts), Article 23 (Prohibition of Unfair Trade Practices), Article 26 (Prohibited Activities of Enterprisers' Organization), and Article 29 (Restrictions on Resale Price Maintenance).

2) Abuse of Market Dominant Position

(1) Exclusionary Abuse

If a market dominant enterprise excludes its competitors and restricts competition in the relevant market by, for instance, (i) refusing to license its IP rights to other enterprises or treating other enterprises in a discriminatory manner, or (ii) transacting under exclusive terms, such practices could be deemed to be an abuse of market dominant position under Article 3-2 (Abuse of Market Dominant Position) of the MRFTA.

In this context, it is worth considering the holding of a well-publicized case involving Posco's refusal to deal.¹⁷⁾ The case arose when Posco, a major supplier in the domestic hot-rolled steel coil market with a dominant market share close to monopoly, refused to supply hot-rolled steel coil to a competitor in the cold-rolled steel sheet market. Posco's refusal to supply was in particular problematic since hot-rolled steel coil is an essential raw material for making cold-rolled steel sheets. The Supreme Court held that "anticompetitiveness will be recognized when the refusal to deal is conducted with the intent or purpose to maintain or strengthen monopoly in the market, i.e., artificially influence the market order by restricting free competition in the market, and such act can be viewed, objectively, as one that raises concerns of anticompetitive effect[.]"¹⁸⁾

Considering the holding of the Posco case, if an IP right holder who is a market dominant enterprise in the relevant market refuses to grant license, in order for such conduct to constitute an abuse of market dominant position in violation of the MRFTA, both the subjective and objective requirements must be proven. For antitrust purposes, the subjective requirement means showing the intent to maintain or strengthen the monopoly position in the market, and the objective requirement means proving that such act can be viewed, objectively, as one that raises justifiable concerns regarding anticompetitive effects.

(b) Exploitative Abuse

The MRFTA and the Presidential Decree accompanying the MRFTA stipulate that the conduct of market dominant enterprise which would

17) Supreme Court [S. Ct.], 2002Du8626 (en banc), Nov. 22, 2007 (S. Kor.)

18) *Id.*

unreasonably determine, maintain, or change the price is unlawful, unless there is a justifiable reason. Thus, for instance, it would not be permitted if a market dominant company increases the price sharply or decreases the price insignificantly in response to drastic changes in demand or in supply costs.

3) *Unfair Trade Practices*

Under Article 23 of the MRFTA, a company, even without having a market dominant position, could still be found to have engaged in illegal unfair trade practices if the company excludes its competitors and restricts competition in the relevant market by, for instance, (i) refusing to license its IP to other companies or treating other companies in a discriminatory manner, or (ii) transacting under exclusive terms. Further, the following practices performed by a company with a superior bargaining position vis-à-vis the other party in an inferior bargaining position during IP licensing negotiations could be viewed as an unlawful “abuse of superior bargaining position”:

- (i) unilaterally imposing conditions unfavorable to the counter-party;
- (ii) coercing the counter-party to provide financial benefits in the form of money, goods or services; or
- (iii) imposing a sales target and coercing to achieve the sales target.

Here, “impediment to fair trade” is required to establish unlawful unfair trade practices. The expression “impediment to fair trade” in this context is broadly construed, and the KFTC’s Guidelines for Review of Unfair Trade Practices define the phrase “impediment to fair trade” as a concept that combines anticompetitiveness and unfairness.¹⁹⁾ In this context, “unfairness” is distinguished from “anticompetitiveness” and is interpreted to mean that methods of competition or transaction terms are unfair. Thus, Korean competition law is unique in the sense that even if there is no direct relevance to the anticompetitiveness in the relevant market, unfair business

19) Bulgongjeong Geolaehaengwi Simsajichim [Guidelines for Review of Unfair Trade Practices], Korea Fair Trade Commission, Apr. 25, 2012, Section III. 1 [hereinafter Guidelines for Review of Unfair Trade Practices].

practices in violation of the MRFTA may be established in a case where methods of competition or transaction terms themselves are unfair.

2. *Article 59 of the MRFTA*

Article 59 of the MRFTA stipulates that the MRFTA is not applicable “to any act which is deemed to be a justifiable exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Protection Act or the Trademark Act.” Thus, if this statutory language is interpreted in a broad and liberal manner, a justifiable exercise of IP rights can arguably be excluded from the application of antitrust law, even when such exercise of IP rights has impact on competition. On the other hand, it can also be argued that the MRFTA should apply to the unjustifiable exercise of IP rights, because: “IP rights should be legitimately exercised within a scope that does not distort the relevant market, while IP rights should also provide an incentive for new technological innovation. An act of unfairly impeding the use of relevant technology and new technological innovation by abusing IP rights is contrary to the basic purpose of not only the MRFTA but also the IP right system.”²⁰⁾

It has not been clear as to how the KFTC will interpret Article 59 of the MRFTA and under what circumstances the KFTC will exert its jurisdiction. However, with the amendment of the IPR Guidelines and through court cases, the meaning of this provision has become clearer. Below, we review the GSK/Dong-A case, which involves claims regarding the exercise of IP rights in the pharmaceutical industry and its alleged anticompetitive effects. This case is noteworthy since it cast an important light regarding the interpretation of Article 59 of the MRFTA.

3. *GSK/Dong-A Reverse Payment Case*

The statutory provision in Article 59 of the MRFTA has been controversial as to when a certain potentially anticompetitive conduct should be considered to fall beyond the reach of antitrust law. In the past, a few courts

20) IPR Guidelines, Section I. 2.

rendered decisions to the effect that the MRFTA should not be applied to a conduct once it is established that such conduct constitutes a legitimate exercise of rights under the purview of patent law. Once this line of reasoning is followed, there would simply be no need to consider anticompetitive effects even for a case where a patent holder's exercise of its rights would have a negative impact on competition. This attitude significantly narrowed room to maneuver in a potential antitrust case involving IP holder's exercise of its rights.

The court revisited this issue through the reverse payment litigation matter involving GlaxoSmithKline (**GSK**), a large multi-national pharmaceutical company, and Dong-A Pharmaceutical (**Dong-A**), a major domestic pharmaceutical company.²¹⁾ GSK owned an original patent for an anti-nausea drug **Zofran**, which contains an active ingredient called ondansetron.²²⁾ Targeting the same market in Korea, Dong-A separately developed a new drug with similar effects and obtained a patent. Dong-A began marketing its new drug **Ondaron** in 1998, at a lower price than Zofran. In 1999, GSK sent a notice to Dong-A, claiming that Dong-A infringed GSK's patent. Patent lawsuits ensued between the parties. The parties, however, did not wait for the court to render a decision. Instead, the parties settled and, under the terms of the settlement, Dong-A would stop selling its new drug Ondaron and GSK would in return give Dong-A rights to distribute Zofran and GSK's other drug called **Valtrex**, an antiviral medication. For distributing Zofran, Dong-A would get 25% of sales amount when 80% of the sales target is met and would also receive 7% of sales revenue as an incentive starting from three years of initial sales. Regarding the distribution of Valtrex, Dong-A was promised to receive 100 million Korean Won annually for five years regardless of the sales amount.

21) A reverse payment refers to a practice whereby a patent holder of a drug makes payments to generic drug manufacturers in exchange for delaying the release of generic drugs. Through a reverse payment deal, a patent holder is practically allowed to extend the period during which it can enjoy an exclusive right to distribute the patented drug, even after the expiration of the patent at issue. This type of deals raises an antitrust concern regarding the possibility of reducing competitive pressure in the market and keeping prices higher.

22) For background factual information on this case, see OECD, *Development in Law Enforcements Related to the Adoption of System Monitoring Anticompetitive Behaviors in the Pharmaceutical Sector*, DAF/COMP/WD(2014)58 (June 4, 2014).

Subsequently, terms of the parties' settlement agreement became subject to scrutiny by the KFTC. After examining this deal, the KFTC concluded that the parties effectively delayed marketing of a competing product and, through an economic analysis, estimated that the settlement agreement enabled GSK to obtain about 16 billion Korean Won in sales. The KFTC found that GSK and Dong-A jointly engaged in an unfair conduct in violation of Article 19(1) of the MRFTA and imposed a penalty of 5.2 billion Korean Won (approximately US \$4.5 million).²³⁾ After the KFTC rendered its decision, the case proceeded to the court. Seoul High Court and the Supreme Court both agreed with the KFTC decision and ruled that the agreement between the parties constituted an unreasonable restraint on competition.²⁴⁾

The case has resulted in heated discussions among observers over fundamental policy goals of patent law and antitrust law, and over the harmonization of apparently different policy objectives of the two different areas of law. That is, while it is acknowledged, in principle, that patent law's creation of exclusive rights to patent holders is not necessarily at odds with antitrust law's general goal of fostering competition, this case rekindled the debate and moved the forum for the debate from academia to the court.

In determining whether a patent-related collaborative practice between a global pharmaceutical company and a Korean pharmaceutical company violates the Korean antitrust law,²⁵⁾ the Supreme Court held that "practices not deemed to be justifiable exercises of patent rights' mean such practices which appear to be an exercise of patent rights on its face and which, nonetheless, effectively violate the objective and fundamental purpose of the patent system. An inquiry regarding such practices requires consideration of the totality of circumstances, such as the patent system's

23) KFTC Decision, 2011-300, Dec. 23, 2011 (S.Kor.).

24) Seoul High Court [Seoul High Ct.], 2012Nu3028, Oct. 11, 2012 (S.Kor.); Supreme Court [S. Ct.], 2012Du24498, Feb. 27, 2014 (S.Kor.).

25) As a general matter, economic interests of the manufacturer of a patented original drug do not match with those of generic manufacturers. They can, however, align their interests to some extent, since the manufacturer of the patented drug would face risks of losing its market share after the patent expires, while generic drug manufacturers would want to avoid the possibility of a long and expensive patent lawsuit related to the generic.

purpose and objective, the patent's content, and the effects of the practices on free and fair competition."²⁶) In so doing, the Supreme Court recited Article 59 of the MRFTA and rendered its decision as to how this provision should be construed. That is, the Supreme Court made it clear that antitrust law can be applied in a case involving a patent holder's exercise of its rights and that the relevant scrutiny about the legitimacy of the exercise of patent rights may well include the examination of possible impact on competition.

Thus, in the GSK/Dong-A decision, the effects of a particular conduct on competition were considered on two levels, that is, as to whether the conduct was anticompetitive and also as to whether it was a legitimate exercise of patent rights. In effect, the court held that, in granting or denying jurisdiction pursuant to Article 59 of the MRFTA, (1) the exercise of patent rights should be examined in light of the purposes of patent law as well as the nature of the patent at issue, and (2) the conduct of the parties related to the patent should be considered regarding its impact on fair and free competition.

4. The IPR Guidelines

The IPR Guidelines were initially promulgated in 2000. Although the IPR Guidelines do not have formal statutory authority and are not legally binding, they provide an important framework which practically governs the KFTC's review of a relevant case. In particular, in recent years, antitrust issues related to IP became more significant and the KFTC amended the IPR Guidelines in December 2014.²⁷) Through the recent amendment, a framework has been set for the regulation of certain recently observed noteworthy phenomena, including possibilities of the abuse of patent rights by NPEs.

The IPR Guidelines explicitly recognize that the system of IP including patent is aimed at encouraging creative entrepreneurial activities by

²⁶) Supreme Court [S. Ct.], 2012Du24498, Feb. 27, 2014 (S.Kor.); Supreme Court [S. Ct.], 2012Du27794, Feb. 27, 2014 (S.Kor.).

²⁷) The IPR Guidelines were amended several times since its initial promulgation and, in 2010 and 2011, the KFTC conducted industry-wide IP right abuse surveys in the pharmaceutical, IT, chemical, and machinery industries.

providing strong incentives for technical innovation.²⁸⁾ In that regard, it is acknowledged that the MRFTA and the system of IP ultimately pursue a common policy objective.²⁹⁾ The MRFTA may contribute to the achievement of such common policy objective by regulating conducts that deviate from the basic purpose of the IP system, while respecting and honoring the legitimate exercise of IP rights.

On this basis, the IPR Guidelines set forth the following inquiries for determining whether or not an exercise of IP rights is legitimate and justifiable:

- (i) whether the exercise of the IP rights concerned does not conflict with the basic purpose of promoting industrial development by protecting and encouraging new inventions and encouraging the use of relevant technologies; and
- (ii) what influence, if any, the exercise of the IP rights concerned has upon competitive environments in the relevant market.

The IPR Guidelines also recognize that it would not be appropriate to declare certain types of activities to be *per se* illegal and that opting for a rule of reason analysis would be better in determining the unlawfulness of a conduct by a holder of IP rights. “[I]f the exercise of IP rights impedes fair trade and increases efficiency at the same time, whether such an exercise violates the MRFTA shall be determined, in principle, upon comparing and weighing the extent of both effects.”³⁰⁾

IV. NPEs’ Activities in the Context of the IPR Guidelines

The amended IPR Guidelines illustrate 5 types of activities as examples of abusive or unreasonable conduct by NPEs.³¹⁾ These individual types of conduct are considered below separately.

28) IPR Guidelines, Section II. 1.

29) *Id.*

30) IPR Guidelines, Section II. 2.

31) IPR Guidelines, Section III. 7. *See* Section II above for a list of these 5 types of conducts.

1. Act of imposing royalties that are substantially unreasonable compared to normal business practices.

An act of imposing a significantly high amount of royalties to licensees, if it took place in the course of conducting ordinary business practices and without particular justifiable reasons, could constitute a case of patent right abuses and may violate antitrust law. In a licensing deal, royalties in general play a role analogous to prices in a product market. That way, royalties are expected to provide fair and adequate compensation to the developer or owner of innovative technology. While it should be properly recognized that possibilities of royalty revenues often serve a core purpose of IP rights, contractual terms and factual circumstances surrounding individual licensing contracts must be considered case-by-case in determining whether a royalty-related practice is anticompetitive and violates the MRFTA.

As a general matter, imposing royalties on implementers of a patented technology itself is and should be seen as a legitimate exercise of patent rights. Developing innovative technologies often involves considerable risks and requires substantial investments in terms of time and costs and as such technical achievements should be appropriately rewarded. Imposing a sufficient amount of royalties in return for another's use of the technology would function as an important means for the patent holder to recoup the costs incurred during the process of developing and patenting the technology.

Nevertheless, certain practices involving royalties could impede fair trade, and thus may be considered an unlawful exercise of IP rights. Such practices would include the following:

- (i) unfairly deciding, maintaining, or changing royalty terms in collaboration with other entities;
- (ii) imposing royalties with discriminatory terms depending on such factors as the identity of a licensee;
- (iii) unfairly imposing royalties for parts which have not used the licensed technology;
- (iv) unfairly imposing royalties for a term extending beyond the

- expiration of the IP right; and
- (v) allowing the IP holder to unilaterally decide or change the calculation method for royalties, without clear stipulation in the contract.³²⁾

In determining whether the amount or rate of royalties for a particular case is reasonable or not, various factors can be considered. These factors would include: objective technological value of a patent; royalties that the licensor receives from other licensees; royalties paid by the licensee to obtain license for a similar patent; characteristics and extent of the licensing agreement; license term or period; and profitability of a product produced using the patent.

2. Act of imposing royalties, with patents acquired from a third-party, that are unreasonable and in denial of the previously applicable FRAND terms.

Standard essential patents (**SEPs**) refer to the patents that must be used in order to comply with a specific technical standard. Thus, without using the patented technology covered by an SEP, it would not be possible to manufacture a standard-compliant product. Due to this characteristic, an SEP may easily confer market power to its holder.

In the case of network businesses such as computer networking and telecommunications, establishing interoperability standards or compatibility standards is almost inevitable and is even necessary in many circumstances. Standard setting typically involves a series of prolonged procedures during which multiple business operators discuss, determine, and disseminate common standards. Standard-setting organizations (**SSOs**) often require SEP holders to make a pre-announced commitment that, once it is determined that their patents would form part of SEPs, they will license their patents under FRAND ('fair, reasonable, and non-discriminatory') conditions. The FRAND commitment is required since it could ameliorate the problem of patent hold-up. Patent hold-up would take place when an SEP owner tries to abuse its patent rights by, for instance, refusing to

32) IPR Guidelines, Section III. 7.

license or demanding exorbitant royalties once it becomes clear that implementers are locked into the SEP due to high switching costs.

NPEs holding SEPs may attempt to engage in patent hold-up or impose unreasonable discriminatory royalties. Reflecting concerns over such possibilities of hold-up behavior, the IPR Guidelines indicate that the royalty terms imposed by an SEP holder who made a FRAND commitment would be subject to heightened scrutiny.³³⁾

Tie-in sales may also be judged as unlawful. For instance, an NPE which holds an SEP may have an incentive to tie the licensing of its SEP to the licensing of unwanted non-SEPs. However, it would be illegal if an NPE holding a dominant position in the relevant technology market compels a licensee to obtain other patents or an entire group of patents.

Issues related to SEPs gained prominence in the context of Korean antitrust enforcement in recent years, in particular due to a few well-publicized court cases. The two cases that are discussed below are especially noteworthy in that regard.

1) *Apple vs. Samsung*³⁴⁾

Lawsuits between Apple and Samsung involving standard patents received a great deal of attention worldwide. Apple filed a patent infringement claim against Samsung in a U.S. federal district court. Samsung in turn filed a lawsuit against Apple in Korea at Seoul Central District Court in April of 2011, alleging Apple's violation of its patent rights, and the court rendered its decision in August 2012.³⁵⁾ Responding to Samsung's lawsuit in Korea, Apple also filed a petition against Samsung to the KFTC alleging Samsung's interference with Apple's business by

33) IPR Guidelines, Section III. 5. In particular, "[a]cts of avoiding or circumventing licensing on FRAND terms to strengthen market dominance or to exclude competitors" would be considered as acts that are likely to impede fair trade. *See* IPR Guidelines, Section III. 5. A.

34) The summary of the case is for the most part from Haksoo Ko, *Facilitating Negotiation for Licensing Standard-Essential Patents in the Shadow of Injunctive Relief Possibilities*, 22 TEX. INTELL. PROP. L.J. 209 (2014).

35) Seoul District Court [Seoul Dist. Ct.], 2011Kahap39552, Aug. 24, 2012 (S.Kor.). Both parties appealed the case to Seoul High Court (Case No. 2012Na78063). However, Apple and Samsung subsequently agreed to end all their pending patent lawsuits outside the U.S., and Samsung eventually withdrew the case in Korea in August 2014.

engaging in anticompetitive patent hold-up. The KFTC rejected Apple's claim.

In the lawsuit in Seoul, Samsung claimed that certain Apple products, including iPhone 3GS, iPhone 4, iPad 1, and iPad 2, infringed upon several patents that Samsung held concerning 3GPP (Third Generation Partnership Project) communication standards and also upon a patent that Samsung held concerning a certain method of providing data services utilizing mobile devices.

Against these claims of Samsung, Apple submitted the following lines of rebuttals. First, Apple argued that it simply did not infringe upon Samsung's patent rights since it employed a distinct manufacturing methodology which allowed it to maneuver outside the scope of Samsung's patents. Second, Apple claimed that Samsung's patents at issue are in fact invalid and that therefore bringing a lawsuit based on such invalid patents should not be allowed. Third, Apple cited the patent exhaustion doctrine and asserted that, since it purchased from Intel the base chips which implemented the patents at issue, Samsung's rights were exhausted and thus Samsung cannot make a claim against Apple regarding these patents. Fourth, Apple contended that Samsung's lawsuit itself constitutes a violation of Korea's antitrust law since it should be regarded as an act of seeking a denial of access to essential facilities; of seeking to impose undue and unreasonable transactional conditions on Apple; and of practicing deceptive customer solicitation behavior. Fifth, Apple proclaimed that Samsung's lawsuit violates the FRAND commitment that Samsung made at ETSI (European Telecommunications Standards Institute) during the standard determination process regarding the patents at issue.

With regard to the claim that Samsung violated its own FRAND commitment, Apple characterized Samsung's FRAND commitment as an offer for an irrevocable license agreement. Thus, Apple's position was that a valid license agreement was entered into between Apple and Samsung when Apple began to implement Samsung's patents since Apple's use of Samsung's patents would constitute an acceptance to the existing Samsung's offer. Apple also claimed that Samsung's FRAND commitment intrinsically includes a promise not to seek a court's order for injunction. According to Apple, Samsung therefore had an obligation to negotiate with Apple in order to finalize the terms of a license agreement, and filing a lawsuit

seeking an injunction would constitute an illegal abuse of rights for a patent holder.

The Seoul District Court judged that several models of iPhone and iPad indeed violated Samsung's patent rights and awarded damages to Samsung in the amount of 40 million Korean Won (approximately US\$36,000), together with an order against Apple to cease infringing on Samsung's patent rights. At the same time, it was acknowledging that Samsung's rights for certain other patents were not violated. About Apple's claim related to Samsung's FRAND commitment, the court disagreed. The court, in its judgment, reviewed the relevant technology market in detail and determined that Samsung was dominant in the market for 3GPP-compliant mobile communication devices and certain tablet computers. The court found Samsung's patents were necessary in the relevant product market, considering in particular that no substitute patents existed. The court, however, reasoned that simply using Samsung's SEPs does not mean that a binding contract was entered into. The court further reasoned that a FRAND declaration, without more, cannot be construed to include a commitment not to seek an injunctive relief.

While patent disputes between Apple and Samsung drew a great deal of media attention worldwide, the lawsuit between Apple and Samsung in Korea prompted many in the Korean antitrust community to pay more attention to the role of standards in the technology market and to potential anticompetitive behavior of SEP holders.

2) *Qualcomm Case*

Qualcomm has been an important supplier of technologies and modem chips in the telecommunications industry in many parts of the world including Korea. In 2009, after a lengthy investigation which started after a petition was filed in 2006, the KFTC decided that Qualcomm, with a 99.4% market share in the Korean CDMA modem chip market, abused its dominant position. The KFTC listed three types of activities as Qualcomm's abusive behavior: (1) imposing discriminatory licensing terms, (2) providing conditional rebates, and (3) demanding royalty payments after its patents expired.³⁶⁾ First, the KFTC ruled that Qualcomm unlawfully

36) KFTC Decision, 2009-281, Dec. 30, 2009. The KFTC issued a press release in English

imposed discriminator terms when licensing its CDMA technology. This was carried out through (i) a royalty discount program under which Qualcomm charged 5% to licensees who adopt Qualcomm modem chips while charging 5.75% for non-Qualcomm modem chip users; (ii) a discriminatory royalty cap program, imposing a \$20 cap on Qualcomm chip users, and imposing a \$30 cap on non-Qualcomm chip users; and (iii) a price-netting program, discriminating against domestic mobile phone manufacturers using non-Qualcomm chips. Second, the KFTC found that, with regard to Qualcomm's sales of CDMA modem chips and radio frequency chips, it applied discriminatory rebate rates only to mobile handset manufactures that fulfilled much of their chip demands through Qualcomm. For instance, for one manufacturer which satisfied over 85% of its modem chip need through Qualcomm, Qualcomm provided a rebate of 3%. Third, the KFTC found that Qualcomm imposed an anticompetitive contract term to mobile handset manufactures, which enabled it to continue to garner 50% of patent royalties even after its patent expired or is determined to be invalid.

The KFTC determined that Qualcomm's behavior constituted unlawful abuse of market dominance and unfair trade practices under the MRFTA, and imposed 273 billion Korean Won (approximately US \$208 million at the time) as fine, which was the highest amount imposed against a single company. In the KFTC decision, the fact that Qualcomm had made a FRAND commitment appears to have weighed heavily. The KFTC noted that an SEP owner's act of renegeing on its FRAND commitment would raise a competitive concern, although the KFTC did not articulate in detail how Qualcomm's behavior should be interpreted in light of its FRAND commitment.

The case proceeded to Seoul High Court, which, in June 2013, affirmed the KFTC's decision for the most part.³⁷⁾ Seoul High Court held that Qualcomm's discriminatory licensing practices violated Article 3-2(1)(iii) of

providing a summary of the case. See Press Release, KFTC, Qualcomm's Abuse of Market Dominance (July 23, 2009).

37) Seoul High Court [Seoul High Ct.], 2010Nu3932, June 19, 2013 (S.Kor.). The judgment cancelled an insignificant part of the KFTC resolution.

the MRFTA, constituting unlawful abuse of market dominant position.³⁸⁾ The court, in reaching its decision, examined both intent and effect of Qualcomm's behavior. Regarding FRAND, the court started out by noting that a FRAND commitment is a safeguard to prevent abusive conduct such as discriminatory licensing by an SEP owner who has acquired market power by virtue of standardization. After reviewing the fact of the case, the court ruled that Qualcomm violated its FRAND commitment. Although the FRAND issue was not the sole factor that the court relied on in rendering its decision, it was nonetheless dealt with as an important factor.

Regardless of the ultimate court decision from the case, one significant aspect of this case is that it brought antitrust issues forefront when examining patent holder's contracting behavior. In the past, it was considered that antitrust law practically does not have much to do with standard setting processes and with SEP holders' licensing behavior. Now, it appears only natural that SEP holders' behavior can easily be subject to antitrust scrutiny, if relevant issues arise.

3. Act of forming a consortium and establishing an NPE, and then refusing to grant licenses or granting licenses on discriminatory terms to non-members of the consortium.

Several operating companies may together create an NPE in the form of a consortium and subsequently acquire patents. These companies and the NPE could then collude and refuse to grant license to other businesses which do not belong to the consortium, or they may try to impose an exorbitantly high amount of royalties. Depending on factual circumstances, this type of behavior could show an anticompetitive effect. However, it is unclear if there is evidence in Korea indicating that antitrust scrutiny against an NPE in this context would be warranted.

³⁸⁾ The case is now pending at the Supreme Court level. Supreme Court [S.Ct], Case No. 2013Du14726.

4. *An act of filing a lawsuit or sending a cease and desist letter for patent infringements using deceptive means such as omitting material information or causing misunderstanding about such information.*

This is related to a situation where an entity demands payment of royalties from multiple parties without necessarily revealing patent ownership information or the precise nature of alleged patent violations. In particular an act of demanding payment of royalties or of threatening to file a lawsuit without having a clear patent right is highly likely to be determined to be an unfair conduct in violation of antitrust law. This type of deceptive behavior may possibly take place in diverse business and legal contexts. It is, however, unclear if a concern over this type of behavior is in particular noteworthy when analyzing antitrust implications of NPEs.

5. *An act of engaging in patent privateering behavior.*

In some cases, operating companies may create a patent pool to file a patent infringement suit against their rivals. Privateering refers to a practice which an operating company with patents transfers its patents to an NPE with the expectation that the NPE would then assert its patent rights aggressively with the newly acquired patents, while the operating company itself would stay behind the veil of the NPE.

Depending on business and legal environments, trying to engage in this type of behavior may make reasonable business sense. This is because, in general, in the technology market, possibilities of cross-licensing and/or counter-suits would often serve as a constraint against the incentive of a market dominant player. In contrast, however, NPEs are more likely to take advantage of the patent litigation system since they would bear little risks of being counter-sued and also would not have much need for cross-licensing deals. Privateering could also serve as an effective means for raising rivals' costs while the operating company remains virtually free from the threat of counter-suits or from the need of cross-licensing.

Thus, in the context of privateering, it can easily be justified to hold the original patent holder equally, if not more, accountable, compared to the NPE with the transferred patents. Perhaps reflecting this line of reasoning,

the IPR Guidelines provide that in principle the original patent holder should mainly be held responsible if problems arise.³⁹⁾ When doing so, however, many factors would be considered together such as: relationship between the original patent holder and the NPE at issue; details of allegedly unfair behavior; and extent of NPE's involvement in the unfair behavior.⁴⁰⁾ Although privateering is theoretically possible, in Korea, it is unclear if there have been any incidences of such privateering in the technology market.

V. Concluding Observations

The Korean antitrust agency is apparently concerned about the possibility that NPEs may engage in anticompetitive behavior and newly included a relevant section in its recent amendment of the IPR Guidelines. It remains, however, unclear how much evidence is available in Korea about NPEs' activities that raise antitrust concerns. Most of the concerns, from a Korean perspective, are regarding a relatively small group of Korean companies being repeatedly sued in the U.S. by NPEs based in the U.S.

In that regard, there would not be much room, at least for now, for an antitrust agency in Korea to exercise its jurisdiction. Further, many of the NPEs' activities that may raise antitrust concerns can readily be addressed employing existing antitrust laws and regulations. As such, focusing on the definitional characters of NPEs may not yield fruitful antitrust implications.

NPEs' impact on the overall innovation system in Korea is still unclear and controversial. On a positive side, NPEs may arguably serve as a useful intermediary for patentees in the technology market and thus encourage innovation. On the other hand, a commonly referred problem of NPEs is that they tend to initiate patent infringement lawsuits seeking to enforce patents of dubious quality and then settle for amounts that would be smaller than the defendants' litigation costs.⁴¹⁾ In Korea, compared to the

39) IPR Guidelines, Section III. 7.

40) *Id.*

41) See, e.g., Jiaqing "Jack" Lu, *The Economics and Controversies of Non-practicing Entities*

U.S., the cost of patent litigation is relatively low and the plaintiff's chances of winning in patent litigation are not particularly high.⁴²⁾ Therefore, the business model of NPEs, taking advantage of the litigation system, would perhaps not be as lucrative in Korea as in the U.S. Many of the problems relating to NPEs' activities that are at issue in the U.S. may not be much relevant in Korea and the overall legal system in Korea, including the current patent litigation system, may not be conducive to NPEs' usual business strategies.⁴³⁾

Meanwhile, Korean companies are repeatedly reported to become targets of lawsuits brought by NPEs at overseas courts, in particular in the U.S. This has raised a concern in Korea that NPEs' activities may impose additional costs on these Korean companies and may eventually impede fair trade principles in the Korean market. Considering this concern, it was perhaps not unreasonable that the KFTC felt a need to include a separate section on NPEs in its recent amendment of the IPR Guidelines. The amendment suggests that the KFTC would be willing and ready to bring a case if NPEs' activities deserve an antitrust scrutiny. Considering the current business and legal environment, however, the provisions in the IPR Guidelines dealing with NPEs' activities may have more bearings on foreign NPEs' activities. Jurisdiction may be exercised if the conduct at issue has impact on the Korean market regardless of whether the conduct occurred within or outside of Korea.

If NPEs' behavior raises a legitimate antitrust concern, their behavior

(NPEs): *How NPEs and Defensive Patent Aggregators Will Change the License Market*, LES NOUVELLES 56, 58 (Mar. 2012), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1935524.

42) An American commentator noted that, in the U.S., legal fees would be about \$500,000 through the summary judgment stage, and could become \$4 million or more if a lawsuit reaches the trial stage. See, Michael Risch, *Patent Troll Myths*, 42 SETON HALL L. REV. 457, 467 (2012).

43) See Bruce H. Kobayashi, Douglas H. Ginsburg, Koren W. Wong-Ervin, and Joshua D. Wright, *Comment of the Global Antitrust Institute, George Mason University School of Law, on the Korea Fair Trade Commission's Revised Review Guidelines on Unfair Exercise of Intellectual Property Rights* 17 (George Mason Legal Studies Research Paper No. LS 15-35 / George Mason Law & Economics Research Paper No. 15-45, 2015), available at <http://ssrn.com/abstract=2669510> (providing a commentary to the IPR Guidelines and characterizing the significance of NPEs' activities in the U.S. inherently as a "litigation problem" and noting that such litigation problem is neither new or specific to NPEs).

would need to be analyzed, of course. At the same time, however, it is unclear if NPEs' behavior should be treated differently from other types of entities in and of itself. The fact that there is a separate section in the IPR Guidelines perhaps suggests that the KFTC is much concerned about NPEs' activities in general, although the IPR Guidelines mention certain positive roles that NPEs may play. It should be noted that, in principle, antitrust enforcement should be based on the conduct not on the actor. Certain types of NPE activities would be conducive to competition and innovation in general, while certain other types of NPE activities may show the opposite impact. As such, at least for now, it is unclear if there is a need for special regulatory provisions only applicable to NPEs in Korea. A more adequate inquiry would focus on the activities of the parties and not on the nature or identity of the parties. In fact, most of the provisions in the section on NPEs in the IPR Guidelines are derived from various antitrust principles which would be applicable to NPEs and non-NPEs alike.

A main focus of antitrust scrutiny as to whether the exercise of patent rights is anticompetitive or unfair should inherently lie in examining the economic impact of the conduct. There is no reason to think that different antitrust doctrines should apply between NPEs and non-NPEs. Recent courts' decisions on patent-related antitrust cases, including the GSK/Dong-A case, the *Apple v. Samsung* case, and the Qualcomm case, should also be applicable to a case where antitrust concerns are raised in the context of an NPE's exercise of its rights.

