

A Review of Korean Competition Law and Guidelines for Exercise of Standard-related Patents*

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Abstract

The purpose and main scope of this paper is to focus on the types of specific conduct with potential issues, the standards for them, and the applicable factors to be considered that were provided with respect to the exercise of patent rights-related technology standards in the Review Guidelines on the Unfair Exercise of Intellectual Property Right (IPR Guidelines), review the methods to identify the types of such conduct and relevance of such proposed standards, and propose alternatives thereto.

This paper concludes with suggestions as follows: Firstly, the Korea Fair Trade Commission (KFTC) will use its guidelines as a primary framework to enforce the Monopoly Regulation and Fair Trade Act (MRFTA) by the KFTC officials even though it has no legislative basis; therefore, it is very important to carefully review its contents. Secondly, in order to regulate non-disclosure of relevant patent technology under the MRFTA, the IPR Guidelines needs to specifically provide that both the intent and effect of the non-disclosure on the standard setting process are required. Thirdly, provisions on imposing unreasonable or discriminatory royalties should be improved to take necessary considerations into account, provide specific factors or standards under the special circumstances where the patented technology is included in a standard. Fourthly, whether procedures for the disclosure of patent information and the ex ante negotiation for licensing terms have been complied with, which are provided as important factors to be considered in judging illegality, does not bear causation or close relationship with the violation of the MRFTA and failure to comply with such procedures should not be

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considered more seriously than other factors. Lastly, the standard for determining whether an FRAND-encumbered SEP holder's filing for injunctive relief may be anti-competitive can be considered acceptable compared with the recent practical developments in other jurisdictions.

KEY WORDS: Monopoly Regulation and Fair Trade Act, IPR Guidelines, Standard-Setting Procedure, Exercise of Patents, Non-disclosure of patent information, Imposition of Royalty, Filing of Injunctive Relief, FRAND, Standard-Essential Patent (SEP)

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I. Purpose and Scope of the Research

The Monopoly Regulation and Fair Trade Act (**MRFTA**) in Article 59 provides that the Act shall not apply to any conduct that is acknowledged to be legitimate exercise of rights under the Patent Law. The provision declares the principle that a conduct deemed to be exercise of patent rights is subject to the application of the Act in case that the conduct is out of scope of legitimate exercise of patent rights. When it comes to the interpretation of the term 'legitimate exercise', the Supreme Court of Korea ruled that a conduct that is out of scope of legitimate exercise of patent rights means that its substance is against the intrinsic purpose of patent system beyond the spirit of the system.¹⁾ Based on the principle referred to above, the Review Guidelines on Unfair Exercise of Intellectual Property Rights (**IPR Guidelines**) states that it presents general principles and specific standards for the application of the MRFTA with respect to the exercise of intellectual property rights, with a focus on patents. The IPR Guidelines was enacted initially by the Korea Fair Trade Commission (**KFTC**) on August 2000 and wholly amended on March 2010 to explicitly include foreign businesses in the scope of application of the Guidelines and cover recently raised issues in connection with intellectual property rights, such as patent pools, technology standards, and the abuse of patent litigation. Most recently, the KFTC amended the Guidelines on December 2014 to establish IPR abuse by a Non-Practicing Entity (**NPE**) and Standard-Essential Patent (**SEP**) holders as separate categories of IPR abuse.

1) Supreme Court [S. Ct.], 2012Du24498, Feb. 27, 2014 (S. Kor.) [hereinafter *GSK Case*].

Chapter II. ‘General Review Principles’ of the IPR Guidelines suggests a common basis for understanding the purpose of the intellectual property rights system and the MRFTA; however, it has flaws by seeking such common basis not from the protection of competition serving as a direct objective but from the promotion of innovative business activities and sound development of the national economy serving as ultimate objectives. Such approach in the IPR Guidelines fails to recognize the general understanding that the intellectual property rights system and the MRFTA share the same fundamental purpose of enhancing consumer welfare and promoting innovation.²⁾ An explanation that the intellectual property rights system promotes creative business activities and sound development of the national economy and related industry is too abstract and general and thus not sufficient to provide any normative elements to be considered in determining illegality and establishing specific standards.³⁾ As a result, the IPR Guidelines falls short of providing the countervailing elements reflecting the characteristics of the intellectual property rights system to promote consumer welfare and technology innovation, which should be balanced against the elements indicating the illegality in Chapter II, Article 3, which also affects the way in which the specific types of conduct with potential issues in Chapter III are identified.

However, by shifting the framework for analysis from the fair trade hindering effect including unfairness to the anti-competitive effect, the amended IPR Guidelines makes sure that it is now focused on setting standards of illegality consistent with those applied by the US antitrust laws or the EU competition laws. The IPR Guidelines’ recognition of the characteristics of the intellectual property rights system can be found in sections explaining that the characteristics of the technology market will be considered in defining relevant market and that the efficiency enhancing

2) U.S. DEPARTMENT OF JUSTICE AND THE FEDERAL TRADE COMMISSION, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 1 (2007), available at www.usdoj.gov/atr/public/hearing/ip/222655.pdf.

3) In contrast, it is possible to deduce from the purposes of promotion of consumer welfare and technological innovation normative elements that may be meaningfully considered in judgment of illegality. Technological innovation in particular is an element of competition and standard of achievement in dynamic competition that can serve as a standard for the application of the MRFTA.

effect will be considered in assessing illegality. However, in this case, the IPR Guidelines requires that such efficiency enhancing effect should contribute to promote consumer welfare and the overall efficiency of the national economy as well as saving the internal cost of parties concerned; therefore, it reduces room for considering efficiency enhancing effect in assessing illegality.

The IPR Guidelines in Chapter III categorizes the exercise of intellectual property rights and identifies specific conduct that raises concern and the standard for assessment of illegality per each category. To be specific, Article 5 'Exercise of Patent Rights related to Technology Standards', among specific types of exercise of intellectual property rights listed in Chapter III, provides both the conduct-specific standards and the factors to be considered to identify potential *ex post* opportunism by patent holders or patent applicants with regard to patents included in standards adopted by Standard Setting Organizations (**SSOs**), and to determine the anti-competitive effect that may be caused by such conduct.

The purpose and main scope of this paper is to focus on the types of specific conducts with potential issues, the standards for them, and the applicable factors to be considered that were provided with respect to the exercise of patent rights related to technology standards in the IPR Guidelines, review the methods to identify the types of such conducts and relevance of such proposed standards, and propose alternatives thereto. The paper clarifies the areas where recognition of legitimate competition law concerns is warranted and where legal intervention by the competition authority may be allowed with respect to the exercise of patent rights related to technology standards thereby facilitating more efficient allocation of useful resources for enforcement. Additionally, within the scope necessary for the research, this research is intended to review the illegality standard for abuse of market dominance which the IPR Guidelines seeks to apply to the exercise of patent rights related to the technology standards, and based on such a review, to specify more concretely and clearly the contents and standards for determining the anti-competitive effect, which is the general principle of illegality proposed by the IPR Guidelines.

II. Contents of IPR Guidelines on the Exercise of the Standard-related Patents

1. Overview

This section intends to review contents of the IPR Guidelines Chapter III ‘Specific Standard’, Article 5 ‘Exercise of the Patent Rights related to the Technology Standard’. In particular, among the specified types of conduct, non-disclosure of related patent information, discrimination in license conditions, and imposition of unreasonable license fees will be analyzed. In addition, newly added types of conducts such as filing for injunctive relief by SEP holders will be also reviewed.

With regard to the specific types of conduct related to standard setting, first, non-disclosure of relevant patent information is defined as ‘unreasonably not disclosing information on the relevant patent or patent application in order to increase the possibility for its technology to be selected as the technology standard or avoid prior negotiations for license conditions’. This is related to the procedure under which the SSO requires or encourages its members to disclose relevant patent information prior to the selection of the technology standard. Second, discrimination in license conditions or imposition of unreasonable license fee is defined as ‘unreasonably discriminatory license terms of SEP or imposing an unreasonable level of license fee’. This is related to the negotiation procedure for license conditions under which the patent owner commits to the SSO, prior to the selection of the patented technology for inclusion in the standard that it will negotiate on fair, reasonable and non-discriminatory (FRAND) terms for licensing of patented technology. Third, the following types of conduct are established as categories of IPR abuse by SEP holder by the amended IPR Guidelines: (i) refusal to license SEP; (ii) discrimination in license terms of SEP; (iii) imposition of conditions restricting the exercise of patent rights or conditions of cross-licensing of non-standard essential patents; and (iv) the filing for injunctive relief by SEP holder that has committed to grant a license on FRAND terms, against a willing licensee.

With regard to the illegality standard, the IPR Guidelines Chapter III, Article 5, Paragraph A lists the types of specific conduct from Section (1) to

(6) and includes the word 'unreasonable', which is an indication of illegality, in each type of conduct. Also, with respect to the standard for unreasonableness, it emphasizes whether disclosure of relevant patent information and the negotiation procedure for license conditions are performed should be important factors to be considered in order to judge illegality, and proposes these as the conduct-specific standards. Moreover, it suggests, as a general illegality standard, factors to be considered in determining illegality of abuse of market dominance, unreasonable concerted acts, unfair business practices or prohibited conduct of enterprises' association should be also considered. In this regard, in the IPR Guidelines Chapter II, Article 3, 'Factors to be considered to Find Illegality', these standards for illegality are collectively called 'anti-competitive effects' and the details of such effects are provided similarly to those provided in the KFTC's Guidelines for Review of Abuse of Market Dominant Position (**Abuse Guidelines**).

The IPR Guidelines provides that such acts as non-disclosure of patent information, discrimination in license conditions or imposition of unreasonable license fee can be viewed as likely to be beyond the legitimate scope of patent rights. However, it is very difficult to determine whether such acts constitute conduct prohibited under the MRFTA or whether there exist such acts ever.⁴⁾ Therefore, it is necessary to review whether such conduct meets the requirements of corresponding conduct under the MRFTA, i.e. abuse of market dominance under the MRFTA, as provided in the IPR Guidelines.

2. *Relevant anti-competitive conduct under the MRFTA*

1) *Non-disclosure of relevant patent information*

It is not clear which type of conduct listed in 'abuse of market dominant position' under the MRFTA non-disclosure of relevant patent information would fall within. The MRFTA distinguishes the party which is engaged in the conduct, the counterparty of the conduct, and a third party which will

4) It is particularly the case when determining whether fees to which licensors and licensees agree in arms-length negotiations is unreasonable.

be affected by such conduct⁵⁾ and identifies an illegal conduct based on 'interests' that are infringed or could be infringed by the conduct. However, in addressing an act of non-disclosure, the IPR Guidelines is not clearly identifying the counterparty or the party affected by the conduct. It is also not clear what types of interests could be infringed by such conduct.

Apart from the issue of whether the patent owner holds dominant position,⁶⁾ non-disclosure of relevant patent information may be examined to determine whether it constitutes an act of unreasonably interfering with the business activities of another business entity by a market dominant player under Article 3-2, Paragraph 1 Section 3 of the MRFTA, a catch-all provision on abuse of market dominance. However, it should be further reviewed whether an act of non-disclosure of relevant patent information would satisfy all the requirements of such provision under the MRFTA, and if not, which additional acts or elements must be present in order to meet the requirements.

Unreasonably interfering with another enterprise's business activities by a market dominant player under the MRFTA is further developed in the Enforcement Decree of the MRFTA and the Abuse Guidelines. The Enforcement Decree of the MRFTA (Article 5 Paragraph 3) identifies interfering activities relating to essential elements for another enterprise's business activities such as raw materials, workforce and other elements essential to manufacture, supply and sale of products or services (Article 5 Paragraph 3 Section No. 1, 2 and 3). In addition, it also includes a general catch-all provision (Article 5 Paragraph 3 Section No. 4), stating that 'other activities to unreasonably interfere with the business activities of others as further determined by the KFTC's relevant notice' may be also regarded as

5) Hong Dae-Sik, *Sabeobjeog Gwanjeomeseo Bon Gongjeonggeolaebob - Sijangjibaejeogjiwi Namyonghaengwileul Jungsimeulo-* [Korean Competition Law from a Private Law Perspective: Focused on Abuse of Market-dominant Position], 27(2) SANGSABOBYEONGU [COMMERCIAL LAW REVIEW] 351 (2008).

6) This part of the IPR Guidelines simply deals with the issue of specific types of conducts determined separately from the issue of dominant position. Since whether the patent owner holds dominant position should be also determined in accordance with the general standard provided in the Abuse Guidelines regardless of whether the conduct of patent owner apparently falls within the scope of specific conduct type, the allegation that the patent owner improperly failed to disclose the patent prior to standardization should not be the basis for concluding that the patent owner is dominant at the time of non-disclosure.

violations of the MRFTA. The Abuse Guidelines, accordingly, identifies additional types of conduct constituting unreasonable interference with business activities of other enterprises, including: refusal to deal, imposing unreasonable terms outside the scope of normal business practice, discrimination in the price or trade terms, imposing terms or conditions disadvantageous to the counterparty, etc (Chapter IV, Article 3, Paragraph D).

2) *Unfair discrimination in license terms or imposition of unreasonable royalty*

Unfair discrimination in license terms of SEP or imposition of unreasonable royalty may fall within 'an act to unfairly discriminate in price or trade terms' under the Abuse Guidelines (Article IV, Article 3, Paragraph D, Section (2)), a type of interfering with business activities of other enterprises by a market dominant player under the MRFTA (Article 3-2, Paragraph 1 Section 3).

In order to determine whether the conduct in question constitutes an act of discrimination in price or trade terms under the MRFTA, a separate analysis is required to determine the 'discriminatory' conduct element.⁷⁾ However, 'discrimination in license terms' is merely a reformulation of price or trade term discrimination at the patent licensing stage and plays no role in specifying detailed types of unfair discrimination under the MRFTA taking place with regard to exercise of patent rights relevant to technology standards.

The IPR Guidelines seems to intend to directly regulate the degree of royalty, which is of exploitative nature, while the interference with business activities is of exclusionary nature. In this regard, the applicable MRFTA provision would be the provision on pricing as abuse of market dominance, which prohibits unreasonably determining, maintaining or changing the price of the commodities or services (Article 3-2 Paragraph 1 Section 1). While the MRFTA provision seems to cover all the stages of determination, maintenance and change of price, Article 5 Paragraph 1 of the Enforcement

7) The KFTC's Abuse Guidelines does not include any standards by which to judge the behavioral element of discrimination, but the KFTC referred to the standards specified in the Guidelines on Review of Unfair Business Practices in reaching a decision in the *Qualcomm* case. See KFTC Decision, 2009-281, Dec. 30, 2009 (S. Kor.).

Decree, as delegated by the MRFTA, limits the scope of the conduct stating that the conduct prohibited under Article 3-2 Paragraph 1 Section 1 of the MRFTA means substantial price increase or slight decrease of the price without any justifiable reason. This has raised questions as to whether the legislature's intent was to limit the scope of pricing as an abuse of market dominance to a 'change' of the price only⁸⁾ and thus whether the IPR Guidelines should not regulate the price determination itself.

3) Categories of IPR abuse by an SEP holder

The amended IPR Guidelines newly added three types of conduct related to standard setting—avoidance or circumvention of licensing on FRAND terms, imposition of conditions restricting the exercise of patent rights or conditions of cross-licensing of non-standard essential patents, and the filing for injunctive relief by SEP holder. Among these three types, the latter two types are specific to SEP holders. Furthermore, the Guidelines reclassified two already existing types of conduct related to standard-setting—refusal to license SEP and discrimination of license terms of SEP—which were previously applied to patents widely used as technology standards. As a result, types of conduct related to standard setting can be divided into two subcategories as follows:

- (a) Conduct types specific to standard-related patent holders in general
 - (i) Unreasonably agreeing to conditions limiting the price, volume, regions, counterparts and technology improvement of the trade
 - (ii) Unreasonably not disclosing information on the relevant patent or patent application in order to increase the possibility for its technology to be selected as the technology standard or avoid prior negotiations for license conditions
 - (iii) Unreasonably evading or the circumventing the grant of a license of FRAND terms to strengthen dominance in the relevant market or to exclude its competitors
 - (iv) imposing an unreasonable level of license fee

8) Lee Bong Eui, *Doggwajeom Sijanggwa Chagchwinamyongui Gyuje* [Conduct of Exploitative Abuse in Korea], 22 GYEONGJAENGBEOBYEONGU [JOURNAL OF KOREAN COMPETITION LAW] 138-140 (2010).

- (b) Conduct types specific to SEP holders
 - (i) Unreasonably refusing to license SEP
 - (ii) Unreasonably discriminatory license terms of SEP
 - (iii) Granting a license on SEP while imposing unreasonable terms to restrict the licensee from exercising any relevant patent held by the licensee or unreasonably requiring the licensee to cross-license non-SEPs held by the licensee
 - (iv) Filing for injunctive relief by a SEP holder that has committed to grant a license on FRAND terms, against a willing licensee

The amended IPR Guidelines defines SEPs as ‘patents used to implement standard technologies⁹⁾ that must be licensed to manufacture products or provide services in need of the standard technologies’. The amended IPR Guidelines acknowledges that an SEP holder may seek injunctive relief against patent infringement. Under the amended IP Guidelines, however, such conduct may constitute IPR abuse if the SEP holder 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 IPR Guidelines also specifies that, if the SEP holder does not negotiate the granting of a license in good faith with a willing licensee and files for injunctive relief, there is a greater likelihood that this will be determined as conduct that is likely to restrict competition in the relevant market as it exceeds the legitimate scope of exercise of patent right. It means that for the SEP holder, two factors both from licensor side (whether a licensor is negotiating in good faith) and licensee side (whether a potential licensee is willing to

9) Standard technologies are defined as ‘technologies designated by government, standard setting organizations, enterprises’ associations, a group of enterprises possessing technology of the same type, etc. as standard in specific technology areas, or technologies actually used widely as the standard in the relevant technology area’. See IPR Guidelines in Section I.3.A(5). For critics of this inclusion of *de facto* standards to the definition, see American Bar Association, *Joint Comments of the American Bar Association’s Sections of Antitrust Law, Intellectual Property Law, International Law, and Science & Technology Law on Revisions to the Korea Fair Trade Commission’s Review Guidelines on Unfair Exercise of Intellectual Property Rights* (October 30, 2015) 3-4, available at http://www.americanbar.org/groups/antitrust_law/resources.html.

license on FRAND terms) should be considered as decisive or more important. This can be regarded as an attempt to shift from the totality of circumstances test or the unstructured rule of reason approach to the structured rule of reason approach¹⁰⁾ by enabling an evaluation through a series of screens composed of weighted factors. In addition, under the amended IPR Guidelines, whether the SEP holder conducted negotiations in good faith with a willing licensee is determined on the basis of a totality of circumstances test including such factors as (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. Furthermore, illustrative circumstances where the filing for injunctive relief will likely not be considered as an abusive act are also stipulated.

The provisions relating to the filing for injunctive relief by a SEP holder in the amended IPR Guidelines seems to be influenced by the experience of the *Samsung Electronics* case. In this case, Apple filed a complaint against Samsung to the KFTC on April 3, 2012 alleging that Samsung abused its market dominant position by seeking injunction based on SEPs during ongoing negotiations between two parties. A FRAND commitment is a contract between a SEP holder and an SSO to license the SEP on FRAND terms to potential licensees to implement a standard. A potential licensee could be a third-party beneficiary of this contract. A FRAND-encumbered SEP holder is under a pre-contractual obligation to negotiate the license in good faith, not under a contractual duty to grant a FRAND license to any potential licensee. SSO rules generally do not preclude injunctions especially where the potential licensee is not willing to negotiate in good faith on FRAND terms. Against this background and the difference in fact-finding about the negotiations Samsung and Apple conducted in Korea over Samsung's patents compared with in other countries, two factors that Apple was an unwilling licensee and that Samsung was in good faith

10) For the methodology of implementing a structured rule of reason approach in tying law area, refer to Christian Ahlborn & David S Evans & Jorge Padilla, *The antitrust economics of tying: a farewell to per se illegality*, ANTI-TRUST BULLETIN 330-336 (Spring 2004).

during the negotiations were considered as significant in determining whether there was a breach of the FRAND commitment. On February 25, 2014, the KFTC rejected Apple's complaint.

3. Methods and related problems regarding the assessment of illegality and establishment of judgment standard

The IPR Guidelines' approach implies that if the conduct in question falls within the scope of the conduct types identified in the IPR Guidelines, anti-competitive effects are presumed unless there are special circumstances. In particular, the IPR Guidelines implies that misuse of the standard-setting process or imposition of unfair licensing terms after standardization is illustrative conduct with anti-competitive effects. This may induce the public to perceive that such conduct are typical examples of illegality, as non-disclosure of relevant patent information is related to the standard-setting process and discrimination in licensing terms or imposition of unreasonable royalty is related to the licensing process of the technology included in the standard after standardization.

The problematic part in the IPR Guidelines with respect to the judgment standard of illegality is that, the Guidelines stipulate 'whether a patent holder has undergone patent information disclosure procedure and consultation procedure on licensing terms' is an important factor to be considered in finding illegality. In particular, in presenting the illegality standard, the IPR Guidelines do not take the usual stance of listing the considerations related to determination and then making a comprehensive determination test based on such considerations, but rather emphasize certain factors as being important. This is difficult to be recognized as valid as the KFTC has little experience in regulating such type of conduct.

III. Procedures for Setting Technology Standards and Exercise of Standard-related Patents

1. Technology Standard-Settings by SSOs

The necessity of technology standards is emphasized from the industrial

policy perspective as technology standards create efficiency by enhancing compatibility between technologies and facilitate the use and development of the related technologies. In particular, in the case of network businesses such as computer networking and telecommunications, the establishment of interoperability standards or compatibility standards is almost inevitable, in order to connect more users to the network or develop more complementary goods to obtain direct or indirect network effects and create profit in such network industries. Especially in the case of network businesses, the value of a product for particular consumers depends upon how many of these different consumers use identical or compatible products.¹¹⁾ In this perspective, technology standards which enable interoperability or compatibility and thereby improve product utility also bring important benefits to consumers.

Standardization or the setting of a standard can sometimes in fact take place in the market as a result of widespread acceptance in the market dramatically above and beyond alternatives (*de facto* standards). However, particularly in industries for which interoperability is important, there are an increasing number of cases where collective standardization takes place through SSOs. This is best shown in telecommunication markets where the level of technology applied to the provided service is changing at a fast rate and advancing to a higher level.

In general, standard-setting through SSO involves (i) the evaluation by subject matter experts of the relative merits of various proposals or solutions to identified problems or tasks, and (ii) further debate over and ultimately the selection of a particular standard proposal through a vote of the interested parties holding voting membership. Individual members or groups thereof may as a practical matter consider not only the technical merits of different alternatives that have been proposed, but also any ownership or other interest they may have in a proposed technology.

Collective technology standard-setting through SSO has the effect of promoting competition and technological innovation. However, such standardization may also in itself give rise to the risk of excluding competition from the technology market, pushing back technological

11) Mark A. Lemley, *Intellectual Property Rights and Standard Setting Organizations*, 90 CAL. L. REV. 1889 (2002).

innovation, reducing the right to customers to make a selection or promoting collusive acts, depending on the characteristics of the SSO and the contents of the technology established as a standard.¹²⁾ These considerations are thought to warrant some scrutiny of the standard-setting process and decisions.

2. Interests of Patent Holders in Strategic Acts during Technology Standard-setting Process

Assuming a situation where alternative technologies existed at the time of selection of a technology standard through an SSO and insufficient information was available to make reasonable choices among such alternatives, the holder of the patented technology might act strategically in order to make its own patented technology be selected over a close alternative technology to be included in the technology standard.¹³⁾ Assuming such circumstances, major issues would be, which standard to apply for the assessment of certain acts by holders of patented technology during and after standardization as an abuse of the standardization process or an act infringing the interests of a competitor or business counterparty through unreasonable use of its patented technology included in the established standard, as well as determination of which stage and method to allow the MRFTA intervention in order to either block or respond to such an abusive or infringing act.

An SSO may operate the established standard through an open or closed method.¹⁴⁾ While operating through the open method means that the SSO will have certain regulation limiting the ability of owners of patent technology so as to open up the availability of the standard, operation through the closed method means that the availability of the standard will be limited due to the unrestricted patent rights of owners. In the event that

12) OECD, Standard-Setting and Competition Policy 5-7, DAF/COMP/WP2(2010)4 (2010).

13) Douglas Lichtman, *Patent Holdouts and the Standard-Setting Process* (University of Chicago Law and Economics, Olin Working Paper No. 292, 2006), available at <http://ssrn.com/abstract=902646>.

14) See Lemley, *supra* note 11.

the standard established through SSO is operated openly, the SSO will try to promote the availability of the standard, to actual or potential competitors who wish to use the standardized technology as a component of a good and commercialize the good in combination with other complementary production factors, in order to minimize the possibility of leveraging any power over technology conferred by standardization into the market related to the distribution of goods using the particular technology. An SSO could try to exclude all patented technology from its standards, but that might compromise the quality, performance, and/or attractiveness of the standard. Another method which may be used¹⁵⁾ would be to have the SSO seek and obtain assurances that patented technology under consideration will be made available to parties that may be interested in providing standard-compliant products and services before the establishment of a standard.

This may be a difficult undertaking in the event that the SSO does not have sufficient information. In such case, some critics¹⁶⁾ point out the risk that the patent holder or applicant of a technology which may be established as a standard may use the asymmetric balance of information to carry out deceptive publicity or to hide relevant information during the process of standardization with respect to the suitability of the relevant technology as standard or the scope of the exercise of patent rights.

As the US Supreme Court ruled in *Illinois Tools Works*,¹⁷⁾ owning a patent does not necessarily mean that the holder has market dominating power. This means that inclusion of the patent holder's patented technology in a standard does not mean that the holder has obtained market dominating power. However, in events where the patent holder's patented technology

15) For a review on what is being suggested as *ex ante* approaches by distinguishing from IPR policy, refer to Damien Geradin & Miguel Rato, *Can Standard-Setting lead to Exploitative Abuse? A Dissonant View on Patent Hold-Up, Royalty Stacking and the Meaning of FRAND*, 3 EUROPEAN COMPETITION LAW JOURNAL 101 (2007).

16) For domestic discussion of the MRFTA issue on standardization, refer to Son Young Hoa, *Neteuwokeu Sijangeseoui Gisulpyojungwa Gongjeonggeolaebesangui Munje* [A Study on Standardization in the Network Market and Antitrust Law], 22 (1) SANGSABOBYEONGU [COMMERCIAL LAW REVIEW] (2003); Oh Seung Han, *Teugheogisului Pyojun Chaegjeonggwa Gyeongjaengbeob Jeogyongui Munje* [Standard-setting Incorporating Patented Technologies and Its Anticompetitive Effect], 23 SANEOBJAESANGWON [INDUSTRIAL PROPERTY RIGHTS] (2007).

17) *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006).

is included in a standard over a close alternative technology, and the standard is not in competition with another technology standard, standardization may confer an increment of market dominating power that the patent owner might not have had absent standardization. However, even in such cases, the MRFTA is not questioning the acquisition of market dominating power itself but is questioning the unreasonable exercise of power by such market dominant enterprise. In this context, if there exists no causal relationship, such as establishment that the patent holder's technology would not have been included in the standard but for an unjust act such as intentionally failing to disclose one or more of its patents that are technically essential to a proposed standard for the purpose of inducing the SSO to adopt the standard without excluding the patent, the patent holder's exercise of rights authorized by patent laws to the patented technology based on rightful power cannot be questioned through competition law.

One thing to note here is that when the source of market dominating power of the patent holder is the patent itself, then the patent holder has acquired its patent legitimately through the operation of the patent law, and competition law intervention is unwarranted. But if the source of the patent holder's market power is standardization, and not merely the rights granted by patent law, and the patent owner engages in improper conduct as described in the preceding paragraph, then the particular act strategically carried out by the patent holder *ex post* can be assessed as an opportunistic conduct. However, even then, in order to place such particular conduct assessed to be opportunistic as a point of interest in the MRFTA, the following aspects must be reviewed: effects that the standardization has on the technology market including the standardized technology and substitutable technology; whether licensing of the technology included in the standard is necessary for using the standard; and effects that the use of the established standard have on the product market related to the distribution of the goods using the relevant technology. In other words, just because a conduct can be assessed as opportunistic from the perspective of standardization process, which is a private ordering process for standardization with industrial purposes, does not mean that it will always draw attention from the MRFTA. Rather, because this is an issue subject to changes in the related standard,

characteristics of technology included therein and market situation, whether such conduct is opportunistic and whether it may raise an issue under competition law are two very distinct questions.

3. Countermeasures by SSOs to Prevent Opportunistic Conduct

SSOs have certain regulations limiting the ability of owners of patented technology included in standards to behave opportunistically once the standard has been adopted and sunk costs by standards implementers preclude switching to a new or different standard. In addition, SSOs usually request members to give their consent to these regulations as a condition to their joining of the SSO or include such regulations as part of the standardization agreement, which is called the 'Patent Policy' or 'Intellectual Property Policy' of the SSOs.¹⁸⁾

Such measures include firstly, imposition on members participating in the standardization process, of a duty to disclose information in good faith on their patented technology or technology for which patent application process is pending, and secondly, request for a commitment to license patents included in the standard according to 'Reasonable and Non-discriminatory (RAND)' or 'Fair, Reasonable and Non-discriminatory (FRAND)' terms after the establishment of technology as a standard.¹⁹⁾

For the former measure where the disclosure obligation is imposed against patent holders who are SSO members, such measure may be considered mandatory in that sanctions can be imposed at the request of the SSO or its members for violative conduct. Meanwhile, the latter measure cannot be regarded to have an obligatory characteristic as its binding power depends on the willingness of the patent owner to commit to licensing the patents on FRAND terms. SSOs usually do not require their members to make FRAND commitments, but they request or encourage them to do so, and may reject or alter a proposed standard if the owner of an essential patent refuses to make a FRAND commitment. The commitment is usually given for the benefit of producers of standard-compliant products and enforceable through breach of contract remedies

18) See Lemley, *supra* note 11.

19) *Id.*

by them. Moreover, if one was to judge at the time of the SSO's standardization, in the event that a causal connection can be established that the SSO would not have included the technology of the patent holder if the latter had disclosed its patent information, the conduct in violation of the disclosure requirement of patent information may have the *ex ante* opportunistic characteristic in order to get the technology established as standard. However, it is more reasonable to regard the imposition of duty to disclose patent information, as in the case of the imposition of licensing commitment to FRAND terms, as a countermeasure to seek contractual means for preventing or restricting *ex post* opportunistic conduct that may take place during the stage of licensing which takes place after the SSO has established the standard upon gathering sufficient relevant patent information.

1) *Imposition of Duty in Good Faith to Disclose Patent Information*

Imposition of duty to disclose patent information is intended to prevent in advance problems due to the information failure caused by the asymmetric balance of information between the SSO, who only has the limited group average information of the members and the patent holder, who has more information. However, it is important to understand the significant limits on the knowledge and abilities of patent holders. When a patent is said to be included in or essential to a standard, this does not mean that the patent is specifically referenced in the standard. Instead, it means that the standard cannot be implemented without infringing the patent. One needs only to consider the uncertainty of predicting outcomes in patent infringement litigation to understand that determining when a single patent is infringed can be a difficult undertaking. That difficulty is magnified when an enterprise owns thousands of patents, and a proposed standard is constantly undergoing revision.²⁰⁾ In recognition of that difficulty, SSO patent disclosure policies use a 'good faith' standard, and

20) In particular, the greater the patent portfolio, the more likely it is non-disclosure in good faith. It can be difficult to thoroughly review a large portfolio; matching claims to standard specs can be subjective; engineers attending the SSO meeting may be unaware of the company's full patent portfolio; the standard evolves over time so it is a moving target, etc. See Anne Layne-Farrar, *How to Avoid Antitrust Trouble in Standard Setting: A Practical Approach*, 23(3) ANTITRUST (2009).

often make clear that their members are not required thereby to conduct patent searches. These same considerations underlie the holdings of some courts that failure to disclose a patent does not warrant intervention under competition law unless the patent owner knew it had a patent that it should have disclosed, but deliberately failed to do so to cause the SSO to adopt the standard without excluding the patent.

Although not always true, nor presumed to be true, a situation where patent information is not sufficiently disclosed by patent holder may hinder the efforts of the SSO to take measures to ensure the availability of technology essential to the standard, and thus the availability and success of the standard. For example, the SSO may not be able to demand contractual means to prepare for problems which may arise during the licensing stage after the standardization process, such as requiring commitments to FRAND terms that correspond to the scope of rights to the relevant patented technology, based on the information gathered by the SSO alone. Because this would bring the potential risk of the patent holder carrying out opportunistic conduct, SSOs require patent holders to disclose patent information, in order to prevent or restrict such conduct and guarantee procedural fairness in the standard-setting process, without imposing undue burden such as conducting a patent search.

However, just because the patent holder does not disclose patent information does not mean that this can be always linked to a potential risk that the patent holder will carry out *ex post* opportunistic conduct. Imposing disclosure of patent information is a preemptive measure to counter issues that may be caused by information failure resulting from the asymmetric balance of information. Thus, there is no issue in cases in which the standard-setting is conducted in a situation where patent information is easily accessible through open sources regardless of whether there is disclosure of patent information and the standard-setting was based on the information gathered by SSO through such sources. Further, as noted above, there may be a case where the patent holder did not know that the patent holder's technology was included in the standard (i.e., the standard could not be implemented without infringing the patent).

Therefore, non-disclosure can only be problematic and subject to intervention by the government in the event that the patent holder was aware that disclosure of relevant patent information was being required

with regard to technology which could be included in a technology standard, during the standardization process, but the patent holder or applicant actively deceived the SSO that the patent holder's technology was not subject to patent, or where the patent holder or applicant hid the fact that the relevant technology was subject to patent in a situation where the SSO was under the misconception that the relevant technology was not. Such principle corresponds to subjective events such as fraud, coercion, and other unfair conduct.

Even intentional and deceptive non-disclosure might not be enough to warrant intervention under competition law as opposed to contract law. Intervention under competition law would not be justified unless, (i) but for the non-disclosure, the SSO would have rejected or altered the standard to exclude the patent owner's technology, or would have obtained a FRAND commitment from the patent owner, and (ii) the patent owner acquired market power that it would not have had absent standardization. Therefore, in order to bring such conduct as an issue within the MRFTA, it is necessary to distinguish the elements of specific conduct and include them in the conduct requirement in order to examine whether the patent holder's conduct can be viewed as conduct intended to induce the inclusion of the patent owner's technology into the standard, which would allow the patent holder to obtain market dominance, and also whether such conduct actually caused the inclusion of patent holder's technology into the standard and allowed the patent holder to obtain market dominance.

2) *Request for Commitment to License according to FRAND Terms*

SSO's requests for commitments to negotiate licenses according to FRAND terms from patent holders whose technology is included in the standard, can be perceived as a policy measure from the perspective of the SSO as a means to make sure that businesses other than patent holders can effectively compete in the downstream market by using the patented technology, without undue diminution in the rights of patent holders. However, it is impossible to uniformly determine the motive or purpose for preparing such policy measures, as each SSO may have different motive or purpose.²¹⁾ The agreement to abide by such a commitment may be a

21) See Lemley, *supra* note 11.

condition for the patent holder's technology to be included in the standard, particularly if reasonably close alternatives to that technology exist.

Some have argued that a patent owner who has failed to comply *ex post* with its *ex ante* commitment to negotiate a license on FRAND terms is engaging in a form of patent hold-up which is *ex post* opportunistic conduct, and should be regulated through the application of competition law.²²⁾ Such a hypothetical argument cannot be allowed as a ground of the further review of whether competition law has been violated, unless the argument can be supported by empirical evidence. However, it is difficult to find empirical evidence to prove that such *ex post* opportunism frequently occurs.²³⁾ Furthermore, even if a patent holder has given commitment to license under FRAND terms in the standardization process, this is a private contract executed with the SSO. To this end, it is not reasonable to assess that an issue exists under competition law simply because the licensing terms imposed by the patent holder against producers using the technology violated FRAND terms, without the unique examination under competition law on whether those imposed licensing terms could be linked to the effect of restricting or harming competition.

A Commitment to license under FRAND terms is carried out by the holder of the patented technology to be included in the standard committed to license to third parties under RAND or FRAND terms. RAND terms refer to reasonable and non-discriminatory terms and are usually used in SSOs based in the United States, while FRAND terms adding "fair" to RAND are widely used in SSOs based in the EU.²⁴⁾ However, there is no indication that FRAND and RAND are intended to mean different things.

Fair and reasonable terms generally mean that the license terms shall be non-exploitative, but such meaning is not specifically defined in the IPR policy of SSOs. These terms are determined through fair, bilateral negotiation between the patent holder and the standard user in accordance

22) Joseph Farrell et al., *Standard Setting, Patents and Hold-up*, 74 ANTITRUST LAW JOURNAL 603 (2007).

23) For articles that appropriately criticize theoretical arguments about 'hold up', see Damien Geradin & Miguel Rato, *FRAND Commitment and EC Competition Law* (2009), available at <http://ssrn.com/abstract=1527407>.

24) *Id.*

with the market conditions prevailing at the time of such negotiations.²⁵⁾ Meanwhile, non-discriminatory terms refer to terms under which the patent holder and standard user may both access the standard technology according to the same conditions in similar circumstances and allow for both parties to fairly compete against each other under the same conditions.²⁶⁾

Even assuming that FRAND commitments have been made, it is difficult to determine whether there has been a violation of such commitment, due to difficulty of determining outside of negotiations in the market when prices and other terms are excessive or unfair. While it may be relatively easier to determine whether certain license terms are non-discriminatory, based on objective standards, it is often if not always difficult to determine whether the terms are fair and reasonable, as appropriate benchmarks for comparison may not be available. In practice, potential standard users may be usually more interested in non-discriminatory terms than the fairness and reasonableness of the license terms, as discriminatory terms may have more substantial impact on the capacity of the users to compete with one another.²⁷⁾

IV. Review of Specific Conduct Types in the Exercise of Standard-related Patents

1. Overview

The question of how to specify illegal conduct, then, becomes how to distinguish and categorize an act as illegal from the perspective of the MRFTA's objectives. In this regard, the author is of the position that (i) illegality should be prescribed in relation to competition, and (ii) the elements of illegal conduct should comprise factors that could show certain levels of illegality (that is prescribed in relation to competition), and thus require a determination of illegality under competition laws.

25) *Id.*

26) *Id.*

27) *Id.* However, the trend may be changing.

In the following section, this paper reviews factors comprising the elements of problematic exercises of patent rights related to a technology standard (that are listed under the IPR Guidelines) in relation to illegality under the MRFTA, with the understanding that the enumeration of such problematic exercise of patent rights under the IPR Guidelines is an effort to specify the elements of conduct listed under the provisions of abuse of market dominance under the MRFTA. Based on this review, issues in the proposed conduct types under the IPR Guidelines are identified and alternative solutions are offered.

2. Non-Disclosure of Relevant Patent Information

1) Interpretation Standard and Scope of the Conduct of Impeding Another's Business

It is interesting to note that there are numerous cases where the KFTC applied Article 5 Paragraph 3 Section No. 4 of the Enforcement Decree and the Abuse Guidelines, while there are a few cases where the KFTC applied Article 5, Paragraph 3, Section No 1, 2 or 3 of the Enforcement Decree. In case a conduct falls under the prescribed conduct under the Enforcement Decree or the Abuse Guidelines, the KFTC presumes such conduct to meet the 'interference' requirement under the MRFTA. Furthermore, in certain cases where a conduct does not exactly fall within the purview of any of specific conduct prescribed in the Enforcement Decree and the Abuse Guidelines, the KFTC has directly applied the catch-all provision of the MRFTA (Article 3-2, Paragraph 1 Section 3).²⁸⁾ Taking this approach, the KFTC may make a risky decision to presume an act of exercise of patent rights in relation to the technology standards, if it apparently falls under the category prescribed in the IPR Guidelines, to fulfill the conduct requirement of the provision of interference with business activities under the MRFTA, without analyzing whether the conduct in fact constitutes interference with business activities of other enterprises under the MRFTA.²⁹⁾

28) KFTC Decision, 2007-81, May 18, 2007 (hereinafter *KFTC Hyundai Motor Case*)

29) Hong Dae Sik, *Sijangjibaejeog Jiwi Namyonghaengwiui Pandan Gijun Gaeseonbangan [Improvement Scheme of Standard for Determining Abuse of Market-dominant Position]*, 21 GYEONGJAENGBEOBYEONGU [JOURNAL OF KOREAN COMPETITION LAW] 131-132 (2010). However, given

Even though the provision of the MRFTA that the IPR Guidelines applies to the conduct of non-disclosure of relevant patent information is the provision on ‘impeding another’s business activities’, the conduct as defined in the IPR Guidelines does not satisfy the elements of impeding another’s business activities. This can be confirmed by studying the elements constituting an act of impeding another’s business activities as an abuse of market dominance, and thereby clarifying its standard of construction and definitional scope.

In considering the requirements specified in Paragraph 1, Article 32 of the MRFTA and the main context of Paragraph 3, Article 5 of the Enforcement Decree on abuse of market dominance, the standard for interpreting an act of impeding another’s business activities can be set forth as follows:

First, an act of impeding another’s business activities must involve the business activities of ‘another’. The term ‘another’ covers not only transacting parties but also competitors.³⁰⁾ In most cases, another’s business activities mean the business activities of a counterparty (i.e. transacting party such as seller or buyer, recipient of unilateral conduct such as refusal to deal). It could, however, also mean a third party including competitor whose business activities are affected by an act of impediment but indirectly as opposed to the counterparty to which the act is directed. In the latter case, it is asserted that a better defined standard and a higher burden of proof on the effects of an act of impediment should be required as the effects of an act on the third party are not as evident as those on the counterparty.

Second, there must be an act of ‘impeding’ another’s business activities. To determine whether an act of impediment occurred, separate standards apply depending on whether the party being affected is the same as the party to whom the act is directed. If the counterparty of an act is the same

that this abstract catch-all provision lacks predictability as to which conduct is prohibited and that the specific prohibited conduct should be clearly identified in the Enforcement Decree and the Abuse Guidelines to the extent authorized by the catch-all provision, it would not be appropriate to directly apply a catch-all provision to conduct which does not even fall into any of the specific types of conducts provided in the Abuse Guidelines. This also relates to the issue of judgment criteria for interpretation standard and scope of pricing.

30) Supreme Court [S. Ct.], 2008Du7465, Mar. 25, 2010 (S. Kor.).

as the party that is affected, whether an act of impediment occurred can easily be established by examining the act itself. On the other hand, if the counterparty of an act is different from the party that is affected, i.e., an act of impediment was directed toward one party but its effects were felt by another, the impeding act must have a direct link to an aspect of another's business activities such that causality must exist between an act impeding certain aspect of another's business and that party's business activities being impeded.

Third, an act of impeding another's business activities must be of such 'degree' that can cause hardship for the business activities of another, which hardship in turn must be measurable by determining whether the affected party's business activities suffered specific disadvantage. Here, the element of impediment, which refers to the effects of one's act on another, can be distinguished from anti-competitiveness, which means the effects of one's act on the market.

'Impeding' another's business activities is defined in Paragraph 3, Article 5 of the Enforcement Decree as causing hardship on the business activities of another. Section V. 3 of the Abuse Guidelines provides that, in determining whether another's business activities are 'impeded', the affected party's activities of production, finance and sales must be considered overall and 'impeding' includes the risk of hardship that may be caused on another's business activities.

There is a line of Supreme Court cases that, applying the provision on impeding another's business activities as an abuse of market dominance, suggests which factors to consider in establishing an act of impediment. For example, in the *Posco* case,³¹⁾ the Supreme Court distinguished 'a business suffering disadvantage such as facing hardship or the risk of hardship' from 'unreasonableness'. Whereas unreasonableness refers to certain effects that conduct has on the market, 'a business suffering disadvantage' is a factor in determining whether an act having certain effects on another party constitutes impediment. In other words, impediment as a requisite conduct element can be established when an affected party suffers specific disadvantage relating to its business activities or when there is a risk of

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

such disadvantage.

In defining specific disadvantage, against which the law provides protection, the Supreme Court's interpretation of causing disadvantage as a specific type of abuse of a superior bargaining position constituting an unfair trade practice, which requires 'disadvantage' as a conduct element, can serve as a reference. In determining 'disadvantage', one of the requisite conduct elements constituting an act of causing disadvantage, the Supreme Court has ruled that the specific 'disadvantage' suffered by a counterparty must be clearly confirmed in an objective manner and, if the 'disadvantage' suffered is one of monetary damage, the legal liability thereof as well as its extent should be clearly established.³²⁾ The court's decision reflects the legal principles under the Korean Civil Code (KCC) that defines an act of impeding, a requisite conduct element, in connection with specific disadvantage. The concept of impediment under the KCC is one of the factors in establishing the claim for eliminating an impediment against ownership (under Article 214 of the KCC) as an *ex ante* preventative measure, in contrast to the claim for damages (under Articles 393 and 750 of the KCC) as an *ex post* remedial measure. The Supreme Court suggests current 'existence' and 'continuation' as factors differentiating impediment from damages by holding that 'impediment', for purposes of the claim for eliminating an impediment against an ownership, is an infringement that continues to exist, while the concept of 'damages' is one that had occurred in the past and the infringement has since ended.³³⁾ In addition, the Supreme Court proposes that the criterion for determining the degree of impediment that should be afforded the protection of the law is 'the tolerance threshold accepted as customary by social norms'.³⁴⁾

32) Supreme Court [S. Ct.], 2000Du6213, May 31, 2002 (S. Kor.).

33) Supreme Court [S. Ct.], 2003Da5917, Mar. 28, 2003 (S. Kor.). A more thorough analysis of this case is available in Kim Hyoung Seok, *Soyumul Banghaebaeje Cheonggugwoneseo Banghaeui Gaenyeom [The Concept of Impediment in a Claim for Eliminating an Impediment against Ownership]*, 45(4) SEOULDAEHAGGYO BEOBHAG [SEOUL LAW JOURNAL] 394, 394ff (2004).

34) Supreme Court [S. Ct.], 2003Da64602, Sept. 13, 2004 (S. Kor.). The case involved the question of what constitutes an act of infringement on another's interest to a view. The Supreme Court held that in order for an act of infringement against one's protected interest to a view to constitute an offense, the extent of the infringement upon one's interest to a view must exceed the tolerance threshold accepted as customary by social norms. The Court sets forth the criteria for determining whether that threshold has been exceeded and provides

In light of the standard of construction discussed above, the following elements characterize an act tending to impede another's business activities and thus requiring a determination of illegality under the MRFTA. First, the conduct must assume the existence of a counterparty or a third party affected thereby and it must be about an aspect with a direct link to another's business activities. Second, the conduct must have caused or has the risk of causing a harm to another that exceeds the tolerance threshold accepted as customary by social norms, or where there is a concern that the harm or the risk will continue to exist.

2) Review of Conduct Elements of Non-Disclosure of Relevant Patent Information

Other than the general requirement of illegality of 'unreasonableness', the conduct of non-disclosure of relevant patent information, as prescribed in the IPR Guidelines, has as its objective element 'the refusal to disclose information about the related patent application or registered patent owned by itself' and has as its subjective element 'the intention of increasing the possibility of being selected as a technical standard' or 'the object of avoiding prior consultation on license terms'. The counterparty to which such act of non-disclosure of relevant patent information is directed would be an SSO as such act is made in response to imposition of duty to disclose such information by the SSO.

Given, however, that an act of impeding another's business activities requires the existence of a counterparty of the impeding act or a third party who is affected thereby, it remains unclear what the IPR Guidelines considers as 'another' whose business activities are affected by the impeding act. In order to argue that the non-disclosure of relevant patent information is the impeding act in itself, the SSO as a counterparty must have suffered a specific disadvantage due to the non-disclosure. Yet, the reason a SSO requires relevant patent information is not simply to collect relevant patent information but to use them in selecting technical standards and identify for its members the enterprises from which standard users may need a license. Thus, unless the standard-setting or the establishment

factors to consider in making that determination.

of intellectual property policies supporting the standard was impeded, the non-disclosure of relevant patent information cannot in and of itself establish an impeding act. Therefore, the specific conduct type as described in the IPR Guidelines omits a necessary element constituting an impeding act. In order to make up for this omission, additional conduct elements, such as an deceptive or coercive element of the act, that causes the SSO to include the patent holder's technology as part of a technical standard or to preclude an opportunity to benefit from the application of the related intellectual property policies.

Furthermore, it would be incongruous under competition laws to consider a SSO as the party being affected by an impeding act since a SSO is not a business participating in the market but an entity created to oversee the standard-setting process. Thus, a meaningful regulation of an impeding act under competition laws would require that the party being affected by an impeding act is an existing or potential competitor or counterparty in the technology market of the standard or its downstream market for products. In this regard, in order to satisfy the element of an impeding act, a patent holder's non-disclosure of relevant patent information must have precluded the owner of a competing technology from becoming part of a technical standard, or placed licensees at a disadvantage in negotiating license terms by avoiding the commitment to FRAND.

On the other hand, 'purpose', as a factor of subjective intention, is distinguished from 'intent', and the former means more specific and higher thought than the latter. Therefore, such purpose is hard to be found in the circumstances where a doer acknowledged the increased possibility of his or her patent being chosen as a technical standard or acknowledged the result of advance negotiation of licensing terms being avoided, but it can be found only in the circumstances where his or her deed was the fruit of prudent deliberation for such result.³⁵⁾

35) There is discrimination in favor of an affiliated company as a type of unfair trade practice where purpose is specified as a constituting factor. The Supreme Court interprets 'for the advantage of an affiliated company', which is a constituting factor for discrimination in favor of an affiliated company, as intention to give advantage to an affiliated company, and rules that such purpose is hard to be found in the circumstances where an enterprise's affiliated company benefitted from his or her business activity for his or her own interest, but it can be found only in the circumstances where an enterprise's main intention is to restrict

Accordingly, Section III.5. A of the IPR Guidelines which describes a failure to disclose relevant patent information as an act that can constitute a violation of the MRFTA should be amended to additionally require conduct elements that would make a failure to disclose relevant patent information to constitute an act impeding another's business activities.

3. *Imposition of Unreasonable Level of Royalty*

1) *Interpretation Standard and Scope of Price Setting*

Although the elements of price setting as an abuse of market dominance can be deduced from Paragraph 1, Article 32 of the MRFTA and Paragraph 1, Article 5 of the Enforcement Decree, a dearth of cases³⁶⁾ applying the provisions and academic discussions³⁷⁾ renders clarifying its standard of construction and definitional scope challenging. Two issues deserving review in interpretation are: first, whether price setting is limited to an act causing the price to change, or includes the initial pricing determination or price maintenance, and second, whether it is possible to specify regulatory standards in determining an excessive price level for products in general and intellectual property rights in particular.

With respect to the first issue, the statute specifically lists price determination, maintenance and change. On the other hand, the Enforcement Decree restricts the scope of price determination, maintenance and change to those instances of significant price increase or minimal decrease by specifying that price determination, maintenance or change is limited to 'a significant rise or insignificant drop in the price of goods or cost of labor that is disproportionate to any change in supply-demand or the cost of

competition in the market to which his or her affiliated company belongs and to reinforce the concentration of economic power of his or her business group, comprehensively considering the motive of the discrimination, nature of discriminatory effect, business practice, status of the affiliated company at that time, etc. See Supreme Court [S. Ct.], 2002Du12076, Dec. 9, 2004 (S. Kor.).

36) No case law and only four KFTC decisions exist.

37) Relevant materials include Lee, *supra* note 8; See also Lee Ki Jong, Sijangjibaejeogjiwi Namyonghaengwiloseoui Gagyegnamyonggwawa Chulgojojeol Haengwi [*Excessive Pricing and Output Control as an Abuse of Dominance*], 19(4) SANGSAPANLYEYONGU [COMMERCIAL CASES REVIEW] (2006).

supply (limited to the level customary in the same or similar industry) and lacking a reasonable explanation.’ This provision must be understood to limit the definitional scope of price setting to an act of changing price that causes a significant rise or an insignificant drop in price in light of the facts that: the regulatory framework for abuse of market dominance is such that the statute provides an abstract, comprehensive definition and is further specified in steps in the Enforcement Decree or public notice as necessary; it is difficult to make an absolute determination that the price level is excessive; the Enforcement Decree also presumes a relative determination of comparing against the change in supply-demand or the cost of supply; and a direct price control or regulation should only be used in extraordinary circumstances that meet the strictest standards.³⁸⁾³⁹⁾

In regard to the second issue, the standard provided in the Enforcement Decree is a simple comparison of the change in supply-demand or cost of supply against the increase or decrease in price. It also qualifies the change in cost of supply to “the level customary in the same or similar industry,” thereby supplementing the standard for comparison markets. This methodology is similar to that employed in the *United Brands* case⁴⁰⁾ in which the European Court of Justice proposed a two-step review to determine whether the price level is excessive. The first step involves verifying whether the difference between the production cost and the sale

38) See Damien Neven & Miguel de la Mano, *Economics at DG Competition 2009-2010*, 37(4) REVIEW OF INDUSTRIAL ORGANIZATION (2010). “Absent these broader policy considerations, idiosyncratic to the EU system of competition enforcement, a competition authority has good economic reasons not to encroach on the rights of a dominant firm to charge whatever prices or royalties the market would bear, provided the acquisition of such dominance was legitimate, for example, through R&D leading to a patent.” See also David Evans & Jorge Padilla, *Excessive Prices: Using Economics to Define Administrable Legal Rules*, 1(1) JOURNAL OF COMPETITION LAW AND ECONOMICS 97-122 (2005), which sets forth the premise for the necessity of exploitation and abuse regulation on exceptionally excessive pricing.

39) The two-level analysis asserted in Lee, *supra* note 8, at 139 is an overexpansion that goes beyond what the text of the statute supports: Lee argues that price determination, maintenance or change in the statute refers to the appearance or form of price setting and that the increase or decrease in price in the Enforcement Decree in practice refer to the rise in price over the competitive level due to price setting.

40) Case 27/76, *United Brands Co. v Commission*, 1978 ECR 207. For more information on the case, see Damien Geradin, *Abusive Pricing in an IP Licensing Context: an EC Competition Law Analysis* (June 2007), available at <http://ssrn.com/abstract=996491>.

price of a product is excessive. The second step is determining whether the sale price is fair in itself or in comparison to other competing products. However, this analysis is problematic due to the fact that without a precise economic measure to determine whether a given price is 'excessive' or 'fair', such standards are inherently vague and devoid of meaning.⁴¹⁾ More troublesome is the fact that, with respect to the calculation of royalty, determining a reasonable profit margin or comparing against similar competing products may be altogether extremely difficult.⁴²⁾

2) Review of Conduct Elements of Imposition of Unreasonable Level of Royalty

The IPR Guidelines Chapter III, Article 5, Paragraph A lists 'an act of unfairly discriminating the license terms for standard essential patents, or of imposing royalty at an unreasonable level.' This type of act might include conduct of a patent holder, who made a commitment to the SSO to FRAND terms during the process of technology standard establishment, in violation of the commitment after his or her patent has been selected as the standard. However, the IPR Guidelines also apply this type of act to widely used standard technologies that it appears to be regarded as *de facto* standard technologies as well as to SSO-selected standard technologies, and thus it does not seem to be limited only to the SSO-selected standard technologies. While the IPR Guidelines Chapter III, Paragraph 1 specifies imposition of substantially unreasonable level of licensing fee, discriminatory licensing fee, and unreasonable terms with respect to licensing generally, the types of conduct specified herein should be based on the special circumstances where the patent is included in a technology standard.

The issue here is whether the regulated conduct has the aspects of the problematic conduct pursuant to the competition law under such special circumstances. There is a risk of finding a violation of the MRFTA simply because the conduct corresponds to the enumerated conduct specified in

41) Geradin, *supra* note 40.

42) A more detailed explanation is available in Kwon Namhoon & Hong Dae Sik, *Jisigjaesangwone Daehan Silsilyoui Sujungwa Gyeongjaengbeobui Yeoghal* [Royalty Rates for Intellectual Property Rights and the Role of Antitrust Law], 15(2) JEONGBOBEOBHAG [JOURNAL OF KOREA INFORMATION LAW] (Aug. 2011).

the IPR Guidelines Chapter III. 5 and such conduct is related to non-compliance with the disclosure requirement or the FRAND commitment. Therefore, in order to separately regulate such specified conduct related to standards which is distinguished from the specified conduct related to the licensing generally, the IPR Guidelines needs to provide separate and specific requirements related to such conduct. More specifically, the specific requirements need the factors which show unfair competition which is not related to legitimate means of competition such as price, quality, service, etc.⁴³⁾

Another problem is that the IPR Guidelines uses an extremely abstract concept of 'unreasonableness'. It appears that the KFTC borrowed this language from the terms that are 'Fair, Reasonable and Non-discriminatory (FRAND)' on which SSOs request owners of patents included in standards to commit to license such patents. However, while enterprises may choose to use abstract terms to create and enforce obligations between them under contract law, it is certainly inappropriate to use such an abstract term in the KFTC's internal regulation which is enforceable in cases brought by the government through the imposition of administrative fines and other relief. In such cases, a regulation is supposed to clarify the language of the law and identify more specifically the types of conduct prohibited by law, to give the enterprises subject to the law reasonably specific notice of the conduct from which it must refrain to avoid government sanctions. Given that the Enforcement Decree recognizes the difficulty of determining exploitative pricing and tries to provide in as much detail as possible by suggesting a benchmark for 'the ordinary level of change of demand and supply or costs for supply in the same or similar industry', the IPR Guidelines' provision regarding unreasonable royalty should be subject to the strict critique.

43) In order to explain the competition by desirable competition methods, 'Competition on the Merits' is used in the U.S., and 'Leistungswettbewerb' ('Performance Competition' in English) is used in Germany. Its meaning is not properly understood if translated into English since Leistungswettbewerb is the unique idea originating from the German tradition, which values the freedom of the economic activities. Even though the EU member states except Germany are abandoning this idea, some of the influential scholars in Korea still support this idea.

V. Review of Criteria for Determining Illegality of Exercise of Standard-related Patents

1. Overview

An illegality standard provides a normative framework which determines whether the conduct in question would constitute the content of illegality and cause such effects. The illegality standard under the MRFTA generally appears as a form of legal framework to determine whether the conduct in question satisfies the ‘unreasonable’ element. Ultimately, the illegality standard is established through court decisions. Korean courts principally establish the legal framework in a totality of circumstances manner, and consider relevant factors. The reason why the courts apply the totality of circumstances test is because the nature of illegality under the MRFTA is more likely to be based on a ‘standard’, rather than a ‘rule’.

Illegality standards may be established for the comprehensive conduct types under the MRFTA or for the detailed conduct types under the Enforcement Decree or Guidelines. We may call the former a ‘general standard’ and the latter a ‘conduct-specific standard’. While the general standard provides a general principle and the common elements for the illegality standards, the conduct-specific standard consists of additional elements to be considered under a specific circumstance and elements to be considered more important, and then clarifies the relationship or priority among the factors or the relationship between the factors and the law or economy.

In the *National Agricultural Cooperative Foundation* case, the Supreme Court advanced a conduct-specific standard.⁴⁴⁾ In this case, the conduct in question allegedly constituted ‘an act of the condition on the counterparty not trading with a competitor’ (Article 5, Section 5, Item 2 of the Enforcement Decree), which is a specific conduct in the context of the ‘act of unreasonable exclusion of competitors’ (Article 3-2, Section 1, Item 5 of the MRFTA).⁴⁵⁾ The Supreme Court cited the factors from a series of court cases

44) Supreme Court [S. Ct.], 2007Du22078, July 9, 2009 (S. Kor.).

45) The Abuse Guidelines provides that factors to be taken into comprehensive

dealing with unreasonable exclusionary conduct,⁴⁶⁾⁴⁷⁾ and presented additional factors, such as: the market share of the market dominant enterprise; the degree of the act of hampering market entry or expansion of the competitors and increased costs thereof; as well the trade terms. These additional factors are viewed as a 'conduct-specific standard' for the 'conduct of trading on the exclusivity condition'.

Particularly, by considering the degree of hampering market entry or expansion of competitors and increased costs, the Supreme Court made clear that the anti-competitive effect of the act of trading on the exclusivity condition is connected with the foreclosure effect to competitors, which reflects its economic understanding of elements indicating illegality of the act of trading on the exclusivity condition with characteristics of exclusionary abuse.⁴⁸⁾

consideration relating to the act of trading on the exclusivity condition include whether the competitor would be easily able to find substitutes, purpose of trading, terms, counterparty to whom the conduct is directed and distribution practice of the industry (Article IV, Section 5 Item 2). However, these factors do not sufficiently reflect the characteristics of the act of trading under the condition to exclude competitors to be deemed an act of abuse of market dominance. Therefore, the illegality elements of trading to exclude competitors of the Enforcement Decree were applied to the illegality determination process.

46) Factors for consideration included: background and motive of the interference with business activities of others, specifics of an act of interference with business activities of others, characteristics of the relevant market, degree of disadvantages suffered by the counterparty, changes in relevant market price and production yields, impeded innovations and decrease of diversity: Supreme Court [S. Ct.], 2002Du8626, Nov. 22, 2007 (S. Kor.) [hereinafter *Posco Case*]; Supreme Court [S. Ct.], 2008Du7465, Mar. 25, 2010 (S. Kor.) [hereinafter *T-Broad Case*]; Supreme Court [S. Ct.], 2008Du17707, Apr. 8, 2010 (S. Kor.) [hereinafter *Hyundai Motor Case*]; Supreme Court [S. Ct.], 2008Du22078, July 9, 2009 (S. Kor.) [hereinafter *Kia Motor Case*].

47) Common factors for consideration used in the illegality standard for an act of interfering with the business activities of others include: purpose and specifics of the trading; change of the price or product yields in the relevant market; existence of similar products and adjacent market; impediment of innovation and diversity. It appears that the degree of the disadvantages suffered by the counterparty was not included as factors for consideration, since it is not a particular conduct element to constitute an act of interference of business activities of others.

48) Hong Dae Sik, *Baejejeog Namyonghaengwie Daehan Wibeobseong Pandangijun* [The Criteria for Determining Illegality of Exclusionary Abuse], in BANBUPAEWA GONGJEONGGEOLAEJEDO [The Systems for Anticorruption and Fair Trade] (Kang Chul-Kyu ed., 2011).

2. Review of Conduct-specific standards in the IPR Guidelines

There are particular issues with regard to the illegality determination standard in Section III. 5 of the IPR Guidelines where it stipulates that whether a patent holder has disclosed relevant patent information and satisfied FRAND commitment is to be an important consideration in determining unreasonableness. Under a normative perspective, this guideline is understood to stipulate additional factors to be considered over general factors in determining illegality.

However, additional factors in the conduct-specific standard have to complement the factors in the general standard under a specific circumstance, in order to determine illegality on a totality of circumstances basis; they are decisive factors to determine the illegality. Thus, it is very unusual to emphasize certain factors which have meaning only within a specific circumstance. Moreover, to regard these particular factors as being decisive as to determine illegality or possibly being applied as more important elements, the relationship between these factors and illegality must be established. However, as the KFTC has little experience regulating such conduct so far, it is unjustifiable.

Procedures on 'disclosure of patent information' and 'FRAND commitment' are contractual measures requested of the patent holders by SSOs in order to improve the standard-setting process and reduce the potential for *ex post* opportunism. In this regard, whether these procedures will be performed may be relevant on whether the standard-setting process is effective from the contractual standpoint of view or what kind of relief to be provided to a violation of the procedures under contract law. However, it is difficult to see how these kinds of factors are necessarily relevant in determining illegality under the MRFTA, such as business interference.

As there is no basis to conclude that these factors, which have relevance in contract law and in the standard-setting process and licensing stage, have a close relationship with the illegality standard under MRFTA, the IPR Guidelines providing that whether such performances of procedures are important factors in determining abuse of patent rights have the risk to over-expanding the MRFTA in areas concerning private relationships. They can be better served as conduct elements to determine whether to fall

within the specific conduct type rather than as conduct-specific illegality factors to determine illegality of patent right exercise. Even when considered as conduct elements, they must be considered not because they were simply performed, but instead by limiting to situations where they were intentionally omitted or falsely performed, thereby affecting the standard-setting or licensing. Also, it is still possible to list them as one of the supplementary factors to be considered for the conduct-specific illegality standard to the extent that they contain assessment element as opposed to factual element. However, they can be neither the decisive nor more important elements over other considerations such as whether the standard-related patent has essentiality.

Therefore, there is a need to amend this section by listing them as factors to be considered according to the general method of presenting a conduct-specific standard. In particular, even if the disclosure procedure and FRAND commitment are included as relevant factors, it is desirable to list this as one of the additional factors to be possibly considered in determining unreasonableness by limiting it to the situation where the intentional omission of performance of these procedures or false performance may affect the standard setting or the licensing. It should be noted that the weight of these factors should not be regarded as more important or decisive as compared to other factors taken into consideration in assessing illegality. Therefore, the unreasonableness of exercise of patent rights related to a technology standard shall be determined separately and specifically upon comprehensive consideration of factors⁴⁹⁾ such as whether the procedures were intentionally omitted or falsely performed, whether the SSO selected the specific technology as standard or included the specific technology in the standard a result of such omission or false performance, whether an alternative competing technology existed, whether such existence of alternative competing technology affected the applicable standard setting decision of the SSO, the effect on the technology market related to the standard or on competition in the product market which uses

49) This refers to the totality of the circumstances test adopted by the Supreme Court decisions. It does not mean that a violation may be found even if one or more of the listed factors do not exist. The listed factors should be considered in a balanced way to determine the effect on the competition and consumer welfare in the market.

the applicable technology standard, and whether the standard-related patent is regarded as an SEP with essentiality.

It should be noted that there are newly added conduct-specific standards applied to an SEP holder. In particular, the amended Guidelines impose a stricter rule on an SEP holder with FRAND commitment in seeking injunctive relief. It sets up the standard that non-performance of the obligation to negotiate the granting of license and filing for injunctive relief against a willing licensee would be important factors to be considered in determining whether the SEP holder's seeking injunctive relief may be anti-competitive. This standard is largely consistent with the recent developed theory focused on willing licensee and decisional practice of the European Union⁵⁰⁾ and its member states. Therefore, this standard can be considered acceptable compared with the recent practical developments in other jurisdictions.⁵¹⁾

VI. Summary and Conclusion

I will summarize my arguments here below.

- (1) The KFTC will use its guidelines as a primary framework to enforce the MRFTA by the KFTC officials even though it has no legislative basis; therefore, it is very important to carefully review its contents.
- (2) Non-disclosure of relevant patent or patent application information may relate to an unreasonable interference with the business activities of other enterprises, a type of abuse of market dominance under the MRFTA, if the non-disclosing party knows that the patent or patent application may be relevant to the proposed standard but decides not to disclose it in order to influence the standard-setting process, and the standard would have been rejected or altered to

50) Case C-170/13, Huawei v ZTE (July 16, 2015), <http://curia.europa.eu/juris/liste.jsf?num=C-170/13>.

51) For the overview of applicability of Antitrust Laws to attempts to obtain injunctive relief with respect to FRAND-Encumbered SEPs in various jurisdictions, see *Standard-Essential Patents and Injunctive Relief* 13-20, JONES DAY (Apr. 2013), http://www.jonesday.com/standards-essential_patents/.

exclude the patent or patent application had it been disclosed. Absent these findings, and unless the standard has become a prevailing standard, there is no unreasonable interference with the business activities of other enterprises under the MRFTA, because (i) the conduct would not directly relate to other enterprise's business activities, and (ii) there would be no specific disadvantage exceeding a socially and generally accepted degree. Given that, in order to regulate such non-disclosure of related patent technology under the MRFTA, the IPR Guidelines needs to specifically provide that both the intent of the non-disclosure and effect of the non-disclosure on the standard setting process are required.

- (3) Discrimination in licensing terms may be related to unreasonable discrimination which is a specific type of interference with business activities of other enterprises, and the imposition of unreasonable royalties may be related to excessive pricing, both of which are the types of abuse of market dominance under the MRFTA. However, the purposes or motives of SSO's policy requiring the patent holder whose technology is included in the technology standard to license pursuant to the FRAND terms are for various reasons and not so simple to be understood based on a single meaning. Therefore, it is unreasonable to judge a breach of the FRAND commitment under contract law as a violation of the MRFTA without considering other significant factors such as whether SEP is involved and further reviewing whether such breach leads to the exclusion or foreclosure of competition under the MRFTA. In the similar context, due to the difficulty in determining a reasonable level for a price, the Enforcement Decree of the MRFTA regulates price changes only based on a comparison of the degree of change in supply and demand or costs and the degree of change in price of goods or services. In addition, the policy reflected in patent law is to allow the patent owner to charge the prices the market will bear, and thereby induce investment in risky R&D. However, the IPR Guidelines falls short, neither taking these considerations into account, nor providing any specific factors or standards to determine unreasonable royalties under the special circumstances where the patented technology is included in a standard.

- (4) The IPR Guidelines provides that the disclosure of the patent information and the *ex ante* negotiation for licensing terms are important factors to be considered in judging illegality and whether the applicable procedures have been complied with should be preferentially considered in judging the illegality of the specified types of conduct. However, such disclosure and negotiation procedures are by their nature a method under contract law to improve the technology standard-setting process and reduce the potential for *ex post* opportunism. Whether or not there was compliance with such procedures does not bear causation or close relationship with the violation of the MRFTA and failure to comply with such procedures should not be considered more seriously than other factors to judge the anti-competitive effect when exercising the patent rights related to the technology standard. Also, even if compliance with the applicable procedures could be considered in determining illegality of conduct, it should be limited to cases where there has been an intentional failure to comply with the procedures or a false disclosure and commitment which is likely to affect the selection of the technology standard or the licensing of the patented technology included in the technology standard, and where the technology standard has become the prevailing standard.
- (5) The amended Guidelines present the conduct-specific standard for an SEP holder with FRAND commitment seeking injunctive relief. It sets up the standard that non-performance of the obligation to negotiate the granting of license and filing for injunctive relief against a willing licensee would be important factors to be considered in determining whether the SEP holder's filing for injunctive relief may be anti-competitive. This standard can be considered acceptable compared with the recent practical developments in other jurisdictions.

