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SEOUL HIGH COURT DETERMINES QUALCOMM'S SEP LICENSING PRACTICE ANTICOMPETITIVE

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While Qualcomm Incorporated ("Qualcomm") has been highly successful in licensing its standard essential patents (SEPs), its unique licensing practice has also stirred up legal conflicts with national antitrust authorities in all IP5 countries. In particular, administrative/legal proceedings were instituted against Qualcomm by the Korea Fair Trade Commission ("KFTC") for violation of the fair, reasonable and non-discriminatory (FRAND) commitment, with some of the major ICT companies joining in the proceedings as interveners.

Recently, the Seoul High Court affirmed the sanctions imposed by KFTC on Qualcomm for its anticompetitive conducts committed in licensing out its SEPs (Case No. 2017Nu48, decided on December 4, 2019).

Case History

In February 2015, KFTC initiated an investigation on Qualcomm's licensing practice, suspecting that Qualcomm may have violated the Korean Monopoly Regulation and Fair Trade Act ("Fair Trade Act"). During the investigation, Qualcomm's customer companies, as well as its competitors, intervened in the proceeding and assisted KFTC by submitting their own briefs and evidentiary materials in support of the arguments contained in the briefs.

The interveners were: Intel and MediaTek, baseband chipset suppliers, being direct competitors of Qualcomm; LG and Apple being SEP licensees as handset manufacturers that purchase modem chips from Qualcomm; and Samsung and Huawei, making both chipsets and smartphones, having wanted to acquire full manufacturing licenses from Qualcomm, but having been denied.

Eventually, KFTC issued a corrective order in January 2017, directing Qualcomm to remedy its licensing practice (Case No. 2017-025).

Qualcomm brought a suit against KFTC's administrative order before the Seoul High Court, and the above-mentioned interveners participated in the litigation again. Samsung and Apple, while the action was pending, reached a settlement with Qualcomm, whereas LG, Intel, Huawei and MediaTek continued to intervene in the suit.

Qualcomm's Licensing Model

The KFTC position was that Qualcomm had monopoly power over modem chips, by virtue of its SEPs thereon, and breached the FRAND commitment through its anticompetitive conducts. The accused illegal acts can be categorized into three, as discussed below.

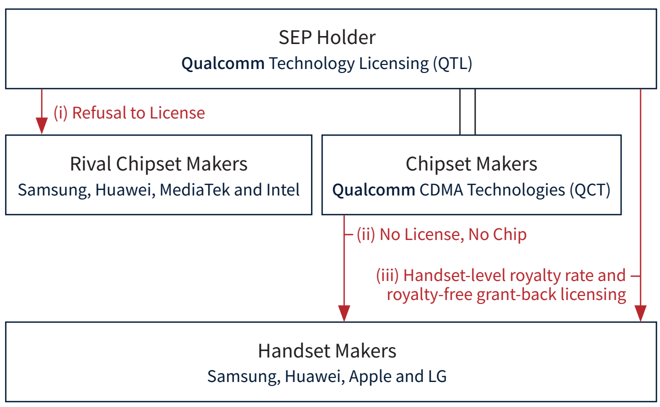

Fig.1: Qualcomm's Licensing Model

(i) *Refusal to License:* Qualcomm refused to grant an "exhaustive" SEP license to competing chipset suppliers. That is, to avoid patent exhaustion by the initial authorized sale under a full or regular patent license agreement, Qualcomm instead offered a covenant not to sue, under which it was not to sue the competing chipset suppliers but could sue those companies that purchased chipsets from the competing chipset suppliers. Such "refusal to license" policy prevented Qualcomm's patent rights from being exhausted when the competitors sold modem chips manufactured with Qualcomm's patented technology to smartphone manufacturers.

(ii) *No License, No Chip:* Under its "no license, no chip" policy, Qualcomm required smartphone makers to sign a separate royalty-bearing SEP license agreement in order to purchase its modem chips. As a result, Qualcomm established a licensing scheme of forcing the smartphone makers to purchase modem chips from Qualcomm: unless the smartphone makers purchased modem chips from Qualcomm, they would be in breach of the license agreement for infringing Qualcomm's SEPs.

(iii) *Licensing Terms:* Qualcomm's license agreements with the smartphone manufactures contained certain terms and conditions that were deemed unilaterally favorable to itself. In particular, the royalty rate was calculated based on the unit price of each *handset*, not that of each *chipset*, for every licensed patent. Further, the license terms included a royalty-free grant-back clause that set up a "patent umbrella" centered on Qualcomm.

KFTC Order

Article 3-2(1)(iii) of the Fair Trade Act mandates that a market-dominant entity shall not unfairly interfere with a third party's business. The Examination Guidelines of KFTC illustrates abusive conducts of a market dominant entity: for instance, (a) imposing a condition unreasonable in light of ordinary business practices, or (b) forcing an overreaching transaction or condition on other parties.

KFTC concluded that Qualcomm's licensing practices violated Article 3-2(1)(iii) of the Fair Trade Act, for the reasons that (i) *Refusal to License* constituted an abuse of its market dominant position illustrated as "(a)" in the Guidelines, while (ii) *No License, No Chip* and (iii) *Licensing Terms* corresponded to the abusive conduct "(b)".

Consequently, KFTC ordered Qualcomm to take corrective measures to rectify the abusive conducts, and also imposed a penalty in excess of 1 trillion won (equivalent to about 1 billion USD). This penalty amount is the highest ever levied since the establishment of KFTC.

Seoul High Court Decision

The Seoul High Court's decision on appeal may be summarized as follows:

(1) As for (i) *Refusal to License* and (ii) *No License, No Chip*, Qualcomm's practices were illegal and the KFTC remedies were appropriate.

With regard to (iii) *Licensing Terms*, however, Qualcomm's conduct was not illegal *per se.*

(2) Despite such ruling on the *Licensing Terms*, however, the penalty imposed was appropriate in its entirety in light of Qualcomm's the other two violative conducts (i.e., *Refusal to License* and *No License, No Chip*).

First, with regard to *Refusal to License*, the Court found (i) Qualcomm's practice of offering a non-exhaustive covenant to the competitors did not conform to its FRAND commitment, and was also against the customary licensing practice in the ICT field; and (ii) Qualcomm's internal documents showed that it intentionally hindered rival makers from manufacturing and selling their chipsets. Although Qualcomm did not actually raise any patent infringement claim against the commercial use of the competitors' *modem chips*, it was possible to do so against the *handsets* installed with the competitors' modem chips. Therefore, the High Court ordered Qualcomm to render ***exhaustive licenses*** available to willing licensees in a diligent manner.

With respect to *No License, No Chip*, the Court noted that (i) Qualcomm forced a separate license agreement that contained disadvantageous terms and conditions to the handset makers, and (ii) Qualcomm intentionally strengthened its monopoly position in the licensing and chipset markets by lowering its chipset price, made possible from the royalties it earned from the licensees. Accordingly, the High Court held that Qualcomm shall not condition its supply of modem chips on the buyer's undertaking to enter into a patent license agreement.

Lastly, as to the *Licensing Terms*, the Court held that the handset-based royalty rate and the royalty-free grant-back clause were not illegal *per se.* The High Court also pointed out that KFTC (and the interveners) failed to produce any evidence showing harm to the chipset makers or buyers arising from these licensing terms.

Qualcomm's appeal to the Supreme Court is currently pending, with the above four interveners participating (Case No. 2020Du31897).

Remarks

After *Quanta v. LG* (553 U.S. 617) in 2008, which held that a patent is exhausted by an authorized sale despite an attempt by the patentee to condition the sale, Qualcomm modified its SEP license policy to competitors from "conditioned license" into "refusal to license or covenant not to sue."

As can be seen from the above, however, the Seoul High Court determined that Qualcomm's such modified licensing policy is anticompetitive.

In contrast to the Seoul High Court decision, the U.S. Court of Appeals for the Ninth Circuit recently rendered a unanimous decision (*FTC v. Qualcomm*, 935 F.3d 752, August 11, 2020) that, without explicitly addressing whether or not Qualcomm breached FRAND commitment, reversed the U.S. District Court's injunctive order prohibiting Qualcomm's business practices. The Ninth Circuit determined that Qualcomm's modified licensing strategy was not proven to have undermined competition in the relevant market.

It remains to be seen, therefore, how these Qualcomm cases, running in parallel in Korea and the United States, would be ultimately decided, testing the boundaries of FRAND commitment and antitrust law.

INFRINGEMENT UNDER "CATCH-ALL" PROVISION OF UNFAIR COMPETITION PREVENTION ACT: "EYEBALL BAG" CASE

Jeong Won Lee / Kyoung Sub Song

The Supreme Court rendered a decision on July 9, 2020 that manufacture and sale of bags having designs similar to those of Hermes's KELLY and BIRKIN bags by a third party violates the catch-all provision of the Unfair Competition Prevention and Trade Secret Protection Act ("UCPA"). The catch-all provision was introduced to the UCPA in 2013 to address violative activities that do not fit squarly into any of the categories of unfair competition activities defined in the UCPA.

Background of the Case

The defendants manufactured and sold handbags with shapes similar to the famed KELLY and BIRKIN bags of Hermes International. Although there was an undeniable similarity in the shape of the bags, the defendants' bags were made with a material giving lustrous texture to the bags and had additional "expressive eye" designs of their own ( ,  , ) attached to the front of their bags. The defendants' bags were sold at much lower prices, approximately 1/100 of the prices of the KELLY and BIRKIN bags.

(From left: KELLY Bag, BIRKIN Bag, Defendants' EYEBALL Bag)

The defendants' bags sold under the brand, "PLAY NO MORE," and the advertising slogan, "FAKE FOR FUN," gained instant popularity among young women. Due to the conspicuous eye designs, the defendants' bags became better known by the nickname "EYEBALL BAG" and were sold through multi-brand shops and online shopping malls.

Asserting the fame and well-known status of the KELLY and BIRKIN bag designs, Hermes filed a civil action seeking permanent injunction and damages against the defendants for unfair competition, specifically on the grounds of causing confusion with another person's goods or dilution, and that the defendants' activities fell under the dead-copy provision and the catch-all provision of the UCPA .

Decision of the Seoul District Court

The Seoul Central District Court ordered a permanent injunction to enjoin the manufacture and sale of the infringing products, and awarded damages of KRW 100 million (equivalent to about US$ 90,000), jointly assessed against the defendants, but only on the basis of the catch-all provision, which reads:

> "Unfair competition activities not categorized in other provisions shall still be prohibited if another person's economic interests are infringed by use of any output resulting from such another person's substantial investment or efforts, without permission, in a manner contrary to fair trade practice or competition order."

In applying the test, the court took note of the importance of the Hermes bags' shapes as the main point of attraction for the successful marketing of the bags, and found that the defendants acted with intent to free-ride on the popularity or fame of the plaintiff's BIRKIN and KELLY bags, the unique shapes thereof being entitled for legal protection.

Decision of the Seoul High Court

On appeal, the Seoul High Court agreed with the lower court that the case was subjected only to the catch-all provision of the UCPA. It also acknowledged that the shapes of the KELLY and BIRKIN bags were the result of the plaintiff's considerable investment and efforts, and there existed a certain degree of similarity between the EYEBALL bags and the plaintiff's bags.

However, the High Court reversed the lower court's decision for the following reasons:

- Consumer confusion was quite unlikely to result because the plaintiff's luxury bags and the defendants' bags had different aesthetic impressions and were completely different in their price bracket, channel of distribution and respective consumer groups.

- The defendants were in pursuit of their own creative ideas and design philosophy, characterized by bringing a convergence between "classical design and pop art" and "luxury and wit." The defendants' bags were called EYEBALL bags rather than KELLY-style bags or BIRKIN-style bags, luring numerous knock-offs of their own products featuring only the eyeball designs.

- The defendants had never mentioned HERMES, the KELLY bag or the BIRKIN bag in the course of their marketing of EYEBALL bags. The expressive eye designs *per se*, apart from the bag shapes, were used and promoted in the defendants' collaborated exhibitions.

Supreme Court Decision

The Supreme Court, in determining the breadth of the catch-all provision of the UCPA, which had been inconsistent, disagreed with the High Court and concluded that the defendants' acts were infringing and constituted a violation of the catch-all provision. The Court accordingly reversed and remanded the case to the Seoul High Court.

As the catch-all provision does not specify the type of infringing activities as violative of the provision, various factors such as reputation, economic value and goodwill attached to the plaintiff's marks, etc. were taken into consideration in the Supreme Court's determination on whether the plaintiff's economic interest being infringed was in the public domain.

In determining whether the defendants acted in a manner contrary to fair trade practice or orderly competition, the Supreme Court considered the competitive relations between the parties, potential substitutability of the plaintiff's products with the defendants', the degree of the well-known status of the plaintiff's products and likelihood of consumer confusion, and the fair trade practice of the relevant industry.

The Supreme Court ruled that the defendants' acts violated the catch-all provision for the following reasons:

- The plaintiff's BIRKIN and KELLY bags, respectively launched in the 1980s and 1950s, have enjoyed global fame largely attributable to the unique designs of the bags. The plaintiff's BIRKIN and KELLY bags are in the highest price bracket of all luxury bags and record significant domestic sales each year.

- The unique design features of the BIRKIN and KELLY bags in the overall shape from the front and side views, handles, flaps, straps and fixtures, etc. have gained discriminating qualities that function as source indicators of the plaintiff's products. The economic interest of the plaintiff at stake is not in the public domain but is still worthy of legal protection.

- Among the various characteristics of the defendants' bags, the design elements similar to those of the plaintiff's bags substantially contributed to the commercial success of the defendants' bags.

- The plaintiff has maintained the exclusivity and scarcity of the BIRKIN and KELLY bags as one of its important marketing strategies. The continued manufacture and sales of the defendants' products in Korea may result in the reduced demand for the plaintiff's bags or impairment of the exclusivity or scarcity of the plaintiff's bags.

- The defendants' intention to free-ride on the fame of the plaintiff's products could be inferred from its adoption of the slogan, "FAKE FOR FUN". The act of attaching a design of one's own creation to another person's famous source indicator for the purpose of commercial distribution does not comply with the trade practice for fair competition.

Conclusion

The Supreme Court's decision, together with other recent decisions on the catch-all provision of the UCPA, is expected to provide clearer guidance on the criteria on how the provision will redress the right holders who need to cope with new types of infringement as they emerge, particularly in areas where conventional remedies have been considered unavailable.

COVENANT NOT TO SUE CLAUSE IN SETTLEMENT AGREEMENT HELD INAPPLICABLE TO FOREIGN FAMILY PATENTS

Kwang Hun Choi

On August 27, 2020, the Seoul Central District Court rendered a decision that the scope of a covenant not to sue clause contained in a settlement agreement made between two leading Korean battery companies regarding a Korean patent did not extend to cover the U.S. counterparts corresponding to the Korean patent.

Background of the Case

In 2014, SK Innovation ("SK") and LG Chem ("LG") reached a settlement agreement ("2014 Agreement") containing a covenant not to sue clause, while terminating litigations associated with a battery separator-related patent registered in Korea, i.e., Korean Patent No. 775310 ("KR 310 patent"). The 2014 Agreement in relevant parts reads (*emphasis added*):

> For the long-term growth and development of each company, the defendant company and the plaintiff company reach the following agreements, while terminating all litigations and disputes ***relating to Patent Registration No. 775310*** on the ceramic coating separator (hereinafter referred to as "Subject Patent"), which have been maintained since 2011....
>
> 4. The defendant company and the plaintiff company agree not to file a lawsuit requesting injunction against infringement or compensation for damages or claiming patent invalidation ***in relation to the Subject Patent*** either directly or through the affiliated companies thereof ***inside/outside this country*** hereafter.

In April 2019, however, LG sued SK for trade secret misappropriation regarding battery the

United States International Trade Commission technology in ("USITC") and the Delaware District Court, which triggered the resumption of multiple legal battles between the two arch-rivals in EV battery industry.

LG further filed a complaint with the USITC on September 26, 2019, alleging SK's lithium-ion battery cells and products incorporating the same infringed upon LG's patents, including the three U.S. counterparts of the KR 310 patent. On the same day, LG also initiated a patent infringement action against SK based on the same patents in the Delaware District Court.

In response, SK filed a complaint on October 22, 2019 against LG with the Seoul Central District Court, alleging that LG breached the 2014 Agreement by initiating patent infringement proceedings based on the U.S. counterparts of the KR 310 patent in the U.S.

Summary of the Decision

The main issue presented before the Seoul Central District Court was whether the covenant not to sue clause contained in the 2014 Agreement was applicable to the U.S. counterparts of the KR 310 patent.

The Court held that the patent being subjected to the 2014 Agreement was limited to the KR 310 patent, and the scope of the covenant not to sue clause contained in the 2014 Agreement did not extend to litigations based on its U.S. family patents, for the following reasons:

(i) Since the preface of the 2014 Agreement describes the patent being subject thereto as the 'Subject Patent,' it is *prima facie* obvious from the context thereof that the patent covered by the 2014 Agreement is limited to the KR 310 patent in view of the phrase of the preface "while terminating all litigations and disputes ***relating to Patent Registration No. 775310*** on the ceramic coating separator (hereinafter referred to as "Subject Patent")."

(ii) Further, since Item 4 of the 2014 Agreement, which stipulates the covenant not to sue, clearly indicates "in relation to the Subject Patent," it is natural from its context to limit the patent covered by the covenant not to sue provision to the KR 310 patent. As argued by SK, Item 4 includes the term "inside/outside this country," which may be interpreted as extending the meaning of "in relation to the Subject Patent" to cover the U.S. family patents. However, such interpretation suggested by SK may unduly expand the plain and ordinary meaning of "in relation to the Subject Patent" to cover all foreign family patents and is regarded as deviating from the literal and objective meaning thereof.

(iii) In addition, during the period of settlement negotiations between LG and SK, the broad expression "in relation to patented technology and technology closely related to patented technology" contained in Item 4 (i.e., the covenant not to sue provision) of the settlement agreement draft initially proposed by SK was revised by LG to specify the KR 310 patent (i.e., the Subject Patent) only. Thus, it is presumed that SK recognized LG's intent to limit the patent to be covered in the covenant not to sue clause to the KR 310 patent and conceded to such limitation.

SK has appealed the above decision to the Seoul High Court and an appeal decision is expected to be rendered in the middle of 2021.

PROFILES OF NEW MEMBERS

FIRSTLAW P.C. is pleased to announce the joining of two (2) new associates with outstanding academic credentials and diverse backgrounds.

The Firm extends its warmest welcome to the new members and wishes their very success and continued growth in their chosen professional career with the Firm.

Tae Hwan KIM
Chemical Engineer

Tae Hwan KIM received his B.S. degrees in Chemistry and Earth System Sciences in February 2016 from Yonsei University. He passed the Korean Patent Bar Exam in 2016. His main areas of technical interest lie in organic/polymer chemistry and chemical synthesis.

He is an active person and enjoys sports like golf and snowboarding.

Jung Min HWANG
Electrical and Electronic Engineering

Jung Min HWANG received his B.S. degree in Electrical and Electronic Engineering in February 2019 from Yonsei University. He passed the Korean Patent Bar Exam in 2018. His main areas of technical interest lie in semiconductor devices and displays, with an emphasis in the field of video codecs.

He enjoys listening to music in the ballad genre and watching science fiction movies.

For further information and/or any inquiries regarding any of the topics covered in this issue, please direct such communication to:

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