

## Arbitrability of Patent Disputes in Korea: Focusing on Comparisons with U.S. legislation and case

Choong Mok Kwak\*

*General lawsuits can be chosen as a method of resolving patent disputes. However, a significant amount of time and money is wasted on litigation until the dispute is resolved. The Intellectual Property Framework Act in Korea requires the government to simplify litigation procedures and improve litigation systems to resolve intellectual property disputes quickly and fairly. As a result, accurate and timely resolution of patent disputes is given importance by the Korean government. Interest in arbitration as an alternative method of dispute resolution is growing. Although dispute resolution through arbitration is effective, the issue of resolving patent disputes through arbitration can lead to the arbitrability of patent disputes. It is therefore necessary to examine arbitrability of patent contracts and validity disputes. Korea has made efforts to reflect the model arbitration law of the United Nations Commission on International Trade Law for quick judicial resolution of patent disputes. Korea has also strengthened related systems for alternative resolutions. However, improving the arbitration system will necessitate a thorough examination of the systems and practices of the United States which is the country in the forefront of intellectual property. This paper examines the arbitrability of Korea's patent dispute and makes recommendations for more efficient dispute resolution system changes.*

Key Words : Patent Litigation, Arbitrability, Patent Right Dispute, Patent Infringement, Patent Contract, Validity of Patent, Bifurcation, Arbitration Act, Patent Act, Intellectual Property Trial and Appeal Board (IPTAB)

---

\* Choong Mok Kwak, is a Solicitor & Barrister (Non-Practising) of the Supreme Court of the Australian Capital Territory, and the High Court of Australia. Dr. Kwak is a former arbitrator of the Korea Commercial Arbitration Board (KCAB), and currently a Foreign Legal Counsel at Law Firm Sangrock in South Korea. All errors (if any) remain the author's responsibility, and all views are made in the author's personal capacity.

〈 Contents 〉

I. Introduction	IV. Case Studies on Patent Disputes
II. Characteristics of Litigation in Patent Disputes	V. Conclusion
III. Arbitrability of Patent Rights Disputes	References

## I. Introduction

The importance of intellectual property has emerged as a key issue in the radical development of science and technology. There is an increasing interest in patent rights. With the increasing interest comes an ever-multiplying number of patent disputes. Patent disputes are distinguished by characteristics such as technical expertise, the need for a prompt resolution of the dispute, and the need for confidentiality.

General lawsuits can be chosen as a method of resolving patent disputes. However, a significant amount of time and money is wasted on litigation until the dispute is resolved. The Intellectual Property Framework Act (IP Framework Act) in Korea requires the government to simplify litigation procedures and improve litigation systems to resolve intellectual property disputes quickly and fairly.<sup>1)</sup> Furthermore, the IP Framework Act requires that necessary measures, such as the activation of simple and convenient dispute resolution procedures other than trials, be undertaken. As a result, accurate and timely resolution of patent disputes is given importance by the Korean government.<sup>2)</sup> Interest in arbitration as an alternative method of dispute resolution is growing. It is known that there have been patent issues when resolving disputes

---

1) Article 21 (Reform, etc. of Litigation System)

(1) The Government shall endeavor to improve systems, including the simplification of legal proceedings, so that intellectual property disputes may be settled expeditiously and fairly, and the relief for rights may be substantially realized.

(2) The Government shall reform a litigation system and strengthen the professionalism of related human resources to secure professionalism of the settlement of intellectual property disputes.

2) Article 22 (Invigoration of Procedures for Settlement of Disputes Other Than Trials)

The Government shall invigorate simple and convenient procedures for the settlement of disputes other than via trial, such as reconciliation and arbitration, so that intellectual property disputes may be settled in an expeditious and efficient manner, enhance professionalism, and take necessary measures, including strengthening guidance and public relations, so that the same may be utilized easily.

through lawsuits because patents exist in an intangible form, and the existence and scope of property rights are unclear.<sup>3)</sup> The existence of patents is often reluctantly disclosed to the public. In such cases, arbitration will be an effective method of dispute resolution. Although dispute resolution through arbitration is effective, the issue of resolving patent disputes through arbitration can lead to the arbitrability of patent disputes. It is therefore necessary to examine arbitrability of patent contracts and validity disputes.

Korea has made efforts to reflect the model arbitration law of the United Nations Commission on International Trade Law for quick judicial resolution of patent disputes. Korea has also strengthened related systems for alternative resolutions. However, improving the arbitration system will necessitate a thorough examination of the systems and practices of the United States which is the country in the forefront of intellectual property. This paper will examine the characteristics of patent litigation, which is a system integral to dispute resolution. The arbitrability of patent rights disputes is discussed, followed by an overview of arbitration and a comparison of Korea's and the United States' arbitration systems. Finally, this paper includes a review of patent contracts and validity disputes case studies. This paper examines the arbitrability of Korea's patent dispute and makes recommendations for more efficient dispute resolution system changes.

## **II. Characteristics of Litigation in Patent Disputes**

### **1. The Court System on Patent Litigation**

#### **(1) Bifurcation**

Infringement and invalidation are decided in separate proceedings and by different courts. These comprise Korea's bifurcated patent dispute resolution system. Infringement actions are filed in the district courts, while invalidation cases are heard by the Intellectual Property Trial and Appeal Board (IPTAB). If the infringement action

---

3) SunHee Yun et al., "ADR in IP Dispute," *Journal of Arbitration Studies*, 13(1), 2003, pp.127-128.

court determines that the asserted patent is invalid, it may dismiss the underlying infringement action on the ground of abuse of rights.<sup>4)</sup>

## (2) Litigation Forum for Patent Disputes

A patent infringement lawsuit seeking damages, or an injunction can be filed in one of the six specialized district courts: the Daejeon, the Daegu, the Busan, the Gwangju, the Suwon, and the Seoul Central District Court. A declaratory action can be filed at the IPTAB by either a patentee or a potential patentee. A declaratory judgment action can be filed with or without a concurrent infringement action in a district court for damages or an injunction. Thus, the IPTAB has the power of declaratory judgment on the infringement<sup>5)</sup>

Patent cases from civil main actions and invalidation proceedings at the IPTAB can be appealed to the Patent Court, a specialized court dedicated to patent-related matters, much like the Federal Circuit in the United States. The High Court, a general appellate court, can be appealed to for the preliminary injunction.<sup>6)</sup>

## 2. Format and Timeline of the Trial

### (1) Trial Format

In Korean civil cases, there is no option for a jury trial. Patent infringement cases are thus brought before a three-judge panel, with the most senior judge presiding.

Prior to the first hearing, the parties exchange a few briefs to prove their case, provide defenses, and narrow the issues for litigation. If the case is not resolved after the first hearing, there will be additional hearings. During these hearings, more, varying pieces of evidence and witness testimonies will be presented. Because evidence gathering is largely dictated by the court through motions, the first few hearings are usually focused on the plaintiffs attempting to obtain pieces of evidence on infringement which are not under their control. Each party will submit briefs between hearings to cover the issues raised during the previous hearing, as ordered by

---

4) Kijoong Kang et al., "National Patent Litigation — South Korea", *les Nouvelles - Journal of the Licensing Executives Society*, Volume LIII No. 4, 2018, p.368.

5) *Id* at p.367.

6) *Id* at p.368.

the judge. These briefs will serve as the main record.

District courts may also appoint technical assistants, who are current KIPO (Korea Intellectual Property Office) officials assigned to district courts for two-year terms, to assist the judges with the technology at issue in the litigation. Courts occasionally appoint technical experts to assist judges with the technical aspects of the patent in issue, where they usually hold a technology explanatory session. Court-appointed experts provide independent and neutral technical opinions on the patent's scope and infringement allegations.<sup>7)</sup>

The IPTAB is an administrative tribunal that manages administrative actions involving intellectual property rights, which are overseen by KIPO. Generally, first instance invalidation actions are reviewed by a panel of three trial examiners. However, for certain actions deemed to have significant implications, a panel of five trial examiners is convened.<sup>8)</sup>

## (2) Timeline

In most cases, first-instance proceedings last between ten (10) and eighteen (18) months. In exceptional cases, they can last up to two years or longer. The court serves as a finder. There is no jury trial, no clear pre-trial, and no trial dividing line. Hearings are held every four (4) to five (5) weeks, during which evidence and briefs are submitted and fact and/or expert witness examinations can take place. At least one technical presentation hearing also takes place.

Patent invalidation actions before the IPTAB typically take nine (9) to fourteen (14) months but can be expedited in certain circumstances, such as when an infringement action is concurrently pending in a district court. Expedited proceedings usually take six to ten (6-10) months.<sup>9)</sup>

## 3. Appeals in Court

All appeals on infringement actions based on the main civil action and invalidation

---

7) See Kijoong Kang et al., above n3, pp.366-367.

8) Hui Jin Yang et al., *The Legal 500 Country Comparative Guides - South Korea: Patent Litigation*, The Legal 500 (2nd Edition), 2020, p.2.

9) See Hui Jin Yang et al., above n8, p.2.

actions at the IPTAB are heard by the Patent Court. The Patent Court has the authority to review all issues on a de novo basis while also relying on the record in the lower courts. New pieces of evidence may be introduced for the first time if they are accompanied by a compelling reason as to why they could not have been presented at the lower court.

Preliminary injunction decisions are reviewed by the High Court of relevant jurisdiction using a standard of review. The standard of review is like that of the Patent Court. The outcome of the second instance appeal may be appealed to the Supreme Court as a matter of right, which means that the Supreme Court must review the case once it is presented to it. However, the Supreme Court will only consider legal issues on review.<sup>10)</sup>

#### 4. Discussion

One of the primary disadvantages of litigation is how long it takes to resolve a patent dispute. Parties to a patent dispute may only litigate matters in an appropriate country's court with jurisdiction.<sup>11)</sup> In Korea, discovery is limited and is supervised and conducted entirely by the court.<sup>12)</sup>

When faced with a first-instance infringement lawsuit, Korean courts can make decisions in as little as nine (9) to eighteen (18) months. An expedited review of a civil court invalidation action with a parallel infringement action, on the other hand, takes two and a half to four (2.5-4) years in civil court and two to three and a half (2-3.5) years in IPTAB. Regardless of each country's average patent litigation time, delays in national courts in international litigation can easily exceed five (5) to ten (10) years. The patent litigation system wastes a significant amount of time by trapping IP in patent legal limbo until the dispute is resolved.<sup>13)</sup>

---

10) See Kijoong Kang et al., above n3, p.369.

11) Alessandra, Emini, "Patent Arbitration: The Underutilized Process for Resolving International Patent Disputes in the Pharmaceutical and Biotechnology Industries," 9 Arb. L. Rev., 2017, p.328.

12) See Kijoong Kang et al., above n3, p.366.

13) See Alessandra, Emini, above n11, pp.329-330.

### III. Arbitrability of Patent Rights Disputes

#### 1. Overview of Arbitration

While the resolution of patent disputes through arbitration may be effective, there must be legal basis to use arbitration.<sup>14)</sup> Arbitration is a procedure to resolve judicial disputes through the decision of an arbitrator as agreed upon by the parties rather than a court trial.<sup>15)</sup>

In arbitration, a third party makes an independent decision in arbitration. The arbitrator's decision has the same binding power as a court ruling.<sup>16)</sup> The court may not intervene except in accordance with the Arbitration Act. Once arbitration is established, the arbitral award has the same effect as the final court judgment between the two parties. An appeal to the arbitration award can only be made by filing a suit for cancellation of the award in court.<sup>17)</sup>

---

14) Su Mi Kang, "The Arbitrability of the Subject-Matter of Disputes over Intellectual Property Rights," CIVIL PROCEDURE, Vol. 14, No. 1. 2010, p.132.

15) Article 3 (Definitions)

The definitions of terms used in this Act shall be as follows:

1. "Arbitration" means a procedure to settle a dispute over property rights or disputes based on non-property rights that the parties can resolve through a reconciliation, not by a judgment of a court, but by an award of an arbitrator;

16) Article 35 (Effect of Arbitral Award)

An arbitral award shall have the same effect on the parties as the final and conclusive judgment of the court: Provided, That it shall not apply where the recognition and enforcement has been denied under Article 38.

17) Article 36 (Action for Setting Aside Award)

(2) An arbitration award may be set aside by the court only if it falls under one of the following subparagraphs:

1. The party seeking the setting aside of the award furnishes proof that it falls under one of the following items:
  - (a) A party to the arbitration agreement was under some incapacity under the law applicable to him or her, or the said agreement is not valid under the law to which the parties have subjected it, or failing any indication thereon, under the law of the Republic of Korea;
  - (b) The party making the action for setting aside was not given proper notice of the appointment of the arbitrator or arbitrators or of the arbitral proceedings or was otherwise unable to present his or her case;
  - (c) The arbitral award deals with a dispute not falling within the terms of the submission to arbitration, or contains decisions on matters beyond the scope of the submission to arbitration: Provided, That if the decisions on matters submitted to arbitration can be

## 2. Arbitrability of Patent Rights Disputes in Korea

The Arbitration Act, enacted in 1999, serves as the foundation for Korea's arbitration system. This law is a comprehensive revision of the Arbitration Act ("old Arbitration Act") enacted in 1966. The Arbitration Act fully accepted the Model Act on International Commercial Arbitration adopted by the UN International Trade Law Committee in 1985 and incorporated both domestic and international arbitration.

Article 2, paragraph 1 of the old Arbitration Act provides that, "an arbitration agreement shall take effect under an agreement between the parties concerned to settle through an arbitration the whole or part of any dispute which has arisen or will arise in the future between them with respect to any legal relationship under the private law ('arbitration agreement'): Provided, That this shall not apply to those legal relations which the parties concerned shall not change."

This theory of the old Arbitration Act interprets the legal relations under private law that the parties involved can dispose of as a legal relationship on property rights. These can be concluded through reconciliation.<sup>18)</sup>

The term 'arbitration agreement' is defined in Article 3 (Definition), Subparagraph 2 of the amended Arbitration Act as "an agreement by the parties to submit to arbitration all or certain disputes which have arisen or may arise between them in respect of defined legal relationships, whether contractual or not." The amended arbitration law differs in that it does not explicitly require the possibility of disposition of the parties, that is, the possibility of reconciliation.<sup>19)</sup>

---

separated from those not so submitted, only that part of the award which contains decisions on matters not submitted to arbitration may be set aside; or,

- (d) The composition of the arbitral tribunal or the arbitral procedure was not in accordance with the agreement of the parties, which was not in conflict with a mandatory provision of this Act, or, failing such agreement, was not in accordance with this Act;
2. The court finds on its own initiative that the arbitral award falls under one of the following items:
- (a) The subject-matter of the dispute is not capable of settlement by arbitration under the law of the Republic of Korea; or,
  - (b) The award is in conflict with the good morals and other forms of social order of the Republic of Korea.

18) Kwang Hyun Suk, "Proposals for the Revision of the Korean Arbitration Act - with a Focus on International Commercial Arbitration," Seoul Law Journal, Vol. 53, No. 3, 2012, pp.564-565.

19) *Id* at pp.564-565.



### 3. Arbitration System of Patent Disputes in the United States

In the United States, Patent Act allows the arbitration of patent infringement, validity, and interference claims.<sup>20)</sup> Section 294 of the Patent Act was amended in 1982 to explicitly recognize arbitration as a method of resolution for patent disputes involving the question of validity or infringement.<sup>21)</sup> Moreover, the recently added Section 135 (d) of the Patent Act provided for the recognition of patent interference arbitration.<sup>22)</sup>

---

20) M.A. Smith et al., "Arbitration of Patent Infringement and Validity Issues Worldwide,," 19 HARV. J.L. & TECH., 2006, p.320.

21) 35 U.S.C. § 294 Voluntary arbitration.

- (a) A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.
- (b) Arbitration of such disputes, awards by arbitrators, and confirmation of awards shall be governed by title 9, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 shall be considered by the arbitrator if raised by any party to the proceeding.
- (c) An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. The parties to an arbitration may agree that in the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.
- (d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Director. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Director. The Director shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Director, any party to the proceeding may provide such notice to the Director.
- (e) The award shall be unenforceable until the notice required by subsection (d) is received by the Director.

22) 35 USC 135: Interferences

- (d) Parties to a patent interference, within such time as may be specified by the Director by regulation, may determine such contest or any aspect thereof by arbitration. Such arbitration shall be governed by the provisions of title 9 to the extent such title is not inconsistent with this section. The parties shall give notice of any arbitration award to the Director, and such award shall, as between the parties to the arbitration, be dispositive of the issues to which it

Arbitration is widely accepted as a quick, efficient, and accurate method for resolving patent disputes. The recent history of the computer, communications, and semiconductor industries demonstrates the rate at which technological advances regularly outpace each other. In a fast-changing market environment where important technologies can become obsolete before any disputes involving them are resolved, patent litigation is regarded as an inefficient means of resolving dispute. Patent litigation costs a sheer amount of money and time before a final decision is reached, and the results are frequently unsatisfactory.<sup>23)</sup> Because the trial is open to the public, a company's reputation may suffer from negative publicity. The company at trial also runs the risk of losing consumer trust.<sup>24)</sup> Arbitration was introduced under the Patent Act as a means of resolving disputes efficiently.

Patent litigation typically takes more time than general litigation because it involves difficult and complex technical issues and depends on the court schedule. It usually begins with a complaint in a court and ends at the Court of Appeals for the Federal Circuit. Returns to trial courts, other appeals courts, and, in some cases, an appeal to the United States Supreme Court are all possibilities. Typically, it takes three (3) to five (5) years from the filing of the complaint to the final judgment in a trial court. Some cases may take seven (7) to ten (10) years to resolve because of appeals and remands to trial courts. Appeals typically take one (1) to two (2) years to resolve. The United States Patent and Trademark Office may also be involved in patent re-examination.<sup>25)</sup>

Article 907 of the Semiconductor Chip Protection Act of 1984 (SCPA) provides alternative dispute resolution as a means of avoiding litigation by allowing the court to determine the amount of royalty in a civil action for innocent infringement of a semiconductor chip product, unless the parties resolve the dispute through voluntary arbitration.<sup>26)</sup>

---

relates. The arbitration award shall be unenforceable until such notice is given. Nothing in this subsection shall preclude the Director from determining patentability of the invention involved in the interference.

23) Charles E. Miller, "New Procedural Rights for IP Owners and the Promotion of Judicial Economy and Efficiency through the use of Arbitration in Civil Actions against the USPTO," NYIPLA BULLETIN, Jan./Feb. 2007, p.9.

24) Trevor Cook et al., *International Intellectual Property Arbitration*, Kluwer Law International, 2010, p.368.

25) Joseph Berghammer et al., "The Basics of US Patent Litigation, Banner & Witcoff" (Oct. 1, 2002), Retrieved July 21, 2021, from [https://bannerwitcoff.com/media/\\_docs/library/articles/basiclit.pdf](https://bannerwitcoff.com/media/_docs/library/articles/basiclit.pdf).

## IV. Case Studies on Patent Disputes

### 1. Dispute between Genentech and Sanofi–Aventis

#### (1) Background of the Case

Behringwerke AG granted Genentech a worldwide non-exclusive license ('the license agreement') to use a human cytomegalovirus enhancer ('the HCMV enhancer') in August 1992. Genentech used the HCMV enhancer to accelerate the transcription of a deoxyribonucleic acid (DNA) sequence required to produce a biological medicinal product containing the active ingredient rituximab. This technology was the subject of European Patent No. EP 0173 177 53, issued in April 1992 and revoked in January 1999. The technology was also the subject in two US patents, US 5,849,522 and US 6,218,140, issued in the United States in December 1998 and April 2001, respectively.<sup>27)</sup>

As part of the license agreement, Genentech agreed to pay the following fees in exchange for the right to use the HCMV enhancer: a one-time fee of twenty thousand (20,000) Deutschmarks (DM) (approximately EUR 10,225), a fixed annual research fee of DM 20,000, and a running royalty equal to point five (0.5) percent of the licensee's and its affiliated companies' and sub-licensees' net sales of finished products.<sup>28)</sup> Genentech paid the one-time fee and the annual fee, but never paid the running royalty to Hoechst, the successor company to Behringwerke. Genentech also paid a one-time fee and an annual fee, but did not pay the running royalty to Hoechst, Behringwerke's successor company.<sup>29)</sup>

---

26) 17 USC §907. Limitation on exclusive rights: innocent infringement.

(b) The amount of the royalty referred to in subsection (a)(2) shall be determined by the court in a civil action for infringement unless the parties resolve the issue by voluntary negotiation, mediation, or binding arbitration.

27) C-567/14, *Genentech Inc. v Hoechst GmbH, Sanofi-Aventis Deutschland GmbH*, ECLI:EU:C:2016:526, Judgment of the Court at paras. 3-4.

28) The licence agreement defines 'finished products' as 'commercially marketable goods incorporating a licensed product, sold in a form enabling them to be administered to patients for therapeutic purposes or to be used in a diagnostic procedure, and which are not intended or marketed for reformulation, processing, repackaging or relabeling before use.' With regard to 'licensed products', these are defined by that agreement as 'materials (including organisms) in respect of which the manufacture, use or sale would, in the absence of this agreement, infringe one or more unexpired claims included in the rights attached to the patents under licence.'

Genentech notified Sanofi-Aventis Deutschland in August 2008 of its intention to terminate the license agreement on October 28, 2008. Hoechst initiated arbitration proceedings against Genentech on October 24, 2008, claiming that it had used the HCMV enhancer without paying the running royalty, in accordance with the arbitration clause in Article 11 of the license agreement.<sup>30)</sup>

Sanofi-Aventis Deutschland filed a suit against Genentech and Biogen Idec Inc. in the United States District Court for the Eastern District of Texas on October 27, 2008, alleging infringement of licensed patents. On the same day, Genentech and Biogen filed an action in the United States District Court for the Northern District of California seeking revocation of those patents. Both actions were brought together before the latter court, which dismissed the actions in March 2011.<sup>31)</sup>

(2) Arbitration Decision of the International Chamber of Commerce (ICC)

In September 2012, the arbitrator ruled that Genentech must pay Hoechst a running royalty for sales of Rituxan manufactured between the date US Patent No. 5,849,522 was issued and the termination of the license agreement.

The sole arbitrator issued the final award and fourth partial award on the quantum and costs in February 2013, ordering Genentech to pay Hoechst EUR 108,322,850 in damages, plus simple interest, in addition to the arbitration and representation costs. In May 2013, the addendum supplemented the final award.<sup>32)</sup>

(3) Decision of the Court of Justice of the European Union (CJEU)

Genentech claimed that the sole arbitrator violated the license agreement's clear terms and Article 101 of the Treaty on the Functioning of the European Union (TFEU)<sup>33)</sup> by requiring it to pay royalties on sales of a product that do not infringe on the

---

29) See Case C-567/14, Judgment of the Court at paras. 6-8.

30) *Id* at paras. 10-11.

31) *Id* at para. 12.

32) *Id* at paras. 16-17.

33) TFEU: Article 101:1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which:

patented technology. Genentech claimed that the restriction imposed by Article 101 of the TFEU has resulted in additional costs of approximately EUR one hundred sixty-nine (169) million when compared to competitors.<sup>34)</sup>

The Court of Justice of the European Union (CJEU) based its decision on the Court's previous decision in *Ottung* (320/87, EU:C:1989:195), which applied a fortiori in a situation like the one at issue in the main proceedings. As a result of the *Ottung* decision, the Court concluded that Article 101(1) of the TFEU did not preclude the imposition of a contractual provision mandating payment of a royalty for the exclusive use of a technology that was no longer covered by a patent, provided that the licensee had the option to terminate the contract.<sup>35)</sup>

Genentech, being free to terminate the agreement at any time, did not restrict the competition in accordance with Article 101(1) of the TFEU for a period when this contract and the rights derived from the licensed patents that had been granted were in force.<sup>36)</sup>

#### (4) Decision of the United States Court of Appeals

The Ninth Circuit reviewed the allowance or denial of an anti-suit injunction for the discretion to be abused. The denial of an anti-suit injunction was reversed under the Ninth Circuit law where the district court abused its discretion or based its decision on an erroneous legal standard or on clearly erroneous findings of fact.

It is widely recognized that US courts have the power to compel parties to pursue their claims in foreign courts. However, when deciding whether to grant an anti-suit injunction, the district court must consider the following factors: (1) whether the parties and subjects are identical, and whether the first action is dispositive of the enjoined

- 
- (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
  - (b) limit or control production, markets, technical development, or investment;
  - (c) share markets or sources of supply;
  - (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
  - (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

34) See Case C-567/14, Judgment of the Court at para. 77.

35) *Id* at paras. 40-41.

36) *Id* at para. 42.

action; (2) whether the foreign lawsuit would contradict a policy of the forum granting the injunction, and (3) whether the impact on comity would be reasonable.<sup>37)</sup>

The Ninth Circuit found that determining whether an anti-suit injunction is appropriate involves determining whether the parties and issues are the same, as well as whether the first action is dispositive of the action to be enjoined. The issues do not have to be identical. It is enough that they are functionally equivalent in the sense that the outcome of one action determines the outcome of the other. If they are not identical or functional, no injunction will be issued. Genentech contended that these issues are operationally identical because the royalty obligation under foreign arbitration is based on the same alleged patent infringement that the Federal Circuit determined did not occur.

Sanofi countered that the issues were not the same was based on several grounds: (1) that the US litigation concerned infringement, whereas the foreign arbitration concerned a breach of contract dispute; (2) that the US litigation concerned only the period after the license was terminated, whereas the foreign arbitration covered the period prior to termination; and (3) that the US dispute concerned the application of US patent law, whereas foreign arbitration involved the application of German contract law, French procedural law, and the rules of the ICC.<sup>38)</sup>

The Ninth Circuit sided with Sanofi. The arbitrator had already diverged from US patent law by ruling that infringement can occur even if the patents are invalid, based on German law. Moreover, the arbitrator had adopted a definition of infringement that included the use of the enhancer in the production of Rituxan, even if the enhancer was not present in the final product. The non-infringement judgment of the United States was not conclusive as to the breach of the Agreement. The Agreement's definition of infringement and the definition of infringement under US law were not functionally equivalent. It was unnecessary to examine this point since the Ninth Circuit determined that the concerns in this case were not the same.<sup>39)</sup>

---

37) Robert P. Merges et al., *Transnational Intellectual Property Law, Text and Cases*, Edward Elgar Publishing, 2018, p.257.

38) See Robert P. Merges et al., above n37, p.258.

39) *Sanofi-Aventis Deutschland, GMBH v. Genentech, Inc.*, No. 12-1454 (Fed. Cir. 2013).

## 2. The Supreme Court of Korea Case 2018Da287362

### (1) Background of the Case

The plaintiff held two (2) Korean patents for a wall-embedded water tap panel. In June 2011, the plaintiff and defendant entered a (verbal) contract under which the defendant was granted a nonexclusive license to the two patents in exchange for a monthly payment of KRW 6,500,000 (approximately USD 6,000). The plaintiff provided a mold to the defendant for the wall-mounted water tap panel. The defendant then commenced manufacturing and selling in July 2011. The defendant paid monthly royalty amounts over a period of thirty-three (33) months before ceasing to do so in March 2014.

In May 2014, the plaintiff notified the defendant that the license agreement had been canceled due to the defendant's inability to pay. The plaintiff subsequently filed a patent infringement case in a district court seeking a permanent injunction and damages. Both sides appealed to the Seoul High Court after the district court found partially in favor of the plaintiff.<sup>40)</sup>

### (2) Result of the Trial for Patent Invalidation

Shortly after the district court decision, the defendant filed invalidation trials against the two licensed patents. The Trial Board ruled that the patents were invalid due to their lack of inventiveness. The Supreme Court issued the final and conclusive invalidation decision in August of 2018.<sup>41)</sup>

### (3) Decision of the Seoul High Court

On appeal, the plaintiff modified their claim so as to seek payment for unpaid royalties. According to the defendant, the plaintiff was not entitled to royalties from a patent that had since been invalidated and the rights of which had been judged to be nonexistent from the beginning. The defendant further argued that the plaintiff's demand for royalties was thus an abuse of patent rights. According to the ruling of the

---

40) Hyoun Ja Park et al., "Royalties Accrued prior to Patent Invalidation Held Recoverable," FirstLaw IP News, Issue No. 2019-02, p.2.

41) See Hyoun Ja Park et al., above n40, p.2.

Seoul High Court, the plaintiff was only entitled to recover outstanding royalties earned from March of 2014 until May of 2014, as the defendant had stopped making royalty payments in March of 2014. In May of 2014, the licensing agreement was terminated, per the Seoul High Court.<sup>42)</sup>

(4) Decision of the Supreme Court of Korea

The Supreme Court of Korea held that if a judgment invalidating a patent becomes final and conclusive, the patent is deemed never to have existed under Article 133(3) of the Patent Act of Korea, unless it falls under paragraph (1)<sup>4</sup> of the same Act.<sup>43)</sup> However, if the invalidity of a patent, which is the subject of the contract, becomes final and conclusive after the conclusion of a patent license agreement, the invalidation is effective from the time the agreement is concluded. The time of the agreement's conclusion should be determined separately from the effect of a patent.

A patent holder may not file a claim against a licensee seeking compensation for damages caused by patent infringement or an injunction against patent infringement

---

42) *Id* at p.2.

43) Article 133 of the Patent Act (Trial on Invalidity of Patents)

- (1) In any of the following cases, an interested party (limited to those who have the right to obtain a patent in cases of the main sentence of subparagraph 2) or an examiner may file a petition for trial to seek invalidation of a patent. If two or more claims are in the scope of claims, a petition for trial for invalidation may be filed for each claim: 1. If the patent violates any of the provisions of Articles 25, 29, 32, 36(1) through (3), 42(3)1, or 42(4); 2. If the patentee has no right to obtain the patent under the main sentence of Article 33(1) or violates Article 44: Provided, That the foregoing shall not apply where a transfer has been registered under Article 99-2(2); 3. If the patentee is not eligible for the patent under the proviso to Article 33(1); 4. If the patentee ceases to be entitled to the patent under Article 25 after the patent was granted or the patent violates a treaty; 5. If a person is unentitled to the patent because of his/her violation of a treaty; 6. If an amendment exceeds the scope specified in the former part of Article 47(2); 7. If the relevant application is a divisional application that exceeds the scope specified in Article 52(1); 8. If the relevant application is a converted application that exceeds the scope specified in Article 53(1).
- (2) A petition for trial referred to in paragraph (1) may be filed even after the relevant patent is extinguished.
- (3) If a trial ruling invalidating a patent becomes final and conclusive, the patent shall be deemed never to have existed: Provided, That if a trial ruling invalidating a patent under paragraph (1)<sup>4</sup> becomes final and conclusive, the patent shall be deemed never to have existed since the patentee or the patent fell under the same subparagraph.
- (4) Upon receipt of a petition for trial under paragraph (1), the presiding judge shall notify the exclusive licensee of the patent and other persons who hold a registered right or interest in the patent, as to the details of the petition.



after the execution of a patent license agreement. According to patent exclusivity, a third party is prohibited from exercising the use of the relevant patent before the invalidity of the patent becomes final and conclusive. The purpose of a patent license agreement is for the licensee to exercise the use of a patent. Based on the foregoing, unless exercising the use of a patent is improbable, the relevant agreement may not be deemed impossible to perform despite the non-retroactivity of patent invalidation. Should a patent license agreement should be deemed unperformable, the patent invalidation becomes final and conclusive from the time it could not be performed.

Even if the invalidity of a patent becomes final and conclusive following the conclusion of a patent license agreement, a patent holder may, in theory, initiate a claim for royalty payment during the period when the agreement remains valid. This theory holds barring special circumstances, such as where the license agreement is primitively impossible to perform or where separate statutory provisions apply.<sup>44)</sup>

### 3. Discussion

The question in the dispute between Genentech and Sanofi-Aventis was whether a patentee whose patent right was confirmed to be invalid can seek royalty payment from the licensee under the license agreement. According to the decision in Sanofi-Aventis,<sup>45)</sup> patent-related royalties cannot be charged for use that occurs after the patent's expiration date. If the license agreement is still in effect and the licensee is free to terminate the agreement giving reasonable notice, payment of running royalties is due and payable to the licensor<sup>46)</sup> Genentech was unable to avoid paying royalties to licensed products that were granted permission to be implemented.

The Supreme Court of Korea held in the 2012 Da42666 case decided on November 13, 2014, that even if the patent is invalidated after the conclusion of the license agreement for the patented invention, the corresponding royalty paid to the patentee during the period in which the license agreement for the patented invention is valid,

---

44) Supreme Court of Korea Decision 2018Da287362 decided on April 25, 2019.

45) Sanofi-Aventis Deutschland, GMBH v. Genentech, Inc., No. 12-1454 (Fed. Cir. 2013).

46) Mizuki Hashiguchi, "Unraveling the Conundrums of Running Royalties in Cross-Border Patent License Agreements," *les Nouvelles - Journal of the Licensing Executives Society*, Volume LII No. 1, 2017, p.20.

The patentee cannot be obligated to return to the licensee the royalty on the ground of unfair profit.<sup>47)</sup>

Previously, it was unclear whether payment of the royalty would be permitted after the patent's invalidation was confirmed. However, in the 2018 Da287362 case, the Supreme Court clarified on whether the patent agreement was arbitrary, as it did in the Sanofi-Aventis case in Europe and the United States.

## V. Conclusion

As the trade of technology and information expands, a country's competitiveness will decline unless the inevitable transactional disputes that arise are resolved promptly and professionally. Countries with advanced technology will be unwilling to transfer technology if they do not believe that the procedure for resolving disputes that may develop in the case of a technology transfer agreement is speedy. Technology transfer may also not occur if these countries do not trust the judgment arising from this procedure.

Each country has thus pushed not only court action but also arbitration as a means of resolving patent disputes. Patent arbitration in the United States is governed by the Patent Act, a law passed specifically to legalize patent arbitration. Korea, then, should also consider implement an arbitration system in the patent system to settle disputes. There must be a provision based on related legislation, such as the Patent Act in the United States, to implement an arbitration system in patent disputes.

As previously noted in the Sanofi-Aventis case, the patentee can sue the licensee for royalties payable under the license agreement prior to the patent's invalidation. The Supreme Court of Korea has declared that if a royalty is not paid in line with a license agreement, the payment can be sought after the patent's invalidity is proved. In patent-related contracts and infringement conflicts, the arbitrability of patent rights is evident. If the legality of the right is at issue in a patent dispute, a different criterion must be applied. Though the presence of rights does not necessitate registration,

---

47) Ilseok Kang, "Korean Supreme Court Denies Refundment of Paid Royalties for Invalidated Patent," FirstLaw IP News, Issue No. 2014-04, p.3.

arbitrability in the case of copyright is easily recognized. Patent rights, on the other hand, are more difficult to recognize arbitrability because they are generated by a separate agency through the examination and registration procedure, despite having the same intellectual property rights.

A challenge to a patent's validity may be made before the IPTAB in the form of an invalidation trial, with the IPTAB's decision appealing to the Korean Patent Court and the Supreme Court. The question then arises as to whether an arbitrator, rather than a court, can reject the validity of a patent right through a decision in an arbitration procedure. The Supreme Court of Korea decided against cases where an appeal to invalidation was filed during the trial to confirm the scope of rights. The possibility of arbitration on the validity of a patent for that has not been recognized for dispute resolution is now specified in Section 294 of the United States Patent Act. It is thus expected that these regulations will need to be specified in Korean patent law to revitalize the resolution of patent disputes through arbitration.

Some jurisdictions, including that of the United States, allow for issues of validity to be decided in arbitration. However, the decision is only valid *inter partes* and can be made only for the purpose of deciding infringement disputes.<sup>48)</sup> Though the validity of the patent is included in the scope of arbitration, the effect binds only the two parties who agreed to comply with the conclusion of the arbitration. Validity disputes were unaffected.<sup>49)</sup> The limitations of arbitrability of patents have been explored in prior studies. However, there are some studies that have demonstrated the possibility that arbitration decisions related to patent validity will have the same effect on a third party.<sup>50)</sup> The issue of the voluntary patent arbitration's scope should be addressed by considering damages to patent infringement and invalidity. Without directly disputing the patent's validity, the patent issue might be settled through an arbitral award.

---

48) Kap-You (Kevin) Kim et al., "The Procedural Benefits of Arbitrating Patent Disputes," *Journal of Arbitration Studies*, 26(3), 2016, p.54.

49) SunHee Yun et al., "A Study on the Possibility of Patent Arbitration," *Journal of Arbitration Studies*, 22(1), 2012, p.124.

50) Won-Mo Ahn, "Exercising Patent Right and Abuse of Right," *Journal of Industrial Property*, 27, 2008, p.249.

## Reference

- Ahn, Won-Mo, "Exercising Patent Right and Abuse of Right," *Journal of Industrial Property*. 27, 2008.
- Berghammer, Joseph et al., *The Basics of US Patent Litigation*, Banner & Witcoff (Oct. 1, 2002), Retrieved July 21, 2021, from [https://bannerwitcoff.com/media/\\_docs/library/articles/basiclit.pdf](https://bannerwitcoff.com/media/_docs/library/articles/basiclit.pdf).
- Cook, Trevor et al., *International Intellectual Property Arbitration*, Kluwer Law International, 2010.
- Emini, Alessandra, "Patent Arbitration: The Underutilized Process for Resolving International Patent Disputes in the Pharmaceutical and Biotechnology Industries," 9 *Arb. L. Rev.*, 2017.
- Hashiguchi, Mizuki, "Unraveling the Conundrums of Running Royalties in Cross-Border Patent License Agreements," *les Nouvelles - Journal of the Licensing Executives Society*, Volume LII No. 1, 2017.
- Kang, Ilseok, "Korean Supreme Court Denies Refundment of Paid Royalties for Invalidated Patent," *FirstLaw IP News*. Issue No. 2014-04.
- Kang, Kijoong et al., "National Patent Litigation — South Korea". *les Nouvelles - Journal of the Licensing Executives Society*, Volume LIII No. 4, 2018.
- Kang, Su Mi, "The Arbitrability of the Subject-Matter of Disputes over Intellectual Property Rights," *CIVIL PROCEDURE*, Vol. 14, No. 1. 2010.
- Kim, Kap-You (Kevin) et al., "The Procedural Benefits of Arbitrating Patent Disputes," *Journal of Arbitration Studies*. 26(3), 2016.
- Merges, Robert P. et al., *Transnational Intellectual Property Law, Text and Cases*, Edward Elgar Publishing, 2018.
- Miller, Charles E., "New Procedural Rights for IP Owners and the Promotion of Judicial Economy and Efficiency through the use of Arbitration in Civil Actions against the USPTO," *NYIPLA BULLETIN*, Jan./Feb. 2007.
- Park, Hyoun Ja et al., "Royalties Accrued prior to Patent Invalidation Held Recoverable," *FirstLaw IP News*. Issue No. 2019-02.
- Smith, M.A. et al., "Arbitration of Patent Infringement and Validity Issues Worldwide,," 19 *HARV. J.L. & TECH.*, 2006.

Suk, Kwang Hyun, "Proposals for the Revision of the Korean Arbitration Act - with a Focus on International Commercial Arbitration," Seoul Law Journal, Vol. 53, No. 3, 2012.

Yang, Hui Jin et al., The Legal 500 Country Comparative Guides – South Korea: Patent Litigation, The Legal 500 (2nd Edition), 2020.

Yun, SunHee, "ADR in IP Dispute," Journal of Arbitration Studies. 13(1), 2003.

Yun, SunHee et al., "A Study on the Possibility of Patent Arbitration," Journal of Arbitration Studies. 22(1), 2012.