

CONTENTS

- 1 RECOGNIZING COMPENSATION FOR WORK-FOR-HIRE INVENTIONS
- 3 RECENT AMENDMENTS TO REVIVAL OF ABANDONED PATENTS
- 3 AMENDMENTS TO COMPULSORY LICENSING LAWS FOR KOREAN PATENTS
- 4 PLANS TO SHORTEN THE PATENT TRIAL PROCESS PERIOD
- 5 RECENT KOREAN CASES ON TRADE DRESS SIMILARITY OF PRODUCT CONTAINERS
- 7 P2P MUSIC SHARING AND LISTENING
- 8 REDUCTION OF TIME REQUIRED FOR TRADEMARK OPPOSITION ACTIONS IN KOREA
- 8 RECENT AMENDMENT TO NOTIFICATION FOR IMPORT AND EXPORT CUSTOMS CLEARANCE PROCEDURES FOR INTELLECTUAL PROPERTY RIGHTS

RECOGNIZING COMPENSATION FOR WORK-FOR-HIRE INVENTIONS

The Seoul High Court rendered a decision in favor of the Plaintiff ordering the Defendant, a former employer, to pay about 176 million Korean Won (about US \$0.17M) to compensate for the Plaintiff's work-for-hire inventions (Seoul High Court Decision No. 2003 Na 52410, November 16, 2004).

The Plaintiff, a former research scientist at the Defendant's company (Dong-A Pharmaceutical Co., Ltd.), played a crucial role in the development of a solid oral itraconazole formulation for antifungal use. Given this context, the Seoul District Court (Case No. 2002 Kahap 3727 decided on July 3, 2003) ordered the Defendant to pay 300 million Korean Won (about US \$0.29M) to the Plaintiff. The Defendant appealed the decision to the Seoul High Court, which issued the above decision. The compensation ordered by the court is the largest amount awarded among cases involving work-for-hire inventions in Korea.

When the Right to Claim Compensation Occurs

Article 40, Paragraph 1 of the Patent Act stipulates that an employee is entitled to reasonable compensation from an employer upon the employee's assignment of a right to obtain a patent or a patent right to the employer.

The Court confirmed that the employee's right to claim compensation occurs at the time when an employer acquires a right to obtain a patent or a patent right for his/her work-for-hire invention.

The internal regulation of Dong-A states that an employee should be compensated for his/her work-for-hire invention when a registered patent is obtained in the name of the company (e.g., by assignment or any other manners) upon a committee review. However, the Court noted that if the Defendant's internal regulation provides no obligation for compensation until all the work-for-hire inventions are registered, then such regulation is deemed invalid since it violates Article 40, Paragraph 1 of the Patent Act, which is designed to protect an employee as an inventor. The Court further stated that the requirement of committee review is a procedure for determining compensation when the Defendant voluntarily compensates the inventors. Therefore, the Defendant cannot refuse to pay compensation based on the reasoning that the committee review has not been made since the Plaintiff has already acquired the right to compensation upon assigning his/her right to obtain a patent.

Calculation of Compensation

The High Court essentially affirmed the District Court's method of calculating compensation based on the following: (1) the Defendant's profit derived from inventions; (2) the compensation rate to inventors (or the Defendant's contribution rate); and (3) the Plaintiff's contribution rate among multiple inventors. However, when calculating the actual amounts as to (1) and (2) above, the High Court provided different amounts than those of the District Court.

The District Court determined the Defendant's profit as the total profit derived from the Defendant's grant of a license to a third-party (i.e., 20 billion Korean Won, about US \$20M). However, the High Court limited the Defendant's profit within the scope of considerable causality. In determining the Defendant's profit, the High Court considered the following factors: the

procedure and the intent of relevant parties for license agreement; the contents of the inventions; the status of patent applications and registered patents for each invention; the contents of license agreement and royalty profits, etc. As a result, the Court determined that the Defendant's entire profit was 11.8 billion Korean Won (about US \$11.4M) and the Defendant's profit within the scope of considerable causality was 50% thereof (i.e., 5.9 billion Korean Won, about US \$5.7M). Thus, the Defendant's profit was reduced to less than about a third of that in the District Court.

In determining the compensation rate to inventors, the Court considered factors such as the Defendant's continuous investment for the development of inventions, the internal compensation regulation (stating 5 to 10% of the compensation rate) and the Defendant's position in the license agreement (bringing a consistent large profit). In view of the above, the High Court determined the compensation rate to inventors to be 10%, while the Defendant's contribution rate to be 90%. The compensation rate to inventors was increased from 5% in the District Court to 10% in the High Court.

In determining the Plaintiff's contribution rate among multiple inventors, the Court considered the following factors: the Plaintiff's contribution to completing the inventions; the Plaintiff's participation period; the efforts of other participating researchers (e.g., research period, assigned position, responsibility and degree of endeavor); the contents of the inventions; and the importance of the Plaintiff's idea. Given the above, the High Court calculated the Plaintiff's contribution rate as 30% of the entire contribution by the employees, which is the same as in the District Court.

Accordingly, the High Court stated that a reasonable remuneration to be paid by the Defendant to the Plaintiff is about 176 million Korean Won (about US \$0.17M), i.e., the

Defendant's profit within the scope of considerable causality (5.9 billion Korean Won, about US \$5.7M) multiplied by the compensation rate to inventors (10%) and the Plaintiff's contribution rate among multiple inventors (30%).

There have not been many court precedents regarding the work-for-hire issues in Korea. However, upon reaching the above decision, the following can be said regarding work-for-hire cases: (1) an employer's obligation to pay remuneration to an employee occurs at the time of the employer's acquisition of the right to obtain a patent or a patent right; and (2) the compensation rate to inventors is within the range of 5 to 10%.

RECENT AMENDMENTS TO REVIVAL OF ABANDONED PATENTS

The Korean National Assembly has approved an amendment to provisions pertaining to the revival of abandoned patents in the Korean Patent Act. This bill took effect on September 1, 2005. Under the new provision, a patent which has lapsed due to non-payment of the maintenance fees can be revived.

Under the old provision, a patentee must pay the maintenance fee within a 6-month grace period available after the payment due date (for partial payment of the maintenance fee, an extra month is given), otherwise, the patent is deemed abandoned. Such an abandoned patent could not be revived if the non-payment was attributable to the patentee.

However, under the new provision, if the patentee pays an amount three times the normal maintenance fee within 3 months after the grace period, the abandoned patent can always be revived. Thus, even when a patentee intentionally withholds to pay the maintenance fee, and the patent lapses, it can still be revived.

The new bill has been proposed and enacted as a result of KIPO's addressing the request of The Korean Patent Attorneys Association (KPAA). The KPAA has previously requested KIPO to provide more flexibility in the revival of patents. This is because some patents have lapsed unintentionally, e.g., miscalculation of patent terms. This new provision is expected to benefit both patentees and patent practitioners.

AMENDMENTS TO COMPULSORY LICENSING LAWS FOR KOREAN PATENTS

A legislative bill significantly amending compulsory patent licensing laws in Korea was passed by the Korean National Assembly on May 3, 2005.

Under Article 107 of the previous Korean Patent Act, a compulsory license could be granted in situations: (i) where the patented invention has not been worked for more than three consecutive years in Korea; (ii) where the patented invention has not been used on a substantial scale for more than three consecutive years in Korea without reasonable grounds; (iii) where a non-commercial use of the patented invention is necessary for the public interest and (iv) where the patented invention has to be worked as an appropriate remedy for an unfair business practice.

Regarding (iii) of the above provision, the amendments expanded the circumstances under which compulsory licenses may be granted. That is, compulsory licenses may now be granted for the public interest even if the patented invention is used for commercial purposes. In addition, the amendments allow for the export of medicines under the World Trade Organization Doha Declaration. Thus, domestic pharmaceutical companies can request a compulsory license to manufacture pharmaceutical products for export purposes.

The amendment also mandates a fast track procedure for granting a compulsory license, whereby a petition for a compulsory license must be ruled upon within six (6) months from the filing date.

While the practical impact of the amendment is yet to be known, given the expanded opportunities for granting compulsory licenses, patentees are advised to closely monitor any issues pertaining to managing their patent portfolios in Korea.

PLANS TO SHORTEN THE PATENT TRIAL PROCESS PERIOD

The Intellectual Property Tribunal (IPT) of the Korean Intellectual Property Office (KIPO) plans to improve the competitiveness of the national industry and the patent administration system by providing more expedited procedures for resolving disputes at KIPO. This initiative is considering to shorten the patent trial process period from the current 12 months to 6 months or less by the end of December 2006.

To speed up resolution of disputes, the IPT has implemented the following changes:

- KIPO has hired 8 trial examiners to work at the IPT this year and will hire an additional 8 trial examiners and promote examination assistants to examiners in a reorganization to be implemented next year.
- Starting this year, KIPO will give priority to actions between parties involved in patent disputes, e.g., patent invalidation actions. This change reflects a social demand to remove the burdens of a time-consuming commercialization process at an early stage and promptly obtain the protection of patents through a speedy settlement of disputes over the validity of patent rights.
- Disputes at KIPO related to a patent infringement lawsuit filed in a district court but not yet concluded would be added to the priority trial list such that they are decided prior to other cases.
- For a dispute of which decision has been cancelled by a court, if no new arguments, facts or evidence were submitted to the IPT after the cancellation of the decision, the decision will be written in a simple manner, since both parties would already know the issues of the case.
- A time schedule for the conclusion of the hearing shall be provided. If no additional data or opinions are submitted after the notice of the schedule, the trial must be decided within 3 months from the time scheduled for the completion of the hearing.

RECENT KOREAN CASES ON TRADE DRESS SIMILARITY OF PRODUCT CONTAINERS

Korean courts have recently reached different conclusions on the claims of trade dress infringement involving canned beverages, which have raised considerable public interest. The summaries of the cases are as follows.

1. "Kin Cider" Beverage Can Case (The Seoul Central District Court, the 50th Civil Panel, Decision No. 2004 Kahap 3537 decided on December 30, 2004)



Petitioner Lotte Chilsung's Design (left) and
Coca-Cola Korea's Kin Cider

The 50th panel of the Seoul Central District Court denied Lotte Chilsung's petition for a preliminary injunction against Coca-Cola Korea for trade dress infringement and unfair competition. Lotte Chilsung asserted at trial that the "Kin Cider" can design of Coca-Cola Korea infringed on its registered "Chilsung Cider" design.

When examining the subject trade dresses, the Court took into account that designs "which have long been commonly used, which are simple, from which various designs have been devised or which are not easily changeable in its

constitution" enjoy a relatively narrow scope of protection. In analyzing the Petitioner's trade dress, the Court found that much of its design could not be protected on the grounds that: (1) various beverage cans, having similar designs as the Petitioner's registered design, have long been used; (2) the color scheme of the Petitioner's design, i.e., green and white, has been recognized by the public as a symbol for the beverage type; and (3) alternative designs, color scheme and positioning of the package label on the container are somewhat limited. Therefore, the Court held that both designs were different and such difference would lead to different overall aesthetic impressions, thereby concluding that the Petitioner's claim of design infringement could not be sustained.

Further, in examining whether Coca-Cola Korea's practice constituted unfair competition, the Court acknowledged that the Petitioner's "Chilsung Cider can" is a well-known trade dress protected under the Unfair Competition Prevention Act. The Court observed that the Petitioner's design had been widely recognized in the soft drink industry and consumers in Korea, considering the frequency of advertisements, sales records and popularity. If the trademark, company name or product name is shown on the container or the packaging, and they are conspicuous or occupy a significant portion of the overall container, they are regarded as essential parts of the container as marks that indicate the good. Thus, when examining the similarities between the "Chilsung Cider can" and the "Kin Cider can," their respective similarities should be taken into consideration. Each trademark and each company name on both cans occupy a significant part of the whole can and of the whole constitution of the can. Further, "Kin Cider" is a well-known trademark. Therefore, the essential part of each can container is the trademark and the company name, drawing consumers' attentions visually and conceptually. Among them, "Cider" is not distinctive as a common noun,

indicating a kind of soft drink, and the remaining portion of the name, "Chilsung" and "Kin," are not similar in every aspect of appearance, pronunciation and concept. Therefore, the similarity of the cans is not acknowledged, and thus, it is not likely that the source identifier of the products would be misleading or confusing. Therefore, the Court held that the use of "Kin Cider cans" did not constitute unfair competition.

2. "Cash" Beer Can Case (The Supreme Court Decision No. 2004 Do 7824 decided on January 27, 2005)



Defendants' Cash Design (left) and Oriental Brewery's Cass

The Supreme Court reversed the Lower Court's decision which was decided in favor of the Defendants, Jin et al., who were accused of violating the unfair competition law, and remanded the case to the Lower Court. The Defendants allegedly distributed malt beverages under the trademark of "Cash," similar to the "Cass" trademark for beer, which has been registered by Oriental Brewery and is popular in Korea.

The Lower Court ruled in favor of the Defendants, citing that the import of the beverage with the trademark "Cash" is not recognized to constitute unfair competition, because the trademark "Cash" is not similar to the trademark "Cass" in its appearance, pronunciation and concept.

However, the Supreme Court observed that even though the trademarks were not similar in pronunciation and concept, their appearances were substantially identical in that the first three letters were the same and had the same distinctive fonts, and their color schemes as a whole were identical. Further, both cans were identical in shape, color scheme and placement of the trademark. The Court found that the appearances were similar when observed as a whole and separately.

Therefore, the Supreme Court ruled that the Defendant's use of the trademark "Cash" constituted unfair competition, which would lead to consumer confusion with Oriental Brewery's "Cass" trademark. In addition, the Supreme Court observed that the Lower Court erred in applying the relevant legal principles without sufficient examination. The Supreme Court further stated that the Lower Court compared the subject trademarks only based on the English words without weighing the foregoing elements.

Conclusion

As to the similarity of can containers in relation to unfair competition, the "Kin Cider" decision by the Seoul District Court examined the trademark, company name or product name attached to the container depending on which covered the main portion of the can and attracted consumer's attention. The court concluded that the likelihood of consumer confusion due to the similarity of the can containers would not be recognized unless the trademark, company name or the name of the goods are similar. On the other hand, the Supreme Court Decision regarding "Cash" found that the similarity of the overall appearance of the can containers including the placement of the trademark, which would lead to consumer confusion, constituted unfair competition even though the trademark on each can container was to some extent different.

Considering these points, both cases have taken meaningful steps toward recognizing various issues pertaining to trademark infringement analysis.

P2P MUSIC SHARING AND LISTENING

In a recent copyright infringement case, the Seoul Central District Court found Post-Net Corporation, which provides P2P (Peer to Peer) file-sharing services, liable for contributory copyright infringement. The Court ruled that the Defendant's P2P site, www.imeps.com, aided and abetted in the infringement of copyright and neighboring rights held by music producers, and further ordered that the Defendant stop users from allowing other individuals access to music files by using the search function on the website (Seoul Central District Court Decision No. 2004 Kahap 3965 rendered on May 30, 2005).

Present Service

The P2P network at issue allows a user to upload music files to a virtual space on the network. Users (uploaders) of the site or those who have been designated by the users may search and listen to uploaded songs by accessing this space. Since one could listen to music without transferring any files, the present service is different from other file sharing environments.

In the case of www.bugsmusic.co.kr (decided on January 27, 2005), the Court found the accused criminally liable for violating the Copyright Act by allowing users to search and listen to music through songs stored on a server. To circumvent this rule, the Defendant's website, www.imeps.com, was designed as a P2P music

streaming site.

District Court Opinion

The Korean Association of Phonogram Producers ("KAPP"), which was founded as a trust management organization for the neighboring rights of music producers, petitioned for a preliminary injunction seeking to stop the present service. At issue was whether the present service infringed KAPP's copyright.

Although storing music files on a virtual space of the Internet constituted an act of reproduction as provided under Article 2(14) of the Copyright Act, the Court held that such an act would be for "private use" and therefore not an infringement of copyright.

As for the right of transmission, the Court focused on that the present service allowed an unspecified number of the public to have access to songs regardless of whether or not the uploaders and downloaders were connected at the same time. Accordingly, the Court found that the act of allowing other users to search music files in cyberspace and listen to them freely constituted an infringement of KAPP's transmission rights.

This decision is meaningful in that searching and listening to music uploaded by other users in cyberspace with no actual exchange of data constitutes an infringement of transmission rights. Further, this decision held that the act of uploading music files to a network for one's personal use is now considered private use.

REDUCTION OF TIME REQUIRED FOR TRADEMARK OPPOSITION ACTIONS IN KOREA

The Korean Intellectual Property Office (KIPO) has recently reduced the time required for trademark opposition actions in Korea from the current period of about 1 year to less than 6 months. Effective as of July 1, 2005, the deadline for submitting detailed opposition grounds and evidence (after the notice of opposition is filed) has been reduced from the previous 2-month period to 1 month (with a single 1 month extension possible). Documents submitted after the deadline will no longer be considered. These changes are expected to pressure opposing parties to collect and submit evidence to support the opposition action.

A decision in an opposition action will now be issued within 2 months of the response deadline for a trademark applicant. The period required for the decision should not exceed 6 months from the opposition filing date.

If no grounds or evidence for an opposition are submitted by the designated deadline, the opposing party receives assignment of the opposed trademark, the opposition is withdrawn, or the opposed trademark becomes withdrawn or abandoned, the opposition action will be concluded within 1 month of the responsible examiner becoming aware of the above circumstances.

Further, any case where the above time frame is not met will be reported internally within KIPO. Additionally, where the opposition period exceeds 6 months, the parties will be notified of the reason and the expected time for the decision to be issued.

RECENT AMENDMENT TO NOTIFICATION FOR IMPORT AND EXPORT CUSTOMS CLEARANCE PROCEDURES FOR INTELLECTUAL PROPERTY RIGHTS

An amendment was recently made to The Notification for Import and Export Customs Clearance Procedures for Intellectual Property Rights. The revised provisions took effect on July 1, 2005 and its main features are summarized as follows:

1. Change of the valid period of the recorded trademark right

Under the previous notification process, the recordation with the Korea Customs Service ("KCS") became effective 30 days after the KCS accepted the "Report of Trademark Rights." Under the amendment, however, the trademark right recorded with the KCS becomes effective immediately after the KCS accepts the report. However, in case parallel imports are prohibited, such recordation for the prohibition of the parallel imports still becomes effective after a 30 days pass, as under the previous rule.

2. Amended period of temporary detainment of the customs clearance

Under the previous notification process, the period of temporary detainment was ten (10) working days from the date of receipt of the Notice of Export/Import of Goods which were Likely to Infringe a Trademark Right by the owner of the recorded trademark. Under the new notification process, said period has been reduced to seven (7) days.

3. New provision for allowance of the customs clearance in case the exclusive licensee agrees

Even in a case where the parallel import is prohibited, the same brand name goods imported by a third party may be allowed to clear customs if the local exclusive licensee agrees to their clearance.

4. New provision for registration of a license to use the trademark

Under the amendment, a party who is granted a license to use the trademark by the trademark owner may record such license with the KCS.

5. New provision for a valid period of recordation of the exporters/importers likely to commit trademark infringement

Under the amendment, the recordation of the exporters/importers likely to commit trademark infringement on the "Report of Trademark Rights" managed by the KCS is valid for six (6) months from the date of such recordation, which period can be renewed or extended upon filing of an application therefor.

6. Tightening the requirement of "filing a lawsuit with a court" for extension of the detainment period of the customs clearance

The amendment explicitly states that a motion for preliminary injunction is not deemed as "filing a lawsuit with a court" for extension of the detainment period of customs clearance. Accordingly, extension of the detainment period of customs clearance cannot be requested based on the filing of an action for preliminary injunction only, without a main action on the merits.

7. Clarified effect of the filing of a lawsuit and the court decision thereon

Filing of a lawsuit seeking a decision as to whether the imported/exported goods violate the Trademark Act by the applicant who requests the detainment, and a decision in such a preliminary injunction action or main action may affect third parties who import and/or export the same products bearing the same trademark.

8. New provision requiring prior notice for renewals or extensions of bonds

Under the amendment, the Commissioner of the Customs Office shall notify the bond provider who requested to withhold the customs clearance of expiration of the guarantee term at least 20 days prior to such expiration.

9. New provision on the procedures for the goods that are to be sold in a public auction and likely to constitute a trademark infringement

In case that the Customs Office determines that goods to be sold in a public auction are likely to infringe a trademark, it may request the trademark owner to confirm as to whether they infringe the trademark. If the goods are confirmed to be counterfeit, investigation shall commence immediately.

10. If the importer/exporter is cleared from any suspicion after investigation on the possible violation of the Trademark Act, the goods shall be allowed to clear customs.