

# NEWSLETTER

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Intellectual Property Group

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## News Alert – Recent Amendment to Korean Patent Act

### New hybrid approach covering full scope of infringing sales (lost profits + reasonable royalty)

On May 20, 2020, the Korea National Assembly approved a bill to amend the Patent Act, adopting a so-called hybrid damages approach – where a patentee will be entitled to seek a royalty, as additional damages, for sales that exceed the patentee’s production capacity. Lost profits for infringing sales up to the patentee’s production capacity will remain in place. The amendment will take effect on **December 10, 2020** and apply to damages claims filed thereafter. Here are the details of the amendment.

#### 1. Amendment to the Patent Act: Reasonable Royalty Now Available for Infringer’s Sales in Excess of Patentee’s Production Capacity.

Currently, under Article 128(2) of the Patent Act, damages are calculated by multiplying the number of infringing products sold by profits per product, but only to extent that the patentee could have manufactured (*i.e.*, up to but no more than the patentee’s own production capacity).

Against this background, there has been some criticism against the current standard of limiting damages to the patentee’s production capacity and thus disregarding the infringer’s infringing sales beyond that point. Some outlier lower court decisions have in fact actually awarded further damages in the form of reasonable royalties for infringing sales exceeding patentee’s production capacity.

In response to this criticism, the Patent Act has now been amended as follows, to award damages based on the infringer’s sales: (1) the original approach, *i.e.*, up to the patentee’s production capacity, damages are calculated by multiplying the number of infringing products sold by profits per unit of the products (Article 128(2)(1) of the Patent Act), plus **(ii) beyond the patentee’s production capacity, damages shall be determined based on a reasonable royalty which a hypothetical licensee would have paid**

to the patentee (*e.g.*, reasonable royalty rate x (total number of infringing products sold - patentee’s production capacity))(Article 128(2)(2) of the Patent Act).

An illustrative example follows:

Patentee’s Production Capacity – 100 Units Total Number of Infringing Products – 150 Units	
Before Amendment	After Amendment
Number of Infringing Products up to Patentee’s Production Capacity (100 Units) x Profits per Unit of Products	Number of Infringing Products up to Patentee’s Production Capacity (100 Units) x Profits per Unit of Products + <b>Number of Infringing Products in Excess of Patentee’s Production Capacity (50 Units) x Reasonable Royalty Rate</b>

**2. Significance of the Amendment: Manufacturers (and Patentees) Now Should Assess Potential Liability Based on the Full Sales Volume of Infringing Products.**

The purpose of this amendment is to protect patentees who lack extensive production capacities (especially, SMEs) by substantially increasing the amount of damages that could be awarded for patent infringement.

Following this amendment, there will be discussions surrounding what constitutes a “reasonable royalty,” and companies doing business in Korea should be vigilant on how courts will interpret and react to this recently amended Patent Act. As the concept of a “reasonable royalty,” which in legal scholarship has been understood to be greater than a royalty for a non-exclusive license, continues to be implemented in the patent regime, damages awards for patent infringement are expected to increase significantly, particularly in combination with treble damages for willfulness newly introduced last year.

For licensees, this means that the need for IP compliance (*e.g.*, proper evaluation of patent infringement) is becoming more crucial than ever.

Lee & Ko’s IP Practice Group has significant experience and expertise in IP cases and disputes, having represented clients in the largest patent infringement cases in Korea. Also, it has pioneered development of legal theories and case precedents in the area of IP law. If you would need assistance on IP-related disputes or like to know more about our firm, please do not hesitate to contact us.

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