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PATENT

Korean Supreme Court Clarifies Meaning of "New Chemical Entity" for PTE Eligibility

By Jong Seok KIM, Inchan Andrew KWON and Eun Jung HONG

On July 25, 2024, the Supreme Court of Korea issued a decision clarifying that the invention of a PEGylated¹ version of a previously-approved active moiety does not qualify as a "new chemical entity" eligible for a patent term extension ("PTE") under the Enforcement Decree of the Patent Act, even if the PEGylation affects the pharmacological effect of the previously approved drug (Supreme Court Decision 2021Hu11070, July 25, 2024).

Under the Patent Act, patents covering medicinal products subject to Government approval under the Pharmaceutical Affairs Act are eligible to receive a PTE of up to five years if they cannot be practiced immediately after grant due to delays in receiving such approval.

The Enforcement Decree of the Patent Act provides that only the "first" regulatory approval of an active ingredient that is a "new chemical entity" can serve as the basis for the grant of a PTE ("new chemical entity" is broadly defined as a new substance with an active moiety having a novel chemical structure that exhibits a pharmacological effect). The issue in this case was whether the PEGylation of an existing active ingredient was sufficient to render the PEGylated ingredient a "new chemical entity."

1. Background

The plaintiff in this case owned a patent covering a drug comprising the active ingredient "Peginterferon beta-1a" and filed a PTE application relating to the period spent during the regulatory approval process for the drug. Peginterferon beta-1a is a compound that involves PEGylation, which entails the covalent conjugation of polyethylene glycol ("PEG") with Interferon beta-1a.

The Korean Intellectual Property Office ("KIPO") rejected the PTE application on the following grounds: (i) another drug had already been approved for the same indication that had the active

¹ PEGylation: A process through which molecules are modified by attaching polyethylene glycol ("PEG"), improving their pharmacokinetic properties and biological function.

moiety of Interferon beta-1a; and (ii) both Peginterferon beta-1a and Interferon beta-1a have the same active moiety exhibiting the treatment effect. KIPO thereby concluded that Peginterferon beta-1a was not a "new chemical entity" as defined under Article 7 of the Enforcement Decree of the Patent Act.

The plaintiff filed an appeal, but the Intellectual Property Trial and Appeal Board (the "IPTAB") upheld KIPO's rejection. However, on further appeal, the Patent Court revoked the IPTAB's decision and the Commissioner of KIPO filed a further appeal of the Patent Court decision to the Supreme Court.

2. Reasoning of Supreme Court

A. Meaning of "Active Moiety Exhibiting a Pharmacological Effect" Stipulated in Enforcement Decree of the Patent Act

The Supreme Court determined as follows: (i) the term "active moiety exhibiting a pharmacological effect" in the Enforcement Decree of the Patent Act means "the moiety of the active ingredient that has activity and exhibits the approved efficacy/effect of the drug by its inherent pharmacological action;" and (ii) even if a moiety, which is not active on its own, when conjugated with the "active moiety exhibiting a pharmacological effect" of the previously-approved drug, affects the degree of efficacy and effect of the drug, the moiety is not the moiety exhibiting the "pharmacological effect" of the approved efficacy/effect. Thus, the conjugated substance as a whole cannot be regarded as a new "active moiety exhibiting a pharmacological effect" under the Enforcement Decree simply because a new moiety is conjugated to the previously-approved "active moiety exhibiting a pharmacological effect."

The Supreme Court held that (i) considering the relevant provisions of the Pharmaceutical Affairs Act, "pharmacological effect" under the Enforcement Decree of the Patent Act means "efficacy and effect" on specific diseases or symptoms identified in the regulatory approval; and that (ii) the Enforcement Decree of the Patent Act distinguishes "active moiety exhibiting a pharmacological effect" from "active ingredient," and specifically requires that the "active moiety exhibiting a pharmacological effect" must be a new substance with a novel chemical structure. Therefore, the Court held that it was reasonable to interpret the term "active moiety exhibiting a pharmacological effect" to mean "the moiety that acts on cells, etc., in human bodies and exhibits the approved efficacy and effect of the product approval." Thus, conjugating a moiety that is not active on its own with another "active moiety exhibiting a pharmacological effect" in a way that changes the degree of efficacy and effect of the existing drug does not render the entire conjugated substance a new "active moiety exhibiting a pharmacological effect" under the Enforcement Decree of the Patent Act.

B. Judgment of Supreme Court

Based on the above mentioned legal principles, the Supreme Court reasoned that: (i) in Peginterferon beta-1a, which is the active ingredient of the medicinal product at issue in this case, the moiety exhibiting the treatment effect was Interferon beta-1a; (ii) the PEG portion conjugated with Interferon beta-1a to form Peginterferon beta-1a does not have a different treatment effect but merely affects the degree of activity of Interferon beta-1a; and (iii) the "active moiety exhibiting a pharmacological effect" in the active ingredient of the drug at issue was specifically Interferon beta-1a, not Peginterferon beta-1a. Based on the unrefuted assumption that PEGylation did not change the three-dimensional chemical structure of Interferon beta-1a, the chemical structure of Interferon beta-1a in the drug at issue was the same as the structure of Interferon beta-1a in the previously approved drug. Thus, the entire conjugated substance, Peginterferon beta-1a, could not be considered a "new chemical entity" as defined in the Enforcement Decree of the Patent Act, and the patent at issue was not entitled to PTE. The Supreme Court then reversed and remanded the Patent Court decision for further proceedings in line with the holding.

This is the first Supreme Court decision in Korea that interpreted the meaning of "new chemical entity" (a new substance having an active moiety with a novel chemical structure that exhibits a pharmacological effect) under the Enforcement Decree of the Patent Act, which defines which inventions are eligible for PTE. This decision is meaningful in that it has enhanced the predictability of a PTE application for a patent covering a medicinal product.

IP High Court Reverses IPTAB's Decisions and Holds Agrochemical Crystalline Form Patents Valid

By Kyoo Yeon LEE, Daniel KIM and Chongbok YOON

Kim & Chang's Intellectual Property Practice successfully defended the validity of three agrochemical crystalline form patents (the "Subject Patents") at the Intellectual Property High Court (the "IP High Court"), which overturned the Intellectual Property Trial and Appeal Board's (the "IPTAB") previous decisions of invalidity of these patents. The IP High Court decision was subsequently upheld by the Supreme Court.

The Subject Patents in these cases pertain to specific crystalline forms of certain fungicidal agrochemical compounds which are claimed to solve the issue of crystal growth in agrochemical formulations, i.e., (i) modification II of the Boscalid compound, (ii) a method for preparing modification II of the Boscalid compound, and (iii) modification IV of the Pyraclostrobin compound. The primary validity issue related to whether these specific crystalline forms of the Subject Patents were inventive over the cited references under strict Korean laws and practices.

Under Korean practice, a crystalline form invention whose subject matter is a specific crystalline form of a previously known compound, and which differs from the previously known compound only in terms of the crystalline form, is generally subject to a very strict standard for assessing inventiveness, where inventiveness is recognized only if the claimed crystalline form has an effect that is qualitatively different from or quantitatively remarkable over that of the previously disclosed compound, regardless of whether the crystalline form would have involved any constitutional difficulty (i.e., whether there would have been difficulty in combining prior art elements to create the claimed invention), since crystalline form inventions have generally been presumed not to involve any constitutional difficulty. Applying this standard, the IPTAB denied the inventiveness of each of the Subject Patents, and the patentee appealed these decisions to the IP High Court.

Our firm was able to successfully argue on appeal that a recent Supreme Court precedent issued after the appeals were filed actually established a new standard for assessing the inventiveness of crystalline form inventions, and presented substantial evidence and expert data and testimony that the Subject Patents were not different from the Supreme Court case, and thus also should be considered inventive. Specifically, our firm argued that the Supreme Court had affirmed that both remarkable effect and constitutional difficulty must be considered for assessing inventiveness of

crystalline form inventions, consistent with review of chemical inventions in general, and that the Subject Patents involved constitutional difficulty, and thus should be considered inventive.

The IP High Court ruled in the patentee's favor and reversed the IPTAB decisions of invalidity, recognizing the inventiveness of the Subject Patents on the basis that a person of ordinary skill in the art would not have readily conceived the specific crystalline forms of the Subject Patents without hindsight, for the following reasons: (i) the cited references did not indicate whether the Boscalid or Pyraclostrobin compounds existed as solids, and if so, whether they were crystalline or amorphous, (ii) there was no evidence to suggest that the compounds were known to have multiple crystal forms (crystalline polymorphism) at the priority dates of the Subject Patents, (iii) the specific crystalline forms described in the Subject Patents involved different variables in their crystallization processes compared to those outlined in the cited references, and that (iv) the specific crystalline forms of the Subject Patents exhibited significant crystal growth inhibitory effects in agrochemical formulations beyond other crystalline forms, as evidenced by the working examples in the Subject Patents and additional experimental data.

These decisions are significant in being the first appellate decisions in Korea to apply the new crystalline form inventiveness standard in contentious IP cases. These results were obtained in large part through careful analysis and application of the new Supreme Court precedent to these cases, and persuasively arguing the applicability of the Supreme Court's reasoning to the inventions in these cases.

***In Silico* Data as a Basis for Supporting or Denying Patentability in Korea**

By Amy Seung Hyun OH, CY Chooyoun KIM and Hyewon CHANG

In silico (i.e., computer simulation-based) research techniques are being increasingly utilized in new drug development, aided by advancements in computing power and technologies. In addition to drug target identification, *in silico* research programs now also screen for promising candidate compounds, predict side effects or drug resistance, and have proven to be particularly useful for drug design and optimization using large chemical libraries.

***In silico* data supporting patentability**

In the above context, the extent to which *in silico* data can be relied upon to support a pharmaceutical invention has increasingly been the subject of debate. In order for pharmaceutical inventions that target the human body to meet specification description requirements, Korean courts and the Korean Intellectual Property Office ("KIPO") have generally required presentation of test examples with pharmacological data or equivalent descriptions that are sufficient to establish the pharmacological effect, under the rationale that it is generally difficult even for one skilled in the art to predict the effects of specific substances inside the human body. Exceptions to this rule are made only in special circumstances, such as if the underlying pharmacological mechanism of the pharmacological effect was already clearly established prior to the application filing date.

Such test examples do not necessarily need to describe clinical trial results, as *in vitro* or animal test data are generally acceptable for description requirements purposes. However, according to KIPO's Examination Guidelines for biotechnology inventions, for an invention that predicts the interaction between a new drug candidate and a protein, or the therapeutic effect on a specific disease and the binding target of a substance, based only on *in silico* methods without confirmation through actual experiments, such inventions are not patentable as failing to meet utility or description requirements. In other words, even if a new drug candidate or its therapeutic effect is discovered through an *in silico* analysis method, actual experiments must still be conducted to confirm such therapeutic effects and described in the specification for an invention based on the drug to be patentable.

***In silico* data denying patentability (inventiveness)**

On the other hand, the Korean IP High Court recently denied the inventiveness of a pharmaceutical use invention based on prior art which had predicted the pharmaceutical use from *in silico* data (IP

High Court Decision 2021 Heo 5174, rendered on November 23, 2022). The Court reasoned that a person skilled in the art readily could have predicted the claimed pharmaceutical use from prior art documents disclosing a technique for predicting the therapeutic effect of a group of drug candidates *in silico*.

The claimed invention in the case was related to a pharmaceutical use of raloxifene, a drug used to prevent and treat osteoporosis, as a COVID treatment, based on *in vitro* antiviral effect data against SARS-CoV-2. The prior art was a paper titled "Repurposing FDA-Approved Drugs for COVID-19 Using a Data-Driven Approach," which discussed raloxifene as a drug that could potentially be repurposed to treat COVID-19 based on connectivity mapping and molecular docking analysis (*in silico* techniques). The inventiveness of the claimed invention was denied both by KIPO and by the Intellectual Property Trial and Appeal Board (IPTAB) on appeal, and the applicant further appealed to the IP High Court.

The applicant primarily argued that the invention in question directly confirmed the effect of raloxifene *in vitro*, while the prior invention merely predicted the possible use of raloxifene for the treatment or prevention of SARS-CoV-2 infection through an *in silico* virtual search. Accordingly, the applicant asserted that the inventiveness of the claimed invention could not be denied because a person skilled in the art could not easily have predicted the invention from the prior art.

However, citing to the Supreme Court's prior ruling that "a pharmaceutical invention's inventiveness is denied if a person skilled in the art easily could have predicted the therapeutic effect of a specific substance on a specific disease from the prior art, in which case it cannot be considered that the therapeutic effect must be confirmed through clinical trials, etc., in the prior art," the IP High Court ruled that the claimed invention readily could have been predicted by a person skilled in the art from the prior art for the following reasons:

- The prior art disclosed the technical idea of selecting drug candidates *in silico*, and the connectivity mapping and molecular docking simulation used in the prior art corresponded to reliable *in silico* drug screening methods that had been widely used in the field of new drug development.
- It would have been obvious to one skilled in the art that: virus proliferation is inhibited when RdRp or Mpro functions within a cell are inhibited, so substances that inhibit RdRp or Mpro are related to the therapeutic effect against SARS-CoV-2 infection; in order to inhibit the RdRp or Mpro functions, drugs (ligands) must bind strongly to the specific receptors of the above enzymes; and by comparing the binding affinity between candidate SARS-CoV-2 infection treatment substances and receptors of RdRp or Mpro through molecular docking analysis, substances that can act more effectively on SARS-CoV-2 infection can be screened.
- From the disclosures of the prior art, it easily could have been inferred that a correlation existed between estrogen, a type of female hormone, and COVID-19 infection or related complications,

and that the antiviral activity of raloxifene and tamoxifen was related to the estrogen regulation mechanism of these drugs.

- There was no reason to believe in the superiority or inferiority of experimental evaluations or reliability among *in silico*, *in vitro*, and *in vivo* data, or that the tests must be conducted in the order of *in silico*, *in vitro*, and *in vivo* evaluations. Further, since *in vitro* methods do not directly observe reactions occurring inside living organisms, it could not be concluded that phenomena observed *in vitro* necessarily occurred *in vivo*, which is the same as *in silico*.

The above IP High Court decision means that even if a prior art reference discloses only *in silico* methods or data for a pharmacological effect and fails to meet description requirement, it can still serve as a basis for denying inventiveness if it is deemed that a person skilled in the art easily could have derived the invention from the prior art disclosure. This result seems to be due in part because *in silico* data is deemed less reliable than actual experimental data (*in vivo*, *in vitro*, etc.) when it comes to description requirements, whereas it is considered on more or less equal footing with *in vivo* or *in vitro* experimental data for determining inventiveness. As long as this remains the case, patent applicants in Korea should be vigilant of purely computer-based prior art, which may proliferate with continued advancements in computer technology. At the same time, patent applicants in Korea should be careful to generate and submit actual experimental results (e.g., *in vivo*, *in vitro*) to support pharmaceutical inventions discovered or developed using *in silico* techniques or data.

Enforcement of Amendments to the Unfair Competition Prevention Act and Patent Act Strengthening Protection for Rights Holders

By Raymis H. KIM, Seok-Hee LEE and Se-Hee LEE

The amendments to the Unfair Competition Prevention and Trade Secrets Protection Act (the "Unfair Competition Prevention Act") and the Patent Act came into force on August 21, 2024.

The main points of the amendments to the Unfair Competition Prevention Act and the Patent Act are as follows:

1. Increased criminal penalties

Criminal fines for unfair competition violations and trade secret misappropriation by corporations have been increased to up to three times the statutory maximum that can be imposed on an individual, and the statute of limitations for corporations has been extended from the current 5 years to 10 years.

2. Enhanced punitive damages

Punitive damages of up to five times the actual damages may be awarded for willful acts of infringement, including infringement of patents, breach of exclusive license rights, theft of ideas, and misappropriation of trade secrets.

3. Introduction of stronger administrative measures

A system for issuance of corrective orders by the Commissioner of the Korean Intellectual Property Office (KIPO) has been established for acts of unfair competition, and a fine of up to KRW 20 million may be imposed for failure to comply with a corrective order.

4. Increased availability of evidence in civil proceedings

It is now possible for parties to inspect and request copies of materials related to administrative investigations, and the Commissioner of KIPO cannot refuse a court's request to provide records without a legitimate reason.

These amendments are interpreted as part of the government's overall efforts to deter technology leakage and acts of unfair competition, which have been causing significant damage to the industry recently. To this end, the government launched a government-wide joint technology leakage response team on November 8, 2023, and approved the KIPO Technology Police as a standing organization on February 27, 2024. Further, the government amended the Judicial Police Service Act on January 16, 2024 to expand the scope of KIPO investigations, which were previously limited to the illegal acquisition, use, and disclosure of trade secrets, to include a full range of trade secret misappropriation offenses, including preparatory acts, conspiratorial acts, and unlawful possession. In addition, on March 25, 2024, the Supreme Court Sentencing Commission enhanced sentencing guidelines for trade secret misappropriation and technology infringement offenses (e.g., imprisonment of up to 12 years, as opposed to the current 9 years, for overseas leakage), and strengthened probation guidelines (applicable to cases prosecuted on or after July 1, 2024).

As civil and criminal penalties for intellectual property offenses increase, it will be all the more important for companies to establish and implement rigorous compliance systems throughout their operations. In addition, companies or individuals who are victims of intellectual property offenses or have concerns that their rights may have been infringed, should consider taking a more aggressive stance in enforcing their rights, as effective legal action is now more readily available.

Amendment and Enforcement of Public Notice on Trade of Strategic Items and Guidelines on Administrative Sanctions for Violators of Export Controls

By Min Seo HWANG, Raymis H. KIM, Se-Hee LEE and Hyeongsu PARK

The proposed amendment to the Public Notice on Trade of Strategic Items (the "**Public Notice**"), announced by the Ministry of Trade, Industry and Energy ("**MOTIE**") on June 28, 2024, underwent a public opinion collection process until July 18, 2024 and was officially promulgated on September 5, 2024 (the "**Amended Notice**"). On the same day, the MOTIE also announced the Guidelines on Administrative Sanctions for Violators of Strategic Items Regulations and Other Export Controls (amended as of August 21, 2024; the "**Amended Guidelines**"), which mainly focus on strengthening administrative sanctions for intentional violations, such as circumventions, aimed at evading export controls.

Both the Amended Notice and the Amended Guidelines came into effect on September 9, 2024. An overview of these regulations is as follows.

1. Amendment to the Public Notice on Trade of Strategic Items – Expansion of Items Subject to the Catch-All License Requirement

In the **Amended Notice**, 243 items that could potentially be diverted for military use, including metal cutting machines and sensors, have been added to the list of items subject to the catch-all license requirement for export to Russia or Belarus, increasing the total to 1,402 items.

Export of the newly added items will be subject to a policy of denial upon the enforcement of the Amended Notice on September 9, 2024. However, an application for a catch-all export license for any of these items may be eligible for an **exceptional case-by-case review**, provided that the transaction meets certain conditions. These conditions include executing the relevant agreement before the enforcement date of the Amended Notice (i.e., by September 8, 2024) or exporting to an overseas subsidiary of a Korean company or to a company incorporated in a partner country, such as the U.S., Canada, the U.K., certain EU countries, Japan, and Australia (i.e., "Ga" Area under

Annex 6 of the Amended Notice). Upon successful review, the export may be permitted (Annex 24 of the Amended Notice).

The newly added 243 items have been classified based on HS codes (No. 1160 through No. 1402). The following table lists these items along with examples.

No.	HS Code Description	Examples
1160 – 1177	Chapter 25 Salt; sulphur; earths and stone; plastering materials, lime, and cement	Clays, chalk, gypsum, lime, and mica
1178 – 1191	Chapter 32 Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments, and other colouring matter; paints and varnishes; putty and other mastics; inks	Tanning substances, colouring matter, pigments, and glazes
1192	Chapter 35 Albuminoidal substances; modified starches; glues; enzymes	Dextrin and starches
1193 – 1210	Chapter 37 Photographic or cinematographic goods	Photographic/cinematographic film and papers
1211 – 1228	Chapter 38 Miscellaneous chemical products	Rosin, wood tar, agents/dye carriers for textile, plasticisers, preparations for fire-extinguishers, anti-freezing fluids, biodiesel, reaction initiators, reaction accelerators, and catalytic preparations
1229 – 1258	Chapter 39 Plastics and articles thereof	Polypropylene (PP), polystyrene (PS), polyvinyl acetate (PVA), Poly(methyl methacrylate) (PMMA), polylactic acid (PLA), polyamide (PA), and other plastic materials; Pipes, hoses, plates, sheets, bidets, doors, window frames, and other plastic products
1259 – 1293	Chapter 40 Rubber and articles thereof	Butadiene, isobutene, latex and other rubber materials; Plates, sheets, strip, belts, tubes, hoses, pneumatic tyers (retreaded or used), and other rubber products
1294	Chapter 58 Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	Gauze
1295 – 1297	Chapter 64 Footwear	Ski/snowboard boots and rubber/plastic footwear
1298	Category 65 Headwear	Safety helmets
1299 – 1303	Category 69 Ceramic products	Bricks, tiles, roofing tiles, and chimney liners
1304 – 1319	Category 70 Glass and glassware	Glass rods, glass balls, glass tubes, glass sheets, and laminated safety glass
1320	Chapter 71 Natural or cultured pearls, precious or semi-precious stones, precious	Unwrought silver

No.	HS Code Description	Examples
	metals, metals clad with precious metal, and articles thereof; imitation jewelry; coin	
1321	Chapter 72 Iron and steel	Ferrovandium
1322 – 1327	Chapter 74 Copper and articles thereof	Copper bars and rods, copper wire and copper plates, sheets, strips, etc.
1328	Chapter 78 Nickel and articles thereof	Nickel powders and flakes
1329	Chapter 80 Tin and articles thereof	Tin alloy
1330 – 1334	Chapter 82 Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	Saw blades and cutting blades
1335	Chapter 83 Miscellaneous articles of base metal	Flexible tubing
1336 – 1381	Chapter 84 Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	Boilers, pumps, machine-tools, welding machinery and apparatus, and fluid projectors for semiconductor manufacturing
1382 – 1390	Chapter 85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	Magnets, lamps, electric heating resistors, automobile radios, circuit breakers, and display tubes
1391	Chapter 86 Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signaling equipment of all kinds	Diesel electric locomotives
1392 – 1394	Chapter 87 Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	Fire fighting vehicles / concrete mixer trucks
1395 – 1402	Chapter 90 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	Lenses, cinematographic cameras, machines and appliances for testing material property, and hydrometers

2. Amendment to the Guidelines on Administrative Sanctions for Violators of Strategic Items Regulations and Other Export Controls – Clarification of the Criteria for Administrative Actions to Prevent Intentional Circumvention and Strengthening of Penalties for Intentional Violations

The Amended Guidelines introduce explicit restrictions on import, transit, transshipment, and brokerage to prevent intentional circumvention as **types of export control measures for**

strategic items (Article 3, Subparagraph 1 of the Amended Guidelines). Previously, administrative sanctions were determined based on the export value, the intentionality of the act in question (i.e., whether the act is simple negligence or carelessness), and whether the act is an action hindering international peace. Under the Amended Guidelines, sanctions will now be determined based on **the export value** and the **number of violations** (e.g., unlicensed export) committed in the past five years, while taking account of aggravating and mitigating factors (Annexes 1 and 2 of the Amended Guidelines).

Under the Amended Guidelines, two specific **aggravating factors** for administrative sanctions are identified: **intentionality** of the violation and **hindrance of international peace**. The presence of either factor allows for escalating sanctions by one level, even if there are equal numbers of aggravating and extenuating factors (Annex 2 of the Amended Guidelines). This change appears to be aimed at providing a legal basis for the recent joint efforts between the MOTIE and the Korean Security Agency of Trade and Industry to strengthen enforcement and sanctions against circumventing exports to Russia and other sanctioned countries.

Additionally, the Amended Guidelines **set forth specific requirements for exceptions to export restrictions**. In the case of a first violation where the total export value of strategic items and other prohibited goods is less than USD 1,000 and there is no intent to violate the export restrictions, the case may be settled without imposing any administrative sanctions, providing a basis for a more lenient administrative disposition. Furthermore, if there is a need to confirm relevant facts, it is now possible to **postpone administrative sanctions** until after the prosecution's indictment or the court's final judgment (Article 7, Paragraphs (1) and (3) of the Amended Guidelines).

The Amended Guidelines also allow for heavier administrative sanctions for **failing to meet the conditions for a conditional license** under Article 19-6, Paragraph (1) of the Foreign Trade Act by aggregating the export value related to such failures (Annex 1 of the Amended Guidelines). On the other hand, the guidelines establish a legal basis for mandating an educational session for those who fail to meet such conditions due to simple negligence or carelessness (Article 4, Subparagraph (4) of the Amended Guidelines).

Under the transitional provisions of the Amended Guidelines, these guidelines apply to (i) cases identified after the effective date (i.e., September 9, 2024) and (ii) cases identified before September 9, 2024, but for which a final administrative disposition has not yet been issued as of that date. As an exception, however, for cases identified before September 9, 2024, if the application of the Amended Guidelines would result in a disposition more disadvantageous for the violator than the application of the previous guidelines, the latter may apply (Article 11 of the Amended Guidelines).

The Public Notice has been amended three times this year to expand the list of items subject to the catch-all license requirement in light of the increasingly stringent export controls across the

international community. Simultaneously, the standards for imposing administrative sanctions on violations aimed at evading export controls (e.g., strategic items restrictions and catch-all license requirement) are being strengthened. Competent authorities are also intensifying crackdowns and investigations to detect circumvention. Therefore, companies engaged in the export of strategic items and/or items subject to the catch-all license requirement are recommended to inspect the specifications and HS codes of their export items in advance to determine if such items fall under the existing and expanded lists of controlled items. They should also verify the end-users and end-uses of their exports to prevent potential violations, such as unlicensed exports and circumventions through third countries. As the Amended Guidelines provide a basis for lighter administrative penalties for minor violations, if the companies identify any minor violations during their review, they may consider voluntarily reporting such violations to mitigate administrative sanctions.


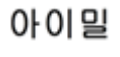
TRADEMARK, DESIGN & UNFAIR COMPETITION

First Application of Punitive Damages for Trademark Infringement in South Korea

By Seok Hyun KWON and Beth JANG

A punitive damages provision for trademark infringement was adopted on October 20, 2020, and a South Korean court recently awarded a claimant punitive damages in a trademark infringement case for the very first time. This ruling is expected to significantly impact brand protection strategies and corporate accountability in the trademark sphere.

Case Background

The plaintiff, owner of the trademarks " " ("imeal" in Korean transliteration) and " " designating organic snack products, accused the defendant of infringing these marks. The defendant held rights to a similar trademark " " ("imeal" in Korean transliteration) designating baby food, tofu sticks, and beverages, products which are similar to the plaintiff's.

The plaintiff initiated legal proceedings by filing an invalidation action against the defendant's trademark and subsequently pursued a lawsuit for trademark infringement. The IP High Court ruled in favor of the plaintiff, invalidating the defendant's trademark based on the similarity between the marks, the well-known status of the plaintiff's marks, and the defendant's bad faith intent. Following this, the trademark infringement lawsuit was referred to mediation, resulting in a settlement agreement that required the defendant to cease using the plaintiff's trademarks.

However, despite the settlement, the plaintiff discovered continued use of its trademarks by the defendant and subsequently filed a separate lawsuit to seek damages.

First-Instance Decision

In its initial ruling, the first-instance court awarded the plaintiff KRW 500 million in damages but did not impose punitive damages. The decision was based on Article 110 of the Trademark Act:

Article 110 of the Trademark Act

Paragraph 6:

In a lawsuit concerning the infringement of trademark rights or exclusive license rights, if damage is acknowledged but it is extremely difficult to prove the facts necessary to verify the amount of damages due to the nature of the facts, the court may, notwithstanding Paragraphs 1 to 5, determine a considerable amount of damages based on the overall intent of the arguments and the results of the examination of evidence.

Paragraph 7:

For those who intentionally infringe trademark rights or exclusive license rights by using a trademark identical or similar to the registered trademark of the trademark owner or exclusive licensee on goods that are identical or similar to the designated goods, the court may, notwithstanding Article 109, determine the compensation amount within a range not exceeding three times the amount recognized as damages in accordance with paragraphs 1 to 6.

Despite the existence of various factors, including damage to brand reputation and duration of infringement, the first-instance court found these insufficient to warrant punitive damages under Article 110(7).

Appeal and Second-Instance Decision

Upon appeal, the IP High Court increased the damages to KRW 600 million. Of this amount, the court identified KRW 100 million as attributable to intentional infringement. This KRW 100 million portion was then doubled to KRW 200 million under Article 110(7), bringing the total damages recognized by the IP High Court to KRW 700 million.

The IP High Court's calculation considered several factors, including:

- Continuous product sales and advertising by the defendant from 2018 to 2023
- A significant decline in the plaintiff's product sales
- The diminishing distinctiveness of the plaintiff's marks
- Increased advertising expenditure by the plaintiff
- The defendant's intentional infringement following the invalidation of its registered trademark

Significance of the Ruling

This ruling highlights the evolving landscape of intellectual property law in the country. By applying punitive damages in a trademark infringement case, the court emphasized the importance of

safeguarding trademark rights and highlighted the potentially severe consequences of intentional infringement. To navigate this changing legal environment, businesses must exercise more caution in their branding strategies and responses to infringement allegations since the consequence of intentional acts of infringement has significantly increased.

Incheon Customs Seizes Nearly 50,000 Counterfeit Items Purchased From Chinese E-commerce Platforms

By Seok Hyun KWON and Beth JANG

Chinese e-commerce platforms are becoming increasingly popular among Korean consumers, largely due to the low prices of their products. At the same time, however, the Korean government has been receiving many reports of counterfeit items being sold on these platforms, prompting the government to introduce measures to address the issue.

The Incheon Customs Office, for example, which has been cracking down on counterfeit goods entering South Korea through maritime express cargo, conducted a special campaign between April 22 and June 14 this year, specifically targeting items being shipped from Chinese e-commerce platforms.

Incheon Customs reported that they seized 49,487 infringing items during their campaign, representing a 30% increase compared to last year. The majority of the counterfeit goods were shipped by Taobao (76%), followed by AliExpress (11%), 1688.com (10%), and Temu (0.4%).

The counterfeit items included 11,375 miscellaneous goods such as keyrings (23%), 11,221 stationery and toy products (22.7%), 4,319 tumblers and kitchenware (8.7%), and 3,060 perfumes and diffusers (6.2%). Additionally, 10,890 items were counterfeit versions of world famous luxury brands.

Incheon Customs is now planning to investigate those importers who repeatedly buy large quantities of counterfeit goods from the Chinese platforms and sell them through social networking platforms and small brick-and-mortar stores. Greater emphasis will be placed on rigorous inspections and enforcement against goods which pose health and safety threats, such as children's products, cosmetics, and kitchenware.

Korea Customs Arrests Counterfeiters Selling Through Social Media Livestream

By Seok Hyun KWON and Clare Ryeojin PARK

The Korea Customs Service ("KCS") announced that the Incheon Customs Office recently arrested a group of individuals who had been making billions of Korean Won selling counterfeit products through social media live streams on various platforms. The case was subsequently transferred to the Incheon District Prosecutor's Office with an opinion of indictment.

Earlier this year, the Incheon Customs Office received a consumer complaint that counterfeit clothes were being sold through social media and initiated an investigation. Over several months, Customs investigators uncovered the locations of the counterfeiters' secret warehouses, conducted raids, seized 21,938 items of counterfeit clothing (worth around KRW 3 billion if they had been genuine products) and arrested five individuals. The counterfeiters had been counterfeiting the brands of 43 different companies, recruiting sellers via live stream, and selling the goods through these sellers to Korean consumers. To conceal their activities, they sold a mix of counterfeit and genuine products.

The KCS emphasized that they plan to strengthen their investigations against the smuggling and sale of counterfeit products, an industry that is becoming increasingly complex and diverse. They will also work with social media platforms that offer streaming services to ensure that accounts that are used to sell counterfeits are quickly taken down. The KCS encourages the public to submit complaints if they suspect counterfeits are being sold, as they may be entitled to monetary compensation if the complaint leads to an active case.

NEWS

Kim & Chang Ranked Again as a Top Law Firm in Korea – Managing IP STARS 2024

Kim & Chang has been recognized as a top law firm in Korea in every category covered – patent prosecution, patent disputes, trademark prosecution, trademark disputes, copyright & related rights and IP transactions – by the Managing IP STARS 2024. This marks the 22nd consecutive year that Kim & Chang has received this honor. Further, Kim & Chang is once again the only law firm in Korea that ranked as a Tier 1 firm for the trademark prosecution category.

In addition, 15 Kim & Chang professionals have been recognized as "IP Stars," "Notable Practitioners," "Rising Stars" and "Top 250 Women in IP." Duck-Soon Chang, Sang-Wook Han, Jay J. Kim, Young Kim, Man-Gi Paik, and Jay (Young-June) Yang have been recognized as "Patent Stars," Sung-Nam Kim, Ann Nam-Yeon Kwon, and Jay (Young-June) Yang as "Trademark Stars," Eun Jeong Cho, Eui Chul Hwang, Yunki Lee, Amy Seung Hyun Oh, and Chun Y. Yang as "Notable Practitioners," Seung-Chan Eom and Jongmin Lee as "Rising Stars," and Sung-Nam Kim as one of the "Top 250 Women in IP."

Managing IP, part of the Delinian Group, is a leading source of news and analysis on IP developments worldwide. Managing IP identifies leading law firms and individuals based on extensive research and in-depth interviews with IP practitioners and clients worldwide.

"Outstanding" in All 24 Categories and 65 "Leading Lawyers" – asialaw 2024

Kim & Chang was named "Outstanding" in all 24 categories in the 2024 edition of *asialaw*, once again receiving the highest recognition across all surveyed categories.

Below are the details of our wins this year.

Firm Rankings (named "Outstanding" in all 24 categories in Korea)

Practice Areas

- Banking and finance
- Capital markets



- Competition/antitrust
- Construction
- Corporate and M&A
- Dispute resolution
- Intellectual property
- Investment funds
- Labour and employment
- Private equity
- Regulatory
- Restructuring and insolvency
- Tax

Industry Sectors

- Aviation and shipping
- Banking and financial services
- Consumer goods and services
- Energy
- Industrials and manufacturing
- Infrastructure
- Insurance
- Media and entertainment
- Pharmaceuticals and life sciences
- Real estate
- Technology and telecommunications

Moreover, 65 of our attorneys and patent attorneys were recognized as Korea's "Leading Lawyers" in their respective areas of expertise. In the Intellectual Property practice area, Duck Soon Chang, Hyun-Jin Chang, Sang-Wook Han, In Hwan Kim, Young Kim, Sang Hun (Andrew) Lee, and Jay (Young-June) Yang were selected as " Leading Lawyers."

About asialaw. *asialaw* is a legal directory annually published by asialaw, a legal media company associated with Delinian, covering law firms and legal practitioners in the Asia-Pacific region. Drawing from law firm submissions, client and peer feedback, independent research and data analysis, *asialaw* published its rankings of Korean law firms in 13 practice areas and 11 industry sectors.

Ranked in the World's Top 100 Law Firms for the Eleventh Consecutive Year – The Global 200 (2024)

For the eleventh consecutive year, Kim & Chang was ranked among the world's top 100 law firms in "The Global 200" rankings published by The American Lawyer and Law.com International.

Once again, our firm was the only Korean law firm to be featured among the top 100. Our firm was ranked 67th in the "Most Revenue" category, which ranks the largest firms in the world by gross revenue, 58th in the "Most Lawyers" category, which ranks law firms based on the number of full-time equivalent lawyers they had, and 97th in the "Most PEP" category, which provides rankings based on profit per equity partner figures.

About "The Global 200": The American Lawyer and Law.com International, the leading US legal media, annually issue the special rankings report "The Global 200" based on survey results and independent research on law firms across the globe.

Newsletter

A Quarterly Update of Korean IP Law & Policy

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