

THE RECENT ISSUE AND POLICY ON PROTECTION OF TRADE SECRET IN KOREA

SPEAKER : PROF. HAN, JI-YOUNG

CHOSUN UNIVERSITY, KOREA

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I. THE CURRENT SITUATION ON LEAKING TRADE SECRET IN KOREA

[Increase of the leakage of trade secrets]

- According to “The Promotion Plan of Protection Policy of Trade Secret in FY 2015” of the *KIPO*, not only the cases to leak technologies within Korea have been increased more than 15 times for the last 15 years, but also the cases of illegally leaking domestic technologies toward abroad have been continuously increasing.
 - According to the Report of the *Ministry of Justice* in 2014, the Public Prosecutor’s Office dealt with 39 cases in 1999, but 459 cases in 2013 regarding criminal crimes on the leakage of technology.
 - According to the report of the *National Intelligence Service* (NIS) the illegal outflow of technology overseas has been increased from 6 cases in 2003 to 49 cases in 2013.
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[KIPO's Report in 2014]

- (1) Damages owing to illegal leakage of trade secrets including technology and management information of large companies as well as SME within Korea are largely blocking growth of companies, and so the growth of national economy in Korea is to be worried.
 - (2) The reason why the protection of trade secret causes social problem(s) is lack of social recognition on significance of the protection of trade secrets on the one hand, and is still insufficient of any legal restraints for preventing leakage of trade secrets in advance on the other hand.
 - (3) According to the survey, only 21% among companies in Korea knows about legal system on the protection of trade secrets, and 57% answered that companies in Korea are very vulnerable to leakage of trade secrets, and are exposed to danger.
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[Q] What is the reason why trade secret is not properly protected in Korea, even though the protection of trade secrets is becoming important?

[Survey results and analysis]

- (1) The burden of proof relating to the leakage of trade secrets puts on the holder of trade secrets(plaintiff) in case of filing a litigation relating to the leakage of trade secrets.
- (2) As to the burden of proof, the holder of trade secrets has to prove that the potential infringer has infringed his trade secrets. However, it is very difficult for him to prove as to whether the potential infringer has used his trade secrets or not. Therefore, he has a tendency to abandon the litigation relating to trade secrets, or to lose the suit.
- (3) The amount of the damages, when claiming the compensation for damages, is said to be few in Korea, and so the holder of trade secrets in the litigation process does not have big advantage(s), even though the case is decided in favor of plaintiff.
- (4) Ca. 31% among holders of trade secrets has never taken any measures at all after infringement of trade secrets because of difficulties on proving leakage of trade secrets.

→ **The protection system of trade secrets should be revised.**

II. THE LEAGL SYSTEM ON THE PROTECTION OF TRADE SECRETS IN KOREA

[Current legal system for protecting trade secrets]

(1) UNFAIR COMPETITION PREVENTION AND TRADE SECRET PROTECTION ACT

[**Purpose**] The purpose of this Act is to maintain orderly trade by preventing acts of unfair competition such as improper use of domestically well-known trademarks and trade names, and by preventing infringement of trade secrets."

(2) ACT ON PREVENTION OF DIVULGENCE AND PROTECTION OF INDUSTRIAL TECHNOLOGY (2006)

[**Purpose**] Prevention of undue divulgence of industrial technology and Protection of industrial technology in order to strengthen the competitiveness of Korean industries, and contribution to national security and development of the national economy.

- Measures of the holder of trade secrets against infringement of trade secrets
 - ① **Civil Remedies:** Request for injunction against infringement,
Claim for damages, Restoration of credit etc.
 - ② **Criminal Remedies:** Penalties or imprisonment etc.

Recent Tendency on the protection of trade secrets under the Act

1) Enlargement of the meaning of trade secrets

Meaning of trade secret: technical information → technical or business information
i.e. Trade secrets means including technical as well as business information for business activity (Art. 2)

2) Reinforcement of criminal punishment

- ① Punishment against Attempted Crimes(Art. 18-2) [Revision as of 21. Dec. 2007]
- ② Criminal Intent and Conspiracy(Art. 18-3) [Revision as of 21. Dec. 2007]
- ③ Violation of Confidentiality Order(Art.18-4) [Establishment as of 2. Dec. 2011]
 - (1) Any person who has violated a confidentiality order issued under Article 14-4 (1) without good cause in the Republic of Korea or overseas shall be punished by imprisonment with labor for not more than five years or by a fine not exceeding fifty million won.
 - (2) No public action against a crime under paragraph (1) shall be instituted without a complaint thereof filed by an interested party.

④ New establishment of additional punishment

Art. 18

“① Any person who has used trade secrets **abroad** or has acquired, used, or leaked to any third party such trade secrets with knowledge of the fact that they will be used **overseas**,..... **shall be punished by imprisonment with labor for not more than ten years or by a fine not exceeding 100 million won:**

② Any person who has acquired, used, or leaked to any third party, trade secrets **(in Korea)** for the purpose of making an improper profit or causing damage to a person who possesses trade secrets **shall be punished by imprisonment with labor for not more than five years or by a fine not exceeding 50 million won.**”

→ Revision as of 30. July 2013

- Art. 18 ① & ② “Any person who has used trade secrets abroad or has acquired, used, or leaked to any third party..... **shall be punished by imprisonment with labor for not more than ten years or by a fine not exceeding 100 million won: Provided, where he/she is punished by a fine, and the amount equal to ten times the amount of profit in property acquired by the violation exceeds 100 million won, a fine equal to two(2) to ten(10) times the amount of profit in property shall be imposed.**”

[Comment] Regulation of the upper limit & the lowest limit for penalties

The purpose to regulate the lowest limit(fine equal to two times the amount of profit in property) is to prevent leakage of trade secrets including domestic core technologies to abroad.

3) Certification of original document of trade secrets (Art. 9-2)

[Revision as of 30. July 2013]

[Purpose] Relaxation of the burden of proof in case of infringement of trade secrets

- (1) In order to have an electronic document certified as to whether it is an original document containing trade secrets, a person who possesses trade secrets may file for registration of the unique identification value extracted from the relevant electronic document (hereinafter referred to as "electronic fingerprint") with an agency that certifies the original documents of trade secrets under Article 9-3.
- (2) Where the electronic fingerprint registered under paragraph (1) and the electronic fingerprint extracted from the electronic document kept by a person who possesses trade secrets are the same, an agency that certifies the original documents of trade secrets under Article 9-3 may issue a certificate verifying that the relevant electronic document is the original registered with the electronic fingerprint (hereinafter referred to as "certificate of the original document").

Comparison of Trade Secrets Act with Industrial Technology Act

	Trade Secrets Act	Industrial Tech. Act
Protection	Private profits (company or individuals)	Public profits (national interest)
Confidential obligation	○ (ruled under the Act)	○ (not ruled under the Act)
Penalty	Art. 18 - not more than five years or by a fine not exceeding 50 million won - more than ten years or by a fine not exceeding 100 million won:	Art. 36 (Stronger) - not more than five years or by a fine not exceeding five hundred million won. - not more than ten years or by a fine not exceeding one billion won.
Subject	Trade secret (= Technical or business information)	Industrial Technology (⊃ National core technology)

ACT ON PREVENTION OF DIVULGENCE AND PROTECTION OF INDUSTRIAL TECHNOLOGY (in 2006)

Article 2 (Definitions)

The terms used in this Act shall be defined as follows:

1. The term "**industrial technology**" means technology that falls under any of the following items and the heads of relevant central governmental administrative organs determines, or publishes or announces under conditions prescribed by Acts and subordinate statutes to enhance the competitiveness of industries under their control from among the methods and technological information necessary for the development, production, dissemination and use of products or services:
 - (a) Original technology developed in Korea at a level the same as or higher than that of technology of advanced countries and has the possibility of industrialization;
 - (b) Technology that is able to considerably reduce the cost of or improve the performance or quality of existing products;
 - (c) Technology that has an enormous technological and economic ripple effect in contributing to enhancing the level of Korean technology and strengthening the competitiveness of Korea in overseas markets;
 - (d) Technology adapting or utilizing the industrial technology under items (a) through (c);
2. The term "**national core technology**" means industrial technology designated under Article 9, which has high technological and economic value in Korean and overseas markets or brings high growth potential to its related industries and is thereby feared to exert an significantly adverse effect on the national security and the development of national economy in the event that it is divulged abroad;

[HOWEVER.....]

- Even though both Acts have been several times revised for reinforcing protection of trade secrets, trade secrets are still leaked, and this exerts an extremely bad effect on national economy.
- Tasks : How to decrease leakage of trade secrets in Korea as well as abroad
⇒ A heated debate on
 strengthening criminal punishments,
 revision on compensation system for damages, etc.
for the next revision of the Act

III. REVISED BILL ON REINFORCING PROTECTION OF TRADE SECRETS IN KOREA

[Committees relating to the protection of trade secrets]

- Task Forces for revising the Act for active protection of trade secrets ('13. 9. ~ '14. 2.)
[Supreme Prosecutors' Office, Ministry of Commerce, Industry and Energy, KIPO]
- Improvements Committee of Compensation system for damage ('14. 2. ~ 5.)
- Subcommittee concerning the Policy on Industrial Property system incl. protection of trade secrets ('14. 6. ~ 10.)

[Discussions]

(1) Establishment of a Guideline on protection and management of the protection of trade secrets

» A Guideline does not have legal forces, and is meaningless.

(2) Introduction of punitive damages system in case of willful leakage of trade secrets

» Consent in terms of preventing the leakage of trade secrets through increase of the amount of damages

Opposition : it is necessary for pre-reviewing and thorough analysis on such cases that SMEs become infringers of trade secrets, and so its introduction is premature.

» **Decided not to introduce the system!**

- Main contents to be discussed about strengthening protection of trade secrets in order for revising the current Act.

(1) Revision on the compensation system for damages

(2) Prevention of leakage of trade secrets in the process of lawsuits

(3) Reinforcement of criminal penalties on the leakage of trade secrets

1. Revision on the compensation system for damages

- 1) The amount of compensation for damages against infringement of trade secrets (2013 Annual report, KIPO)

Asking/Citation	Average amount
Average amount asked for compensation for damages	Ca. 1.3 billion Won (ca. 1.1 Million USD)
Average amount cited by Korean Court	Ca. 240 Million Won (ca. 205 thousands USD)

According to the report in 2013, the average amount for compensation for damages cited by the court is only 1/5 compared with the average amount asked for damages. This is an important reason why the holder of trade secrets is reluctant to bring lawsuit.

In addition, Art. 14-2(Presumption on the amount of damages) regulates how to presume on the amount of compensation of damages.

⇒ In other words, Art. 14-2 applies only for presuming on the amount of damages, but not for relief of the burden of proof on infringement of trade secrets.

⇒ ***Under discussion on introduction of expert witness system relating to the presumption on the amount of compensation for damages***

UNFAIR COMPETITION PREVENTION AND TRADE SECRET PROTECTION ACT

Article 14-2 (Presumption, etc. on the Amount of Damage)

- (1) Where a person whose business interests have been infringed by an act of unfair competition, a violation as referred to in Article 3-2 (1) or (2) or infringement of trade secrets **claims compensation for damage** under Article 5 or 11, and where the person who has infringed the business interests transfers the goods causing the act of unfair competition, violation as referred to in Article 3-2 (1) or (2) or infringement of trade secrets, the amount calculated by multiplying the transferred amount in subparagraph 1 by the presumed profit per unit in subparagraph 2, may be set as damages for the person whose business interest has been infringed. In such cases, the amount of damage may not exceed an amount calculated by multiplying the estimated profit per unit by the number of articles that the person whose business interest has been infringed could have produced subtracted by the number of units actually sold:

Provided, That where a person whose business interest has been infringed was unable to sell the product for reasons other than the act of unfair competition, violation referred to in Article 3-2 (1) or (2), or infringement of trade secrets, a sum calculated according to the number of articles subject to the reasons shall be deducted:

1. The amount of goods transferred;
2. Profit per unit quantity of the goods which a person whose business interest has been infringed would have been able to sell, if there had been no such act of unfair competition, violence as referred to in Article 3-2 (1) or (2) or infringement of trade secrets.

Article 14-2 (Presumption, etc. on the Amount of Damage)

(2) Where a person whose business interests have been infringed by an act of unfair competition, violence as referred to in Article 3-2 (1) or (2) or infringement of trade secrets claims compensation for damage under Article 5 or 11, the profits gained by the infringer through the infringement, if any, are presumed to be the amount of damage suffered by the person whose business interests have been infringed.

(3) Where a person whose business interests have been infringed by an act of unfair competition, violation as referred to in Article 3-2 (1) or (2) or infringement of trade secrets claims compensation for damage under Article 5 or 11, he/she may claim as damages the amount of money that the person would **normally** (→ “**reasonably**”) be entitled to receive for using a mark applied to goods if the mark was the object of an act of unfair competition or a violation referred to in Article 3-2 (1) or (2), or for using trade secrets that were the object of the infringement.

(4) Where the amount of actual damage caused by an act of unfair competition, violation as referred to in Article 3-2 (1) or (2) or infringement of trade secrets exceeds the amount under paragraph (3), the excess amount may also be claimed as compensation for damage. In such cases, when awarding damages, the court may consider whether the person who has infringed the business interest was willful or grossly negligent.

(5) Where the court recognizes in litigation the extreme difficulty, owing to the nature of the case, of proving the amount of damage that has occurred related to an act of unfair competition, violation referred to in Article 3-2 (1) or (2) or infringement of trade secrets, the court may determine a reasonable amount on the basis of the entire tenor of oral proceedings and the results of evidence investigations, notwithstanding paragraphs (1) through (4).

Article 14-3 (Submission of Materials)

(1) In litigation related to the infringement of business interests through an act of unfair competition, violation as referred to in Article 3-2 (1) or (2) or infringement of trade secrets, the court may, upon the request of either party, order the other party to submit materials necessary for the assessment of damage caused by the infringement: Provided, That the same shall not apply where the holder of such materials has a good reason for the refusal of the submission thereof.

[Comment]

① What is the good reason for the refusal of the submission thereof?

② In addition, there is no rule to control or punish the person who has refused the submission of materials necessary for presumption on the amount for damages caused by infringement without any reasonable reason under the Act.

» This Article should be revised to exactly specify what is a good reason, as well as to control or punish the person to refuse the submission thereof.

Article 14-3 (Submission of Materials) [Revised Bill]

(2) [New establishment]

The court may order the submission of such materials in the Article 14-3 (1) in order to make a discrimination between right and wrong as to the assertion of the person who has asserted to have a good reason for the refusal of the submission thereof. In this case the court shall not make the others see the materials.

(3) [New establishment]

Where the materials to be submitted according to the court's order in the Article 14-3 (2) are certainly necessary either for proving the infringement or for presuming on the amount of damages, they shall not be regarded as the good reason in the proviso of Art. 14-3 (1). Provided, that the court has to designate the available scope or an available person within the purpose of court's order to submit the materials, and then the court has to order him to submit them.

[Bill] Article 14-7 (Duty of Explanation on appraisal)

Where a court, in the lawsuit relating to business interests infringed by an act of unfair competition, violation as referred to in Article 3-2 (1) or (2) or infringement of trade secrets, orders an appraisal for the assessment on the amount of damages caused by infringement, each party has a duty to explain any thing necessary for appraisal to appraiser.

» **Introduction of expert witness system for assessment on the amount of compensation for damages caused by infringement of trade secrets**

[Bill] Art. 14-8 (Duty of submission on implementation)

Where a party, who denies a kind of concrete infringements of trade secrets asserted by the other party in the lawsuit relating to infringement of business interests caused by infringement of trade secrets, has a duty to submit concrete types of which he implements. Provided, that the same shall not apply where he has a good reason for the refusal of the submission thereof.

2. Prevention of leakage of trade secrets in the lawsuit process

Under the current public hearing system, there still exists inevitable leakage of trade secrets in the lawsuit process.

» The plaintiff has to concretely specify which trade secrets were leaked, when he files a request with the court, either for preventing infringement against any person who infringes or is likely to infringe trade secrets, or for compensation for damages.

» Where a court hearing for proving as to whether trade secret is leaked or not is publicly opened, the plaintiff(holder of trade secrets) has a tendency to avoid bringing lawsuit against infringement of trade secrets, because he worries about that his trade secrets could be leaked in the lawsuit process.

» Under discussion on introduction of the closed hearing system for preventing leakage of trade secrets in the lawsuit process.

[Articles to be reviewed in the bill]

[Bill] Article 13-2 (Closed Hearing)

- (1) A court can close the hearing according to its own authority or to the application of interested parties in case that it is necessary for protecting trade secrets in the lawsuit relating to infringement of trade secrets.
- (2) The decision of Art. 13-2 (1) shall be informed together with its reason(s).
- (3) Though the court made a decision of Art. 13-2 (1), the chief-judge may permit adjudication to a person recognized as necessary.

[Comment]

A court may close the hearing in the lawsuit relating to infringement of trade secrets when the court expresses grave apprehension as to the leakage of trade secrets. However, the court gives a party an opportunity for adjudication in case that he requests it.

3. Reinforcement of criminal penalties on the leakage of trade secrets

Under the current system, the criteria on determination of punishment against leakage of trade secrets is insufficient in comparison with statutory punishment.

Infringement	Attenuating punishment	Basic punishment	Additional punishment	Statutory punishment
Korea	Max. 10 M	8 M ~ 1 Y 6 M	1 Y ~ 3 Y	5 years
Abroad	10 M ~ 1 Y 6 M	1 Y ~ 5 Y	2 Y ~ 5 Y	10 years

[source: Sentencing Guidelines Commission, Office of Court Administration, 2012]

» It is suggested that the criteria on determination of punishment has to be raised.

» However, it has not been decided yet in which extent the criteria on determination of punishment should be determined.

The KIPO is collecting cases and foreign Acts, and comparing them in order to draw remedies for reinforcing criminal penalties on the leakage of trade secrets.

[Articles to be reviewed in the bill]

Article 18 (Penalty Provisions)

Current Article	Article according to revision bill
<p>(1) Any person who has used trade secrets abroad or has acquired, used, or leaked to any third party, such trade secrets with knowledge of the fact that they will be used overseas, for the purpose of making an improper profit or causing damage to a person who possesses trade secrets, shall be punished by imprisonment with labor for not more than ten years or by a fine not exceeding 100 million won: Provided, That where he/she is punished by a fine and the amount equal to ten times the amount of profit in property acquired by the violation exceeds 100 million won, a fine equal to two to ten times the amount of profit in property shall be imposed.</p>	<p>(1) Any person who did one of the following act for the purpose of making an improper profit or causing damage to a person who possesses trade secrets, shall be punished by imprisonment with labor for not more than ten years or by a fine not exceeding 100 million won: Provided, That where he/she is punished by a fine and the amount equal to ten times the amount of profit in property acquired by the violation exceeds 100 million won, a fine equal to two to ten times the amount of profit in property shall be imposed.</p> <ol style="list-style-type: none"> 1. acts that used trade secrets abroad 2. acts that did one of following things with knowledge of the fact that they will be used overseas, <ol style="list-style-type: none"> a) acts that has acquired, used, or leaked to any third party, such trade secrets; b) acts that either refuse or avoid the return of the materials, or continuously keep any copies etc., even if a person, whose authority to keep or use trade secrets is becoming extinct, is called for returning or removing the materials from the holder of trade secrets, in which trade secrets are saved.

[Articles to be reviewed in the Bill]

Article 18

Current Article	Article according to revision bill
<p>(2) Any person who has acquired, used, or leaked to any third party, trade secrets for the purpose of making an improper profit or causing damage to a person who possesses trade secrets shall be punished by imprisonment with labor for not more than five years or by a fine not exceeding 50 million won: Provided, That if where he/she is punished by a fine and the amount equal to ten times the amount of profit in property acquired by the violation exceeds 50 million won, a fine equal to two to ten times the amount of profit in property shall be imposed.</p>	<p>(2) Any person who did one of the following acts for the purpose of making an improper profit or causing damage to a person who possesses trade secrets shall be punished by imprisonment with labor for not more than five years or by a fine not exceeding 50 million won:</p> <p>Provided, That if where he/she is punished by a fine and the amount equal to ten times the amount of profit in property acquired by the violation exceeds 50 million won, a fine equal to two to ten times the amount of profit in property shall be imposed.</p> <p>a) acts that has acquired, used, or leaked to any third party, such trade secrets;</p> <p>b) acts that either refuse or avoid the return of the materials, or continuously keep any copies etc., even if a person, whose authority to keep or use trade secrets is becoming extinct, is called for returning or removing the materials from the holder of trade secrets, in which trade secrets are saved.</p>

[Review on Art. 18 (1) & (2) in the bill]

[Comment]

(1) About deleted expressions

- ① The reason why the expression of Art. 18 (1) and (2) “Provided, That if where he/she is punished by a fine and the amount equal to ten times the amount of profit in property acquired by the violation exceeds 50 million won, a fine equal to two to ten times the amount of profit in property shall be imposed.” **should be deleted is that presumption on the amount of profit in property acquired by the violation is very difficult in reality, and that it is also difficult to apply penalties in the practice of trial.**
- ② The upper limit for penalties should be fixed amount.
- ③ Through fixation of the amount of the upper limit for penalties, monetary penalty would result in enhancing its effectiveness and contributing to reinforce protection of trade secrets.

(2) About newly established clauses

- ① The types on infringement of trade secrets to be criminally punished should be concretized, and hereby infringements of trade secrets which have not been punished so far under the Act should be punished as well;
- ② A person who has refused to return or delete the materials relating to trade secrets, has to be criminally punished, after his authority to use trade secrets had been extinct.

IV. COOPERATION AMONG CHINA, JAPAN AND KOREA FOR REINFORCING PROTECTION OF TRADE SECRETS

[Q]

What are China, Japan and Korea doing for reinforcing protection of trade secrets in all three countries, and which cooperation system should they construct?

- (1) Understanding on the protection legal system on trade secrets in all three countries;
- (2) Exchange of the information about in which country and in which extent trade secrets are concretely leaked;
- (3) The cooperation system at the level of the government should be constructed.
For example, 'Agreement as to Protection of Trade Secrets in China, Japan and Korea' in case of need.
- (4) Civil cooperation regarding protection of trade secrets would be needed as well.
For example, regular Academic symposiums, Seminars etc.

V. CONCLUSION

- The protection of trade secrets is becoming important in this era.
- The KIPO is finding a way to further reinforce the protection of trade secrets, and to prevent illegal leakage of trade secrets.
- There are lots of debates on which direction the policy for reinforcing the protection of trade secrets in Korea should go to. Especially the KIPO tends to reinforce the criminal punishment according to the revised bill.
- In order to protect trade secrets in all three countries, it is necessary for three countries to closely cooperate with each other, and to make efforts such as the exchange of the related information.

**Thank you very much
for your attention!**
