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I. Changes in competition laws and policies in Korea

1.1. Major revisions to the competition law and its enforcement decree

1.1.1. Revision of the Enforcement Decree of the Fair Trade Act (revised on 3.31,1997, implemented on 4.1, 1997)

1. The Fair Trade Commission drafted revisions to the Fair Trade Act(FTA) on December 30, 1996. Since the main contents were explained in the 1996 annual report this report will be devoted to examining the major objectives of the revisions to the Enforcement Decree which were drafted in accordance with the revisions to the Act.

2. First, the revisions were aimed at improving monopolistic market structures and strengthening restrictions on economic concentration. With respect to designation of market-dominant enterprises, the KFTC, in consideration of the size of the Korean economy, adjusted the criterion for market-dominant businesses from annual supply of products worth 50 billion won to 100 billion won in the domestic market. However, those businesses which are not likely to abuse their market-dominant positions, that is those whose markets have no barriers to entry, experienced no price increase during the past two years and no violations of the regulations on abuse of market dominance or undue collaborative acts during the past two years, are excluded. In addition, the limit on the total amount of capital investment by large business groups was raised from 10% to 20% for investments made for the purpose of maintaining co-operative relationship with small and medium-sized businesses which manufacture and supply parts, or of transferring part of their business to small and medium-sized companies as a art of industrial restructuring.

3. Second, the provisions on business combinations were revised. Now corporations with a net asset or revenues of 20 billion won or more are subject to the filing of a report on business combination whereas before the revision, companies with a net asset or revenue of 5 billion won or more were subject to this regulation. In addition, according to the revised Enforcement Decree, all business combinations likely to substantially lesson competition are prohibited whereas before, only business combinations of corporations of a certain size (with a total capital of 5 billion won or more or a net asset of 20 billion won or more). Furthermore, with respect to business combinations, any party participating in a business combination for the purpose of gaining control of management is defined as a "specially related person" even if that party is not a subsidiary or a relative of the business group involved.

4. Third, the system on surcharge was modified to ensure effective enforcement of the Fair Trade Act and to alleviate the burden on businesses. Before the modification the total revenues generated from the sale of the given product during the period of the violation was used as the basis for calculating the amount of surcharge to be levied. Now, according to the modified system, the amount of surcharge is calculated in proportion to the average sales revenues for the three immediately preceding years, and if the violator fails to pay the surcharge within the set deadline, the violator will be subject to an additional amount at an annual rate of 6%.

5. Fourth, the provisions on international contracts with unfair terms were revised. The recent revision of the Enforcement Decree divides contracts on introduction of intangible property rights into three categories: industrial property rights contracts, copyright license contracts and know-how license contracts. The clause on the requirement of a certain amount of contract period was deleted. Also, the scope of the regulations was expanded to covercontracts on the introduction of the right to exercise or

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exploit intangible property rights. In addition, new types of international contracts such as international contracts on copyrights for computer programs, franchise contracts and joint research and development agreements, were added on to the existing provision.

1.1.2. Revision of the Enforcement Decree of the Act on Establishment of Fair Subcontracting Practices (March 31, 1997)

6. The KFTC revised the Subcontract Act in December 1996 to strengthen protection of small- and medium-size corporations. As part of the modification, the guarantees for subcontract payments and surcharge were introduced. In accordance with the revisions to the Act, the Enforcement Decree was also revised. The following are the major revisions to the Enforcement Decree:

7. First, exemption from subcontract payment guarantees for construction projects is limited to construction projects with cost equivalent to or less than 30 million won and projects of contractors which are financially sound according to assessment by the Korea Construction Financial Co-operative. In addition, with the adoption of the subcontract advisor system, provisions on the eligibility of advisors, submission of opinions or recommendations of the advisors, payment of fees for advisors and the basis for operating the system were created. Also, in an effort to solve the problems encountered in the process of enforcement, the provisions on determining annual revenues and the number of full-time employees, the criteria for exemption for contractors, the regional application of consigned manufacturing and restraints subject to investigation, were modified.

1.2. Enactment and revision of guidelines and notifications

8. The KFTC, to reflect the revision of the Fair Trade Act and to raise transparency in the operation of the competition law, enacted 6 guidelines and notifications and revised 5 notifications in 1996. The major contents of the enactments and revisions are as follows:

1.2.1. Enactment of the Notification on Types of Unfair Trade Conduct in Parallel Imports

9. The Fair Trade Commission changed the Guidelines on Types of Unfair Business Practices Relating to Parallel Import a notification in July 1997 to raise legal transparency regarding parallel import by specifically illustrating the major examples of unfair restraints of parallel imports. The content of the notification is as follows:

10. Obstructing the purchase of original products from foreign distribution channels constitutes interference with business activities of other businesses, and restraining merchandisers from dealing in parallel import products is considered as transaction of exclusionary conditions. In addition, if a monopoly importer refuses or suspends the supply of its products to merchandisers who deals in parallel import products, that constitutes refusal to deal.

I.2.2. Revision of the Notification on the Types of and Criteria for Unfair Business Practices Relating to Special Discount Sales (March 1997)

11. Despite the opening of the domestic distribution market in 1997 and the subsequent changes in the distribution environment, the related businesses have continued to rely on the existing limitations on discount sale period for protection from competition. So the KFTC revised the notification in order to abolish competition-restrictive regulations and create a free sales environment. All limitations on the special discount sale period, except for the 20-day period for maintaining the initial prices, are abolished, and the limitations on the period for representation and advertising of discount rates.

I.2.3. Revision of the Notification on the Types of and Criteria for Unfair Business Practices Relating to the Offering of Gifts (March 1997)

12. As part of an effort to ensure free business activities of enterprises, the KFTC exempted small-sized businesses (manufacturers with annual revenues below 10 billion won or other businesses with annual revenues below 1 billion won) from the application of the Notification on the Types of and Criteria for Unfair Business Practices Relating to the Offering of Gifts abolished the limit on the total value of a gift with purchase and expanded the scope of this notification to cover goods and services offered during promotion of new products by a new entrant into the market.

I.2.4. Enactment of Guidelines on Fair Representation and Advertising of Insurance Products

13. Since consumers generally selects products based on advertisements rather than terms of contract, undue representation or advertising by insurance companies can cause injury to consumers and hinder fair competition among insurance firms. Therefore, the KFTC enacted the guidelines which stipulate that advertising in such a way as to lead consumers into believing that they will be guaranteed benefits of optional terms by signing a general contract or concealing the basis for computing the refunds for cancelled policies constitute unfair representation or unfair advertising.

II. Enforcement of the Competition Law

II.1. Regulation of abuse of market dominance

14. At the end of each year, the Fair Trade Commission designates and publishes market-dominant businesses for the coming year based on the market shares of the previous year. The purpose of that is to prevent abuse of dominance by those businesses which have great influence on the market. In addition, the process of designating the dominant businesses of different markets, different product markets are defined. This guarantees predictability with regard to which businesses are subject to which regulations. According to the criteria set forth in the relevant provisions of the Fair Trade Act, a market-dominant enterprise is an enterprise which supplies its goods or services in a market where the goods or services which are the same as or similar to the goods or services the gross domestic supply amount of which during the most recent one-year period is one hundred (100) billion Won or provided that the market share of one enterprise is 50% or more or the combined market share of three or less companies is 75% or more. The Fair Trade Commission designated 311 businesses in 128 goods and services as market-dominant enterprises for 1998. These businesses were designated at the end of 1997 based on their market shares in

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1996. Compared to the market-dominant enterprises for 1997, the number of goods and services and decreased by 38 and the number of enterprises by 75.

Table 1.
Changes in the market concentration of market-dominant products
(unit: company)

Year	Total number of items	Products with one market-dominant enterprise	Products with two market-dominant enterprises	Products with three or more market-dominant enterprises (90% or more)
1977	129	24	41	64 (26)
1998	128	21	44	63 (23)

15. Because market-dominant enterprises are in a superior position which allows them to exercise market power in determining the price and quantity of the goods or services as well as the terms of trades, when they violate the Fair Trade Act, they will be subject to the regulations on abuse of market-dominance in addition to the regulations on unfair trade practices. Abuse of market-dominance can be classified into five major categories: unreasonably determining, maintaining, or altering prices of commodities, unreasonably controlling sales of commodities, interfering in the business activities of other enterprises, unreasonably interfering in the market entry of competing enterprises and other acts likely to restrain competition or significantly damage consumer interests. These acts are subject more severe penalties than other unfair trade practices. The table below reflects the corrective measures taken against cases of abuse of dominance.

Table 2.
Corrective Measures On Cases of Abuse of Dominance
(unit: case)

Classification		Total	'81-'92	'93	'94	'95	'96	'97
Total		26	17	2	1	3	1	2
Type of abuse of dominance	Price abuse	3	3	-	-	-	-	-
	Interference with other businesses	19	12	2	1	1	1	2
	Interference in market entry	2	2	-	-	-	-	-
	Other acts likely to restrain competition	2	-	-	-	2	-	-
Type of corrective measure	Corrective order	15	9	2	1	1	1	1
	Recommendation for correction	5	3	-	-	-	-	-
	Warning	6	5	-	-	-	-	1

II.2. Correction of undue collaborative acts

16. The Fair Trade Commission took corrective measures on a total of 22 cases of undue collaborative acts in 1997. Out of the 22 cases the KFTC issued orders for correction for 11 cases, recommendations for correction for 8 cases, and warning for 2 cases and filed a complaint against one. To divide the cases into different categories, predetermination of price accounted for the majority with 14 case(63.65) and restriction of territory of trade or customers and restriction of business activities accounted for 3 and 2 cases respectively.

Table 3
Corrective measures for different types of collaborative acts
(unit: case)

Type	'81-'92	'93	'94	'95	'96	'97	Total
Collusion on price determination and maintenance	45	11	13	20	27	14	130
Collusion on determination of terms of sales	8	-	1	1	1	1	12
Restriction of business activities	-	1	1	-	3	2	7
Control of production and ex-factory volume	16	1	2	1	-	1	21
Restriction of territory of trade or customers	14	2	2	2	3	3	26
Restriction of the types of the goods	8	-	-	1	-	-	9
Establishment of a joint corporation	-	1	-	1	2	1	5
Total	91	16	19	26	36	22	210

For '81-'92, corrective measures, warnings are not included.

II.3. Correction of violating acts by trade associations

17. The Fair Trade Act defines "trade association" as any combination or federation of enterprises, regardless of the structure, formed by two or more enterprise for the purpose of enhancing their common interests, and subjects them to the Trade Association Establishment Reporting Guidelines and the provisions on anti-competitive acts of trade associations and improper representation and advertising. Since the Fair Trade Act was first enforced, the KFTC took corrective measures against a total of 528 cases of undue collaborative acts. Out of the 528, KFTC issued order for correction for 198 cases and recommendation for correction for 91 cases. Complaints were filed on 13 cases, and for 228 cases in which the violations were relatively minor, the KFTC issued warnings.

18. In 1997 the KFTC took corrective measures on 54 cases of violations by trade associations. KFTC issued order for correction for 17 cases, recommendation for correction for 30 cases and warnings for 7 cases, and filed a complaint against 1 case. To divide the cases into different categories, restriction of competition in a given area of trade top the list with 38 cases, accounting for 70%, and next on the list was restriction of business activities or the nature of business of other companies with 13 cases.

Table 4
Types and number of violations by trade associations
(unit: case)

Classification	'81-'92	'93	'94	'95	'96	'97
Anti-competitive acts	92	49	43	30	46	38
Restriction of the number of member corporations	22	3	4	1	1	1
Restriction of business activities or the nature of the business	49	3	5	5	15	13
Unfair business practices & Resale price maintenance	33	3	3	3	4	2
Wrongful representation & advertising	-	-	1	1	-	-
Total	198	58	56	40	66	54

II.4. Correction of unfair business practices

19. In 1997 a total of 871 cases of unfair business practices were reported to the KFTC which marks a 3.8%-increase from 839 cases in 1996. To divide the reported cases into different categories, wrongful representation and advertising topped the list(266 cases or 30.5%), followed by abuse of dominance(220 cases, 25.6%), unfair luring of customers(134 cases, 15.4%) and refusal to deal(110 cases, 12.6%). However, the number of cases reviewed by the KFTC in 1997 reached 992 cases, marking a sharp rise from 611 cases in 1996. The rise reflects the aggressiveness and speed with which the KFTC handled the cases during 1997. The KFTC took various corrective measures against these cases. It issued recommendation for correction for 175 cases, order for correction for 19 cases, filed complaints against 19 cases and imposed surcharge on 3 cases.

20. The Fair Trade Act sees unfair representation and advertising as a type of unfair business practice and provides for various measures including order for correction and surcharge, to regulate and correct such conducts. In 1997, the KFTC focused on unfair representation and advertising cases in sectors cloakedly related to the everyday life of the general public such as food, insurance, communications service, furniture, etc.. By correcting unfair representation and advertising practices, the KFTC has made direct contribution to the enhancement of public welfare.

Table 5.
Different Types of Unfair Business Practices Reported and Handled
(unit: case)

Type	Year	1996		1997	
		Reports filed	Cases handled	Reports filed	Cases handled
Refusal to deal		91	62	110	126
Discriminatory treatment		24	20	71	25
Elimination of competitors		24	18	12	15
Unfair luring of customers		135	103	134	136
- by offering of gifts		97	66	49	79
- by special discount sales		13	19	14	14
- by other methods		19	18	71	43
Transaction based on restrictive conditions		19	18	38	39
Coercion in dealing		16	11	12	16
Abuse of dominance		255	180	210	271
Interference in the business activities of others		23	17	27	24
Wrongful representation or advertising		252	182	266	339
Undue subsidisation		-	-	-	-
Total		839	611	871	992

21. In addition, the Fair Trade Act authorises the KFTC to review industrial property rights contracts, copyright license contracts, know-how license contracts, franchise contracts, joint research and development agreements, import distribution contracts and joint venture agreements and take necessary corrective measures including cancellation or alteration of contract and imposition of surcharge.

22. In 1997, a total of 23 international contract cases were reviewed by the KFTC, marking a drastic drop from 85 cases in 1996. However, the ratio of corrective measures (number of corrective measures/number of cases reviewed) has continuously increased from 14.0% in 1995 to 30.6% in 1996 and to 39.1% in 1997. Out of the international contracts reviewed, industrial property rights contracts accounted for the majority with 17 cases followed by import distribution contracts with 4 cases and franchise contracts with 2 cases.

Table 6.
Reported International Contracts and Results of KFTC Reviews
(unit: case)

Classification		'81-'89	'90	'91	'92	93	'94	95	'96	97	Total
Industrial Property Rights Contracts	Reviewed	4 070	488	548	530	591	631	251	42	17	7 168
	Corrected	1 286	34	54	42	57	50	36	15	5	1 579
	Approved	2 784	454	494	488	534	581	215	27	12	5 589
Copyright License Contracts	Reviewed	638	438	267	395	48	25	3	-	-	1 1814
	Corrected	1	-	-	-	2	1	-	-	-	4
	Approved	637	438	267	395	46	24	3	-	-	1 810
Import Distribution Contracts	Reviewed	395	274	211	51	258	112	24	42	4	1 371
	Corrected	106	189	199	-	54	4	4	10	3	569
	Approved	289	85	12	51	204	108	20	32	1	802
Joint Venture Agreements	Reviewed	170	-	-	1	-	-	-	-	-	171
	Corrected	6	-	-	-	-	-	-	-	-	6
	Approved	164	-	-	1	-	-	-	-	-	165
Franchise Contracts	Reviewed	1 043	60	17	27	8	-	7	1	-	1 163
	Corrected	170	1	1	-	-	-	-	1	-	173
	Approved	873	59	16	27	8	-	7	-	-	990
	Reviewed	-	-	-	-	-	-	-	-	2	2
	Corrected	-	-	-	-	-	-	-	-	1	1
	Approved	-	-	-	-	-	-	-	-	1	1
	Reviewed	-	9	21	62	5	-	-	-	-	97
	Corrected	-	-	-	15	-	-	-	-	-	15
	Approved	-	9	21	47	5	-	-	-	-	82
Total	Reviewed	6 316	1 269	1 064	1 066	910	768	285	85	23	11 786
	Corrected	1 569	224	254	57	113	55	40	26	9	2 347
	Approved	4 747	1 045	810	1 009	797	713	245	59	14	9 439

23. The Fair Trade Act defines resale price maintenance as an anti-competitive conduct which restrains free pricing by independent businesses and subsequently restricts price competition, and therefore, prohibits resale price maintenance. However, for literary works pursuant to the Copyright Act which are designated as exceptions by the KFTC based on certain criteria, resale price maintenance is allowed. This is called the "fixed book price system." However, given the rapid changes in the distribution sector, the KFTC is planning to apply rule of reason rather than the principle of per se illegality in determining the illegality of resale price maintenance, and to modify the current system to allow literary works including books to be selected for resale price maintenance. In 1997 a total of 10 cases were reported for resale price maintenance marking a 67% increase from 6 cases in 1996.

II.5. Correction of unfair subcontracting practices

24. The KFTC is operating "Act on Fair Subcontract Transactions" as an effort to promote sound development of the national economy by ensuring fairness in subcontract transactions and protecting subcontractors who are in relatively weaker positions. In 1997, the KFTC took corrective measures on a total of 534 unfair subcontract transactions which is a 8% increase for 494 of the previous year. However, the ratio of corrective measures increased by nearly 40%. In 1997, out of the unfair subcontract practices, default of subcontract payment and default on bill rediscounting fee accounted the majority with 292 and 169 cases respectively. Of these unfair subcontract cases, 14 were subject to order for correction, 45 to recommendation for correction, 19 to warning and 323 to review by the Dispute Settlement Committee.

II.6. Correction of unfair fixed terms of contract

25. Since the Regulation of Contractual Terms and Conditions Act first took effect in 1987, the number of contracts submitted to the KFTC for review has steadily increased. In 1997 the KFTC reviewed a total of 422 contracts which is a 9.3% increase from the previous year. Out of the 422 contracts submitted for review, 296 or 84.6% were reviewed upon request by an interested party and 47 contracts were reviewed on KFTC's authority and 7 upon submission by consumer groups. Real estate contracts, insurance policies accounted for the majority, followed by contracts related to services and wholesale and resale transactions. The KFTC issued order for correction on 46 cases, recommendation for correction on 96 cases and request for correction on 10 cases, and dismissed 270 cases. The reason for the dramatic increase in corrective measures in 1997 compared to 1996 is that the number of contracts reviewed on KFTC's own authority increased from 4 in 1996 to 47 and the number of unfair contracts reported by citizens increased as a result of enhanced public awareness of unfair contracts.

II.7. Review of business combinations

26. The Fair Trade Act prescribes stock acquisition, interlocking directorate, merger, business take-over and establishment of a new company as business combinations and requires that business combinations which meet certain criteria be reported to the KFTC. The number of business combinations which has been on the rise since 1994 reached 418 in 1997 marking a 6.4% rise from the previous year.

27. Business combinations between affiliated companies accounted for 29.4% of the total number of business combinations, marking a 10.2% decrease from the previous year. However, the number of mergers increased and whereas the number of stock acquisitions decreased. This shows that companies are opting for management rationalisation through austerity over outward expansion through capital increase. Business combinations between non-affiliated companies increased to 70.6% from 15.2 % of the previous year. While the number of stock acquisition and mergers dropped, the number of establishment of new companies increased by 25.4%. Out of the 25.4%, eliminating the companies created for the purpose of separating businesses, 20.9% account for companies established for as new market entrants. This reflects that up until the end of 1997 when the financial crisis came to light, business expansion was on the rise.

Table 7.
Trends in Business Combinations by year
(unit: case, %)

	93	%	94	%	95	%	96	%	97	%
Establishment of a new company	24	(19.5)	55	(28.2)	121	(37.2)	130	(33.1)	163	(39.0)
Stock acquisition	29	(22.6)	77	(39.5)	142	(43.7)	159	(40.5)	130	(31.1)
Merger	55	(44.7)	48	(24.6)	48	(14.8)	63	(16.)	75	(17.9)
Interlocking directorate	2	(1.6)	2	(1.0)	4	(1.2)	16	(4.0)	27	(6.5)
Take-over of business	13	(10.6)	13	(6.7)	10	(3.1)	25	(6.4)	23	(5.5)
Total	123	(100)	195	(100)	325	(100)	393	100	418	(100)

28. (Out of the 418 business combinations the KFTC handled in 1997, 47 cases violated the relevant provisions. The KFTC reviewed 7 cases prior to the official reporting process upon request by interested parties. The KFTC issued warnings on 46 cases for violating the provisions on reporting of business combinations and disallowed one of the cases which were reviewed prior to the official reporting.

Table 8.
Results of Business Combination Reviews
(unit: case)

Year	81;-89	90;-93	94	95	96	97	Total
Corrective order	2	-	-	-	1	-	3
Exception	-	2	1	-	-	1	4
Warning	291	77	13	23	35	46	485

III. KFTC's advocacy role

III.1. Consultation on legislation of competition-restrictive laws and regulations

29. Pursuant to the provisions on operation of legislative affairs, each of the government ministries is required to consult with other related ministries prior to enactment or revision of the relevant laws and regulations. Furthermore, Article 63 of the Fair Trade Act obligates government ministries to consult with the KFTC if the relevant laws or regulations are deemed anti-competitive or competition-restrictive. In its consultations with the related ministries on proposed legislation's, the KFTC makes its recommendations for deregulation or deletion of competition-restrictive provisions. If KFTC's opinion is reflected in the working-level consultations, the Chairman or the Vice Chairman expresses the KFTC's opinion during the ministerial or the vice-ministerial meetings.

30. In 1997 the KFTC was asked to consult with government ministries on 408 laws and regulations which marks an increase of 115 cases from 293 cases in 1996. This increase is due to the sheer increase in the number of legislation's but also due to the government ministries' growing awareness of the importance of consultations with the KFTC. Of the total 408 cases on which the KFTC consulted with the relevant ministries, the KFTC made recommendations in the competition policy and deregulation on 139 cases or 34.1% and the KFTC's recommendations were reflected on 106 cases or 76.3%.

Table 9.
Statistical Report on Consultations and KFTC's Recommendations
(unit: case)

classification		Act	Enforcement Decree	Enforcement Regulations	Total
KFTC makes	Reflected	32 (27)	46 (35)	28 (15)	106 (77)
	Not reflected	16 (4)	6 (8)	11 (2)	33 (14)
	Subtotal	48 (31)	52 (43)	39 (17)	139 (91)
KFTC agrees to the original draft		46 (70)	116 (68)	107 (64)	269 (202)
Total		94 (1010)	168 (111)	146 (81)	408 (293)

() reflects the corresponding figures for 1996.

31. In addition, the KFTC expressed its opinion on 18 cases out of the total 588 cases reviewed at economic-related ministerial and vice-ministerial meetings in 1997 and its opinion was reflected in 13 of them.

III.2. Implementation of regulatory reforms

III.2.1. Modification of the regulatory reform system

32. In April 1997, the Korean government modified its regulatory reform system and method in an effort to revitalise the economy through strengthened deregulation. The Economic Administrative Regulatory Reform Committee which was initially operated by the Ministry of Finance and Economy is no longer in charge of regulating specific industries. It was moved to the KFTC under the title of Economic Regulatory Reform Committee and is in charge of pursuing regulatory reforms in the economic sector. Meanwhile, the Regulatory Reform Committee was formed jointly by the Prime Minister and private members as the top government body responsible for regulatory reforms. The instalment of the Committee reflects the government's resolve to pursue regulatory reform all across the government sector.

33. Accordingly, the KFTC reforms has created and is operating the Deregulation Task Force to identify and pursue regulatory reform tasks. The Deregulation Task Force drafts plans for deregulation which will be reviewed by the Economic Regulatory Reform Committee and then discussed at the Regulatory Reform Committee for final approval. In order to ensure that the opinions of the private sector are reflected in the regulatory reform efforts, the Economic Regulatory Reform Committee is made up of private citizens. The Committee consists of 25 members who are leaders of the academia, business community, economic organisations and consumer groups.

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III.2.1. Performance of KFTC's Economic Regulatory Reforms

Reforms of Priority

34. During the first half of 1997, the KFTC selected 8 sectors which were thought to have many obstacles to free business activities and devised 28 reform tasks for these areas. The main contents of the tasks are as follows:

35. First, many regulations regarding market entry have been eased. For instance, private and publicly-funded businesses will be able to provide electricity to the general public with certain limitations, whereas currently, supply of electricity is solely carried out by the state owned enterprise, KEPCO. Competition will be introduced in the electricity retail market by allowing supply of electricity to a given district. Moreover, export and import licensing of LNG industry will be abolished from January, 2001, and establishment of electricity corporation will no longer require a license but require only a registration to ease market entry. Also, in the airline industry, reforms will be made to allow easier access to air routes.

36. Second, regulations regarding establishment of new firms and plant sites have been greatly eased. Limitation in area on building manufacturing plants in housing areas have been lifted from less than 200 square meters to 500 square meters to allow small and medium sized firms easier construction of manufacturing plants. Furthermore, "Industry Promotion district" have been selected where limitations on area have been abolished to promote construction of large-scale manufacturing plants.

37. Third, regulatory reforms took place to alleviate the burden on businesses. It was pointed out that impact assessment similar in kind conducted separately posed great burden on businesses as they slowed down business activities. Also there was criticism that such assessments failed to provide a systematic overview. Integration of impact assessments for environment, traffic and disaster is currently underway. In addition, the bid bond system was modified. By entrusting the contracting party to make decisions on the exemption of bid bonds, the modified system has expanded the scope of bid bond exemption and thereby reduced the time and cost on the part of the businesses.

38. Fourth, regulations on trade associations have been eased. Provisions which force the compulsory establishment, membership and membership fee payment of trade associations have been abolished. Consequently, trade associations can be freely established. Also, with regard to the determination of fees by entrusted trade associations, the related provisions were also revised to require that fees be determined based on the agreement of a group with the joint participation of representatives of consumers and public interest groups. In addition, monitoring of business activities of individual businesses have been abolished.

39. Fifth, quality evaluation and certification policies, such as automobile inspection have been improved. For example, regular check-ups of non-commercial passenger vehicles were improved so that regular check-ups would be conducted every two years following the first four years, rather than every two years following first three years. For a medium to long-term policy, pre-delivery inspection will be replaced by post-sale inspection of manufacturing defects to reduce burden on manufacturers as well as maximising consumer welfare. In addition, with respect to the automobile emission certification system, the pre-certification inspection was abolished and the inspection which was initially carried out by the Automobile Pollution Institute is now conducted by the producers themselves. The purpose of the modifications was to reduce the time spent on certification as well as the burden on the producers.

Major challenges in achieving advanced economic structure

40. Since the end of 1997 the KFTC has been pursuing systematic and comprehensive reforms in areas such as industrial regulations which are directly linked to the achievement of advanced economic structure. The objective is to induce domestic markets to have competitive structures. To this end, the KFTC selected 11 core areas such as plant construction, distribution and information & communication which are subject to complicated regulations and have significant impact on the overall economy, and devised deregulation plans for "industrial site and plant construction" and "information & communication." The KFTC will draft stage-by-stage reform plans for the remaining 9 areas in 1998.

IV. Budget and manpower of the KFTC

41. The status of the KFTC's budget as of the end of 1997 is as follows:

Table 10.
Current Status of KFTC Budget
(unit: thousand U. S. Dollars)

	1997Budget(A)	1996Budget(B)	Variation(A-B)	%
Total	17 172	15 763	1 409	28.75
1. Personnel expenditure	11 108	10 364	744	26.7
2. Standard expenditure	1 609	1 583	26	20.1
3. Ordinary working expenditure	3 317	3 147	170	24.5
4. General working expenditure	1 138	669	469	100.9

Annual average exchange rate was applied.

42. The status of personnel and allocation of manpower at the KFTC as of 1997 is shown in the table below. Excluding the technical officials, 223 people are allocated to the enforcement of the Fair Trade Act against anti-competitive practices, 8 to business combination review and 67 to competition advocacy role.

KOREA

Table 11.
Current Status of KFTC Personnel
(unit: person)

Classifi- cation	Persons in charge of the enforcement of the FTA or other related work															Tech	Total	
	Persons with undergraduate or higher education																	
	Economics			Law			Business Administration			Public Administration			Others					
	Ph. D.	M.A.	B.A.	Ph. D.	M.A.	B.A.	Ph. D.	M.A.	B.A.	Ph. D.	M.A.	B.A.	Ph. D.	M.A.	B.A.			
As of 12.31.97 ¹	11	29	33	1	11	30	1	11	30	-	49	40	-	5	75	29	81	436
		(+3)	(+ 2)	(+1)		(+ 5)		(+ 2)	(+ 6)		(+ 4)	(+ 4)			(+8)		(+2)	(+34)
As of 12.31.96 [*]	11	26	31	-	11	25	1	9	24	-	45	36	-	5	67	29	82	402

1. (Variation=

V. Publication of research reports

43. In 1997 the KFTC published a total of 6 research reports including «Measures to Improve Distribution Practices», «Study on Enactment of Act on Fair Representation and Advertising» and «Measures to Strengthen KFTC's Investigative Powers».

V.1. Measures to improve distribution and trade practices

44. The main content of this report is as follows. First, as a measure to improve regulation of unfair business practices, the KFTC prepared guidelines based on the current regulation of unfair business practices in Korea and the experiences of other countries. The KFTC also reviewed measures to foster new forms of distribution businesses by easing the related regulations. In addition, to establish fair trade guidelines for joint brands of small and medium enterprises, the KFTC presented the definition and concept of joint brand, forms of application, basic principles and specific guidelines for different types of conducts. Furthermore, as part of an effort to improve the price management of pharmaceutical products, the KFTC proposed that the standard retail prices of general pharmaceutical products be abolished and that the prices of medicine hospitals claim with the Medical Insurance Co-operative be based on actual market prices rather than the nominal prices.

V.2. Research on the enactment of regulations on representation and advertising

45. This report points out the inefficiency of the current regulations on representation and advertising and claims that separate law on representation and advertising must be enacted. In other words, content verification and real name requirement must be adopted to ensure fairness in representation and advertising. The report also argues that standard product information should be established and publication of information necessary for consumer protection should be made obligatory. In addition, trade associations should be prohibited from unfairly restricting advertising by members. Furthermore, the report emphasised the need for a system such as order for correction or order for temporary suspension, which can ensure effective correction of wrongful representations and advertisements.

V. Measure to strengthen KFTC's investigative powers

46. The report makes various proposals aimed at enhancing the effectiveness of KFTC's investigations. The proposals include appointment of KFTC personnel as special judicial police officers, securing of search and seizure rights through the Public Prosecutor in criminal cases, securing of compulsory investigation rights and strengthening of sanctions against non-compliance to orders for submission of documents and other evidence.