

## KOREA

### Annual Report on Consumer Policy Developments 2001

#### I. Institutional Developments

As the size of electronic commerce retail market expands, the number of consumer damages in the electronic commerce (e-commerce) is rapidly increasing. The number of consumer complaints filed with the Korea Consumer Protection Board (KCPB) in 2001 was three times those filed in 2000. In responding to the situation, the Government (the Ministry of Finance and Economy) revised the Consumer Protection Act in July 2001 and made sure that the national and local administrative agencies take steps to protect consumers in special type transactions such as e-commerce.

Presently, the businesses of the on-line retailers are regulated under the Door-to-Door Sales, etc. Act that was established in 1995. Recognizing that this Act is not adequate to govern the e-commerce on Internet, the Government (the Fair Trade Commission) pushed forward to enact "Act on Consumer Protection in Electronic Commerce, & Mail order Sales." which is to be enforced in July 2002.

At the same time, to promote the protection of consumers in non-metropolitan cities and rural areas, the revised Consumer Protection Act (July 2001) makes it possible for the government to cover the expenses relating to dispatching staff of such organizations as the KCPB and the consumer organizations to the local government agencies upon receiving a request. Under the revised Act, the Government took steps to establish the Local Consumer Affairs Centers in the local governments, which are to be operated by the staff of the local governments, and staff of the KCPB and consumer organizations. Subsequently, the Local Consumer Affairs Center was established in KwangJu Metropolitan City in November 2001. The Center undertakes such activities as the consumer education, the consumer information service, the consumer consultation services and the services relating to consumer safety. Taking a step-by-step approach, the Government plans to establish additional consumer affairs centers in other metropolitan cities in 2002.

The Fair Trade Commission established an integrated e-commerce monitoring system through the development of a web-agent aimed at monitoring and regulating unfair trading practices such as false and misleading advertisements by e-commerce businesses on Internet. This system is composed of the consumer information system, business information system and unfair practice settling system. In the future, this system will be used for integrated management of various types of on-line business information, monitoring businesses' unfair practices as well as providing the consumers with analyzed and useable information.

#### II. Physical Protection (Product Safety)

In July 2001, the Consumer Protection Act was revised to enhance consumer product safety. With the revision of the act, the system for recall of defective products has been substantially strengthened. The revised act newly introduced systems such as "mandatory report on substantial product hazard", "recall recommendation" and "emergent recall order", which are expected to encourage manufacturers to recall defective products and thereby to enhance consumer safety.

Under the revised act, manufacturers, importers and large-scale distributors should report to the government (local government) substantial product defects. "Substantial product defects" include those that caused or could cause death, serious physical injuries or disease. Also, the system for recall recommendation has been introduced to induce the businesses to conduct a recall through simplified procedures i.e. "recommendation" not relying on the mandatory recall order.

For the systematic compilation and management of information relating to safety, hazards and danger of industrial products, the Ministry of Commerce, Industry and Energy (MOCIE) established a "Safety Information Center" in November 2001. The main functions of this Center are to collect safety information through 35 consumer organizations, business groups and other bodies designated as "safety information reporting organizations, to analyze and evaluate such information, and to establish or recommend new safety standards or revise the existing ones.

Furthermore, in order to enhance the consumers' right to choose, in March 2001, the Government implemented the GMO labelling system covering three agricultural products, including bean and corn. In July 2001, the labelling criteria for GM foods were established and implemented to cover 27 processed food items, including bean curd.

### **III. Protection of the Consumers' Interests in Transactions**

To improve dissemination of consumer information, the Government has been operating a system of "Disclosure of Critical Information" that requires the businesses to disclose the key information, which that may influence the consumers' choice, in their notices and advertisements. The Fair Trade Commission designated additional 11 business groups including the health food business as the businesses subject to this disclosure regulation. Presently, a total of 21 business groups are subject to this regulation.

The Fair Trade Commission has taken a step to introduce the standard contract terms and conditions for 11 business groups which are closely linked to the every day living and could cause damages to consumers frequently(e.g., door-to-door delivery service). Specifically, the consumer protection in e-commerce has been strengthened through the introduction of the "Standard Contract Terms for Electronic Banking and Funds Transfer", which spells out the part who is responsible in certain cases of disputes and the compensation criteria in electronic banking transactions.

With the rapid expansion of the Internet users, the incidents of illegal practices and consumer damages caused by unhealthy and harmful sites on Internet increased and became a social problem. As a response to such situation, the KCPB, in collaboration with the Public Prosecutor's Office, the Police Agency, the Commission on Youth Protection, etc., conducted a nation-wide Internet sweep day exercise for three days (from November 29 to December 1) in 2001. During this period, the fraudulent and deceptive sites, as well as sites harmful to adolescents, were identified, the warning notices were sent to the operators of such sites, and the relevant authorities were requested to take corrective measures.

With the drastic increase in the number of credit card users and the amount of payments made by credit cards, cases of consumer damages associated with use of credit cards are also increasing. To protect users of credit cards, the Government has taken steps to devise measures necessary to safeguard the credit card members (users), focusing on such essential matters as

reduction of the service charges, prevention of reckless recruitment of members, increased responsibility of the card companies, etc. Under "the Act on Consumer Protection in Electronic Commerce & Mail Order Sales", which is expected to be enforced in July 2002, credit card companies are obligated to cooperate in the refund process where a consumer returns purchased goods for which payment was made by a credit card. Also, other relevant laws will be revised in 2002.

#### **IV. Consumer Education and Information**

As the number of Internet users rapidly increases, Internet has emerged as an effective medium for delivering consumer education and information. Taking advantage of such trends, the MOFE, the KFTC and the KCPB developed and has maintained the comprehensive homepages related to consumer protection. The homepage of the MOFE (<http://www.sobija.go.kr>) provides legal information about consumer protection, including the laws and enforcement decrees. The KFTC introduced "web-robot" to its home page (<http://www.consumer.go.kr>) that facilitates collection and dissemination of various consumer information that is supplied by the 38 domestic and foreign organizations, including government bodies, consumer organizations and press agencies, on real-time basis. Through its homepages (<http://www.consumer.or.kr>), the KCPB disseminates the examples of consumer consultations and damage compensations, the price and market information, and the materials for consumer education.

Prevention of consumer damages in e-commerce requires the voluntary efforts on the part of businesses. In order to promote the businesses' voluntary damage compensation, the KCPB conducted a series of training courses for the e-businesses in 2001. Additionally, the KCPB prepared and distributed a leaflet titled "Consumer information that e-businesses must know".

To improve the effectiveness of consumer education, a "Consumer Education Support Center" that is lead by the academic institutions concerned with consumer protection was established in December 2001. This Center supports consumer education by developing and supplying consumer education programs and undertaking researches in the area of consumer education.

#### **V. Consumer Complaint Redress**

For the purpose of mediating disputes between consumers and businesses, a quasi-judicial body "Consumer Dispute Settlement Commission (CDSC)" has been established under the KCPB. The CDSC mediates the dispute cases referred to it by investigating facts and deliberating the case. When the both parties involved in the dispute accept the decisions of the CDSC, it has the same effect as judicial compromise on the court. Through this mediation method, consumers are able to claim damage compensations relatively easily without going through the legal system. In order to strengthen effectiveness and expertise of the CDSC, which is one of the alternative dispute settlement bodies, the Government revised the Consumer Protection Act (July 2001) to increase the number of the Committee members from 9 to 30, thus facilitating participation of experts in various fields.

The revised Consumer Protection Act (July 2001) also laid a basis for Online ADR. Under the revised Act, consumers who suffered damages in the course of transactions, can now request a compensation to the KCPB on-line. As a result, the number of on-line consumer consultations has increased approximately 45% when compared with that in 2000. Presently,

the KCPB is in the process of developing a system through which consumers and businesses can settle consumer complaints and damage claims voluntarily.

Since April 2001, the KFTC has been operating consumer complaint settlement system called "Shinmoongo" on Internet. Consumers, who have complaints about products and services, can access the site and register the details of their complaints. The registered complaints are automatically forwarded to the businesses concerned, and similarly, the replies of the businesses are published and forwarded to consumers. Since this system permits one to assess the voluntary efforts of the businesses in responding to the complaints and settling the disputes, it is expected that the system would help promote the voluntary settlement of the damages by businesses.

Finally, in responding to the increasing cases of consumer damages in e-commerce, the Government revised the Regulation for Consumer Compensation, which provides guidelines in mediating disputes between consumers and businesses. New provisions were added to the Regulation to cover the Internet shopping malls, the Internet contents business and the network e-money, in order to strengthen protection of consumers in e-transactions.