Key provision of Korean Industrial Technology Protection Act Declared Unconstitutional

Korean Constitutional Court ruled that a key provision of the Act on Prevention of Divulgence and Protection of Industrial Technology (as established as Act No. 8062 on October 27, 2006, and before amended by Act No. 10962 on July 25, 2011, the "Industrial Technology Protection Act" or "the Act") is unconstitutional (July 25, 2013, 2011Heonba39).

The Constitutional Court has ruled that part of the provisions of Article 36(2) of the Act is unconstitutional because it was against the 'principle of clarity' derived from the principle of ***'nulla poena sine lege'.*** (No punishment without an authorizing law) Such ruling is expected to have considerable impact on a legal community as the Industrial Technology Protection Act is considered as one of the two most important laws providing for punishment for illegal divulgence of trade secrets or important technologies along with the Unfair Competition Prevention and Trade Secret Protection Act (the "Unfair Competition Prevention Act"). We provide details on the legal provision at issue, reasons for the ruling, and measures required to be taken for ongoing investigation/litigation and anticipated repercussions of the ruling as follows.

1. Details on the legal provision at issue

The Industrial Technology Protection Act was established in 2006 for such purposes as the prevention of illegal divulgence of industrial technology, enhancement of competiveness of domestic industries, improvement of national security and development of national economy with the introduction of the Economic Espionage Act, 18 USC §1831~§1839 (established in 1996 in the U.S.), one of the most well-known laws for the prevention of divulgence of technology to foreign countries, taken into consideration. It is a representative law in connection with the protection of technology providing for duties of the nation to prevent the divulgence of industrial technology, establishment of the Industrial Technology Protection Committee and the Korean Association for Industrial Technology

Security, designation and change of the scope of 'national core technology', punishment for divulgence of industrial technology, etc.

The provision subject to the ruling is Article 36(2) of the Industrial Technology Protection Act. Such part provides that 'any person who acquires the industrial technology of institution(s) by means of theft, deception, threat and other unjust methods or uses or publicizes such industrial technology (including providing information to 3rd party in secret) shall be punished by imprisonment for not more than five years or by a fine not exceeding KRW 500 million.' As this provision is applicable to most of the cases on divulgence of industrial technology (unless industrial technology is divulged to foreign countries), it is the most frequently applicable provision among the provisions on criminal punishment of the Act.

In fact, the Industrial Technology Protection Act has been occasionally criticized that its overly broad definition of 'industrial technology' might lead to excessive expansion of the scope of criminal punishment, and it has been claimed that it would be difficult to define in practice the scope of 'industrial technology' or 'national core technology' as provided for in the Act or other related laws and regulations. For example, the list of 'national core technologies' as designated by the Minister of Knowledge Economy includes '- Electricity and electronics: Assembly/inspection technologies for DRAM of 40 nanometer or lower, etc., - Automobile: Design technologies for hybrid automobile systems, etc., - Shipbuilding: Design technologies for higher value-added ships and marine systems, etc.' Then, the ambiguity of such descriptions has raised various questions including whether a certain technology at issue constitutes industrial technology if it is only ***related*** to the assembly/inspection/design technologies above or it ***should have*** sufficient technical value which has not yet been disclosed to the industry or academia, and whether technology developed by the institution through a R&D process with its external business partner without any non-disclosure agreement (NDA) between the two parties or technology of such business partner that it reorganized to provide for the institution also constitutes industrial technology of the institution. Regarding such questions above, Korean Supreme Court has recently ruled that even if an announcement of the Ministry of Trade, Industry and Energy under the Industrial Development Act provides that 'Drill Ship' constitutes state-of-the-art technology, not all technologies related to 'Drill Ship' such as design/shipbuilding technologies for 'Drill Ship' constitute industrial technology under the Industrial Technology Protection Act (Supreme Court, August 30, 2012, 2011Do1614).

2. Reasons for the ruling

The Industrial Technology Protection Act provides that the term 'industrial technology' means: (i) 'technology which the heads of relevant government agencies designate, publish or announce in accordance with the relevant laws and regulations in order to enhance the competitiveness of industries under their jurisdiction among the methods and technological information necessary for

the development, production, dissemination and use of products or services'; and (ii) 'A. original technology developed in Korea which is at the same level as or superior to that of an advanced country and can be commercialized, B. technology which reduces the cost of existing products or significantly improves the capacity or quality, C. technology which has considerable technological and economical ripple effects and thereby contribute to enhancement of the nation's technological capability and overseas competitiveness, or D. technology which applies or uses industrial technology in any of A through C above.'

Then, the Constitutional Court ruled that, (i) as the part reading 'technology which the heads of relevant government agencies designate, publish or announce in accordance with the relevant laws and regulations in order to enhance the competitiveness of industries under their jurisdiction' among such definitions of 'industrial technology' above is so abstract that a person with common ability of judgment cannot confirm what laws and regulations constitute the 'relevant laws and regulations' or who constitute the 'heads of relevant government agencies who designate, publish or announce technology,' and (ii) the expressions including 'original,' 'at the same level as or superior to that of an advanced country,' 'can significantly improve,' 'has considerable technological and economical ripple effects,' and 'can contribute to enhancement of the nation's technological capability and overseas competitiveness' are also abstract, unclear and relative expressions whose interpretation may vary depending on value judgment. Therefore it is impossible to define the scope of 'industrial technology' as a constituent of the provision on criminal punishment. Furthermore, it is impossible for a person to which the provision is applicable to make accurate predictions about whether his/her act is prohibited or not and to make a decision on his/her act, and therefore the provision above is in violation of the principle of clarity of the 'No punishment without an authorizing law' principle.

3. Possible Measures to be taken for ongoing investigation/litigation and impact of the ruling

Article 47 (2) and (3) of the Constitutional Court Act provides that any penal law or provisions decided as unconstitutional shall lose its effect retroactively, thereby granting re-adjudication with respect to a conviction based on that law or provisions. Therefore, if a person was convicted under a judgment based on the provision of the Industrial Technology Protection Act above and such judgment has already become final and conclusive, he/she may request re-adjudication with respect to such conviction to get a judgment of acquittal.

There are many ongoing investigations/litigations based on Article 36(2) of the Industrial Technology Protection Act. If a trial based on the provision is in progress, the court will pronounce a judgment of acquittal once it is informed of or learns the ruling. However, most of the divulgences of industrial technology are likely to constitute a violation of not only Article 36(2) of the Act but also Article 18(2) of the Unfair Competition Prevention Act. Therefore, prosecution may apply the Unfair Competition

Prevention Act to the act concerned by 'modifying its indictment.' In this case, there may be a dispute over whether such modification of indictment is lawful or whether the characteristics of a trade secret (i.e., that the information concerned is not publicly announced, has economic value, and the institution made effort to maintain confidentiality of the information) are established for the technology concerned, which is required for the constitution of a violation of the Unfair Competition Prevention Act. If there is an ongoing police/prosecution investigation based on the provision, the investigation agency may suspend the investigation once it is informed of or learns the ruling. However, the investigation agency may continue investigation after changing the applicable provision to Article 18(2) of the Unfair Competition Prevention Act.

Though the ruling does not concern Article 36(2) of the current Industrial Technology Protection Act (Act No. 10962 dated July 25, 2011), as the current provision is partly similar to the provision of the former Industrial Technology Protection Act for which the ruling was rendered, another constitutional challenge to current Industrial Technology Protection Act may be made. It is also possible that the relevant provisions are amended in light of the intent of the ruling. The ruling is expected to prompt a fresh round of debate about the constitutionality of the Industrial Technology Protection Act, which has to date served as one of the fundamental laws on protection of technology in Korea, and to cause investigation/litigation changes in practice such as switching to the Unfair Competition Prevention Act as the primary applicable law on cases of divulgence of technology.

Should you have any questions regarding any of the foregoing, please feel free to contact us at any time.

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