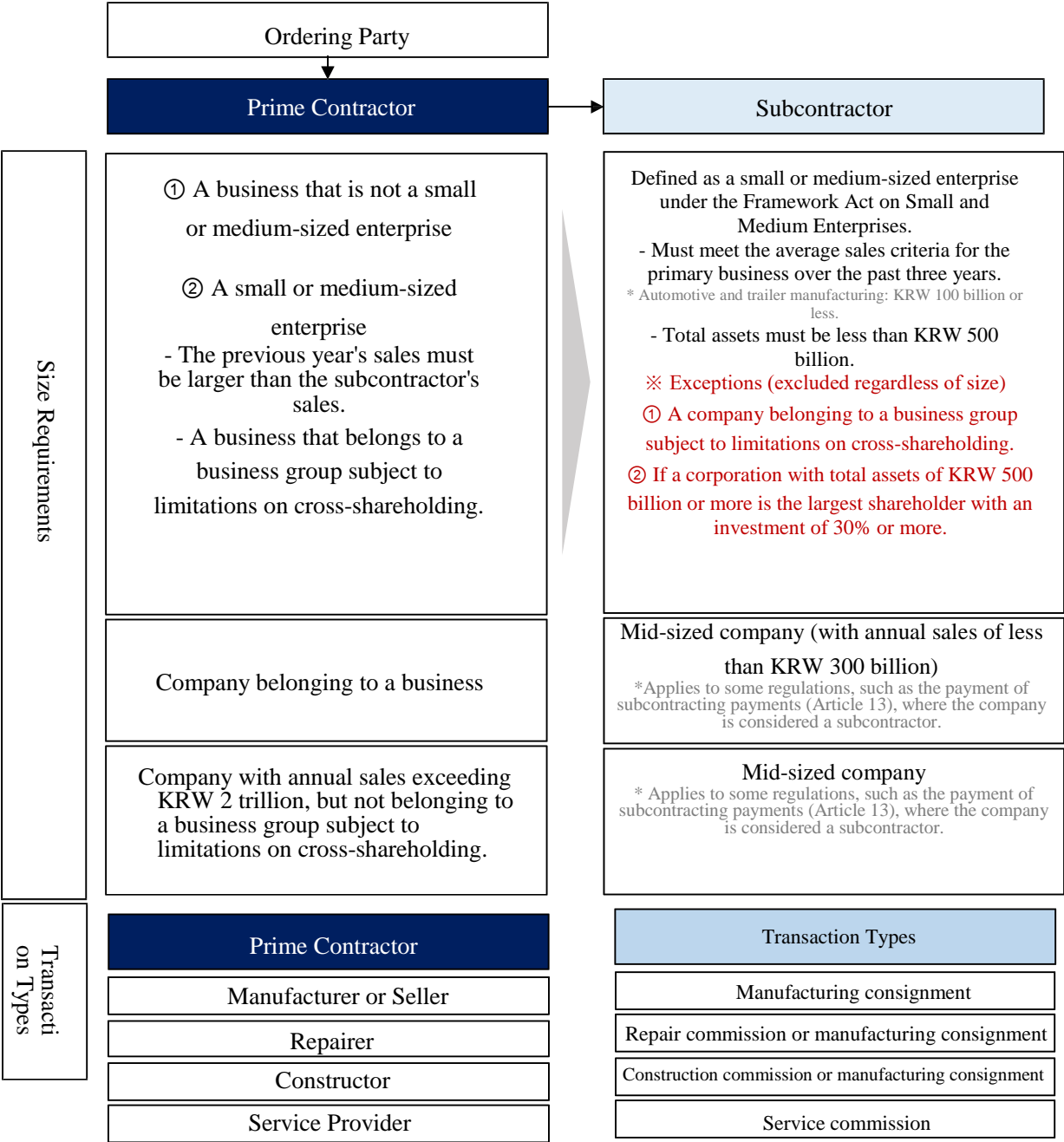


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Chapter 1: Overview of Subcontracting Transactions

- Subcontracting Transaction: A transaction where the prime contractor commissions the subcontractor to perform manufacturing, construction, or services.
- Certain conditions apply regarding the business size, transaction type, etc.



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## ※ Examples of Transactions Subject to the Fair Transactions in Subcontracting Act

Case 1. If Construction Company A commissions Clothing Manufacturer B to produce work uniforms:  
→ **Since manufacturing work uniforms is not the business of the construction company, this is not considered a subcontracting transaction.**

Case 2. If the subcontractor is an unregistered business:  
→ **Since the transaction is not between two "businesses," it is not considered a subcontracting transaction.**

Case 3. Criteria for distinguishing between manufacturing consignment and simple purchasing:  
→ **If the consigned item is simply purchased and supplied without further processing, it is not considered a manufacturing consignment.**  
※ If specifications, standards, or quality are designated, it is considered a manufacturing consignment.

Case 4. Supplying imported goods as they are:  
→ **This is merely a simple purchase and not considered a subcontracting transaction.**  
  
※ If the goods are used as part of another product or are processed, it may be considered a manufacturing consignment.

Case 5. If Manufacturing Company A commissions the production of office supplies for office use:  
→ **The production of general office supplies for self-consumption is not considered a subcontracting transaction.**

Case 6. If Manufacturing Company A commissions the production of finished product "a" intended for manufacturing:  
→ **This is considered a subcontracting transaction because the manufacturing company has outsourced the production of goods intended for manufacturing.**

Case 7. If molds or similar tools necessary for manufacturing are consigned:  
→ **Since the molds are necessary for producing goods, this is considered a subcontracting transaction.**

Case 8. If Manufacturing Company A commissions processes such as painting, processing, or assembly in the production process:  
→ **This is considered a subcontracting transaction.**

Case 9. If Trading Company B acts as an export agent at the request of Manufacturing Company A:  
→ **Simply acting as an export agent is not considered a subcontracting transaction.**

Case 10. If an automobile manufacturer commissions the production of parts or outsources processes such as the assembly of parts:  
→ **This is considered a subcontracting transaction.**

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Chapter 2: Obligations and Prohibited Acts at Each Stage of Subcontracting Transactions

Contract Formation Stage

- ① Obligation to Provide Written Documents and Retain Documents
② Prohibition of Unfair Contract Terms

③ Prohibition of Unfair Determination of Subcontracting Payments

Contract Execution Stage

- ① Prohibition of Unfair Commission Cancellation and Refusal of Receipt
② Obligation to Inspect and Notify of Inspection Results
③ Prohibition of Unfair Returns
④ Prohibition of Unfair Demands for Economic Benefits

⑤ Prohibition of Unfair Determination of Subcontracting Payments
⑥ Prohibition of Unfair Management Interference
⑦ Prohibition of Retaliation and Illegal Acts

Payment Stage

- ① Obligation to Pay Advance Payment
② Prohibition of Reduction
③ Obligation to Pay Subcontracting Payment

④ Prohibition of Unfair Payment in Kind
⑤ Obligation to Adjust/Negotiate Subcontracting Payment

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### Chapter 3: Considerations at the Contract Formation Stage

Type	Details
Obligation to Issue and Retain Documents (Fair Transactions in Subcontracting Act, Article 3)	<p>When commissioning manufacturing or making changes to a contract, a written document must be provided in advance, and records must be retained for 3 years after the transaction concludes.</p> <p>- Required information in the document: The date of commission, details of the object, the time and place of delivery, the method of payment, and the payment due date for the subcontracting fees.</p>
Prohibition of Unfair Contract Terms (Fair Transactions in Subcontracting Act, Article 3-4)	<p>It is prohibited to impose contract terms that unfairly infringe upon or restrict the rights and interests of the subcontractor.</p> <p>① Agreements that unfairly impose costs on the subcontractor  ✖ Costs incurred from demands not specified in the written contract or those arising from design changes requested by the prime contractor</p> <p>② Agreements that unfairly hold the subcontractor responsible for unforeseeable circumstances (natural disasters, etc.)</p> <p>③ Agreements that unfairly restrict or deprive the subcontractor of rights recognized by law</p>
Prohibition of Unfair Determination of Subcontracting Payments (Fair Transactions in Subcontracting Act, Article 4)	<p>It is prohibited to unfairly determine or force payment amounts below the standard compensation that is generally paid.</p> <p>① Reducing subcontracting payments by applying a uniform reduction rate without a justifiable reason.</p> <p>② Allocating a certain amount arbitrarily and deducting it from the subcontracting payment.</p> <p>③ Unfairly discriminating against certain subcontractors without a justifiable reason when determining subcontracting payments.</p> <p>④ Misleading or deceiving the subcontractor regarding the transaction conditions to determine the subcontracting payment.</p> <p>⑤ Unilaterally determining the subcontracting payment based on a lower unit price by the prime contractor.</p> <p>⑥ Determining the subcontracting payment lower than the lowest bid price without a justifiable reason.</p> <p>⑦ Determining the subcontracting payment unfavorably for the subcontractor due to the prime contractor's financial loss or price reductions that are not attributable to the subcontractor.</p>

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Chapter 4: Considerations at the Contract Execution Stage

Type	Details
Prohibition of Unfair Commission Cancellation and Refusal of Receipt (Fair Transactions in Subcontracting Act, Article 8)	It is prohibited to arbitrarily cancel or modify a commission without valid reasons attributable to the subcontractor, and to refuse or delay the receipt or acceptance of delivered goods without justification.
Obligation to Inspect and Notify of Inspection Results	<p>The prime contractor must notify the subcontractor in writing of the inspection results within 10 days of receiving the goods.</p> <p>* If the prime contractor fails to notify within this period, the goods are considered to have passed the inspection.</p>
Prohibition of Unfair Returns (Fair Transactions in Subcontracting Act, Article 10)	<p>A prime contractor shall not return goods received from a subcontractor unless the subcontractor is at fault.</p> <ul style="list-style-type: none"> <li>① Returning goods due to order cancellation by a third party or changes in economic conditions.</li> <li>② Returning goods by unfairly failing them in inspections due to unclear inspection criteria or methods.</li> <li>③ Returning goods even though the goods failed due to defects in raw materials supplied by the prime contractor.</li> <li>④ Returning goods when delivery is delayed due to the prime contractor's delay in supplying raw materials.</li> </ul>
Prohibition of Unfair Demands for Economic Benefits (Fair Transactions in Subcontracting Act, Article 12-2)	A prime contractor shall not demand subcontractors to provide money, goods, services, or other economic benefits for themselves or a third party without legitimate reason.
Prohibition of Demanding and Misusing Technical Data (Fair Transactions in Subcontracting Act, Article 12-3)	<p>A prime contractor shall not demand a subcontractor to provide their technical data for themselves or a third party.</p> <p>※ Requests may be made if legitimate reasons can be proven.</p> <p>- The prime contractor shall not unfairly use or provide the subcontractor's technical data to a third party.</p>

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※ Prohibition of Demanding and Misusing Technical Data

■ Criteria for Technical Data

Category	Fair Transactions in Subcontracting Act	Act on the Promotion of Mutually Beneficial Cooperation Between Large Enterprises and Small and Medium Enterprises
Non-publicity	Not required	Not required
Economic Utility	Required	Required
Confidentiality Management	Required	Not required

[Criteria for Determining Technical Data]

- When determining whether information qualifies as technical data, non-publicity (i.e., the information not being publicly known) is not a requirement.
- Technical data is considered to have "economic utility" if it helps save time and costs during production, even if the data itself does not directly complete the product.  
Example) Blueprints (manufacturing, assembly, welding blueprints, etc.), circuit diagrams, and parts lists.
- The Fair Trade Commission broadly recognizes economic utility and confidentiality management based on its examination guidelines.

■ Prohibition of Demanding and Misusing Technical Data (Fair Transactions in Subcontracting Act, Article 12-3)

Paragraph 1: Prime contractors shall not demand the provision of technical data from subcontractors.

→ [General Prohibition](#)

However, such a request may be allowed for a legitimate reason, and the prime contractor can provide proof. → [Conditional Exception](#)

Paragraph 2: If the prime contractor requests technical data for legitimate reasons, they must provide the subcontractor with a written document, prepared in consultation with the subcontractor, containing the legally required details. → [Obligation to Provide a Technical Data Request Form](#)

Paragraph 3: The prime contractor must enter into a non-disclosure agreement with the subcontractor, which includes the legally required information, by the time the technical data is received. → [Obligation to Execute a Non-Disclosure Agreement](#)

Paragraph 4: The prime contractor shall not improperly use or provide the subcontractor's technical data for its own benefit or the benefit of a third party. → [Prohibition on Misuse and Disclosure of Technical Data](#)

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## ※ Prohibition of Demanding and Misusing Technical Data

### ■ Legally Required Information for the Technical Data Request Form and Non-Disclosure Agreement

Technical Data Request Form	Non-Disclosure Agreement
<ol style="list-style-type: none"> <li>1) Purpose of requesting technical data</li> <li>2) Ownership and rights related to the requested technical data</li> <li>3) Compensation for the requested technical data and the payment method</li> <li>4) Name and scope of the requested technical data</li> <li>5) Request date, delivery date, and delivery method</li> <li>6) Proof that the prime contractor's request for technical data is legitimate</li> </ol>	<ol style="list-style-type: none"> <li>1) Name and scope of the technical data</li> <li>2) Duration of use of the technical data</li> <li>3) List of employees authorized to hold and use the technical data</li> <li>4) Obligation to maintain the confidentiality of the technical data</li> <li>5) Prohibition on using the technical data for purposes other than those intended</li> <li>6) Compensation for breach of items 4) and 5)</li> <li>7) Method and procedure for the return or disposal of the technical data</li> </ol>

### ■ Key Amendments to the Fair Transactions in Subcontracting Act Related to Technical Data

- The phrase "reasonable efforts" has been removed from the confidentiality requirement criteria.  
→ Broader recognition of confidentiality management.
- It is now mandatory to enter into a non-disclosure agreement when receiving technical data from a subcontractor.
- The act of leaking acquired technical data to a third party has been added as a distinct type of misappropriation of technical data.
- The statute of limitations for initiating an investigation has been extended (3 years → 7 years).  
→ This ensures long-term protection against technical data misuse even after product delivery.  
※ The retention period for documents that must be kept when requesting technical data from a subcontractor has been extended (3 years → 7 years).
- Restricting a subcontractor from exporting technical data overseas without legitimate reasons is considered an unfair management interference.
- Actions that limit the subcontractor's rights regarding technical data are now classified as a form of unfair contract terms.

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Type	Details
Prohibition of Unfair Management Interference (Fair Transactions in Subcontracting Act, Article 18)	<p>A prime contractor shall not interfere with the management of a subcontractor by adjusting the volume of subcontracting transactions or other means.</p> <ul style="list-style-type: none"> <li>① Restricting the subcontractor from exporting technical data overseas or limiting transactions based on such exports without a legitimate reason.</li> <li>② Forcing a subcontractor to conduct business with the prime contractor or a designated party without a legitimate reason.</li> <li>③ Requesting management information from the subcontractor without a legitimate reason.</li> </ul> <p>※ Types of Management Information</p> <ul style="list-style-type: none"> <li>- Cost information related to the production of goods supplied by the subcontractor</li> <li>- Sales information regarding goods supplied to other businesses by the subcontractor</li> <li>- Information related to the subcontractor's business strategy (product development, production plans, sales plans, and new investment plans)</li> <li>- Information related to the subcontractor's sales (client lists and supply terms with other businesses)</li> <li>- Information necessary to access the subcontractor's IT systems</li> </ul>
Prohibition of Retaliatory Actions (Fair Transactions in Subcontracting Act, Article 19)	<p>A prime contractor shall not restrict subcontracting opportunities, suspend transactions, or take any other disadvantageous actions against a subcontractor for the following reasons:</p> <ul style="list-style-type: none"> <li>① Reporting a violation of the Fair Transactions in Subcontracting Act by the prime contractor.</li> <li>② Filing a request for adjustment of subcontracting payments.</li> <li>③ Cooperating with an investigation by relevant authorities.</li> <li>④ Submitting materials to the Fair Trade Commission for a subcontracting document review.</li> </ul>
Prohibition of Illegal Acts	<p>A prime contractor shall not engage in acts that effectively circumvent the application of the Fair Transactions in Subcontracting Act through indirect means.</p>



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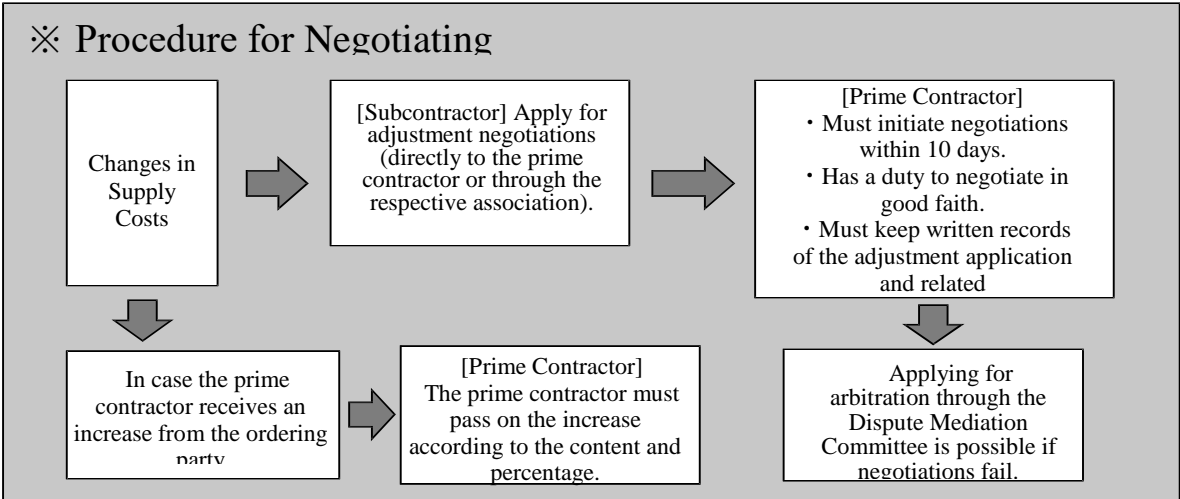
Chapter 5: Considerations at the Payment Stage

Type	Details
Obligation to Pay Advance Payment (Fair Transactions in Subcontracting Act, Article 6)	<p>If a prime contractor receives an advance payment from the ordering party, the prime contractor must pay the subcontractor an advance payment proportional to the received amount within 15 days.</p> <p>* If delayed, the prime contractor is obligated to pay interest.</p>
Obligation to Pay Advance Payment (Fair Transactions in Subcontracting Act, Article 6)	<p>A prime contractor shall not reduce the subcontracting payment agreed upon at the time of commission unless there is a justifiable reason, which must be proven.</p> <p>※ If the payment is reduced for a legitimate reason, a written document must be provided in advance, containing the following:</p> <ul style="list-style-type: none"> <li>- The reason and basis for the reduction</li> <li>- The quantity of the goods subject to reduction, the reduced amount, and the method of reduction</li> <li>- Proof that the prime contractor's reduction is legitimate</li> </ul>
Obligation to Pay Subcontracting Payments (Fair Transactions in Subcontracting Act, Article 13)	<p>A prime contractor must pay the subcontracting payments by the payment due date, which should be set as the shortest possible period within 60 days from receipt of the goods.</p> <ul style="list-style-type: none"> <li>-If no payment due date is specified, the date of receipt of the goods is considered the payment due date.</li> <li>-If a payment due date exceeding 60 days from the receipt of the goods is set, the 60 days from the receipt will be considered the payment due date.</li> <li>-If subcontracting payments are made after 60 days from receipt of the goods, the prime contractor must pay interest for the overdue period.</li> </ul> <p>※ This payment obligation also applies when the subcontractor is a mid-sized company with annual sales (see page 1 for subcontractor requirements).</p>
Prohibition of Unfair Payment in Kind (Fair Transactions in Subcontracting Act, Article 17)	<p>Subcontracting payments shall not be made in goods, except in the following circumstances:</p> <ul style="list-style-type: none"> <li>-When a promissory note issued by the prime contractor is dishonored or if the prime contractor's bank account transactions is suspended or prohibited.</li> <li>- When a bankruptcy petition or rehabilitation procedures have been initiated against the prime contractor.</li> <li>-Other reasons prescribed by the enforcement decree and upon the request of the subcontractor.</li> </ul> <p>※ Before payment in kind, the prime contractor must provide documentation verifying ownership or other relevant details.</p>

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Chapter 5: Considerations at the Payment Stage

<p>Payment Adjustment Due to Design Changes (Fair Transactions in Subcontracting Act, Article 16)</p>	<p>After the commissioning of manufacturing or other services, if there are design changes or changes in economic conditions that increase the contract amount or additional costs, the subcontracting payments must be increased in proportion to the amount received from the ordering party.</p> <p>※ If the ordering party reduces the payment, the subcontracting payments can be reduced accordingly.</p> <p>-The prime contractor must notify the subcontractor of the reason and details within 15 days of receiving the increase or reduction from the ordering party.</p> <p>-The prime contractor must increase or reduce subcontracting payments within 30 days of receiving the increase or reduction from the ordering party.</p>
<p>Payment Adjustment Due to Changes in Supply Costs (Fair Transactions in Subcontracting Act, Article 16-2)</p>	<p>The subcontractor may request an adjustment of the subcontracting payment from the prime contractor when it becomes unavoidable to adjust the payment due to any of the following circumstances:</p> <p>-When the supply costs of goods or services fluctuate.</p> <p>-When delivery schedules or other conditions change, resulting in cost changes other than supply costs, due to reasons not attributable to the subcontractor.</p> <p>-When a contract with gradual price reductions is based on anticipated cost reductions, but the costs do not decrease, or the decrease rate is lower than the reduction rate, due to reasons not attributable to the subcontractor.</p>



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## Chapter 6: Major Sanctions Related to Subcontracting Transactions

### Case 1: Retailer G's Demand for Economic Benefits

#### ■ Case Summary

- Retailer G commissioned subcontractors to manufacture fresh food products.
- From November 2016 to September 2019, G collected KRW 6.88 billion in performance incentives and KRW 12.61 billion in promotional expenses from subcontractors without justifiable reasons.
- Additionally, from February 2020 to April 2021, G collected KRW 2.74 billion in information provision fees without justifiable reasons.
- Correction orders and fines imposed (KRW 24.37 billion).

#### ■ Assessment of Illegality

- In a situation where subcontractors were highly dependent on sales to G, G increased the collection rates to improve its profits without justifiable reasons or disregarding the contractual terms.

### Case 2: Misuse of Technical Data by Battery Company S

#### ■ Case Summary

- In May 2018, Company S provided technical data belonging to another company (B), held by subcontractor A, to a local Chinese partner at the partner's request.
- From August 2015 to February 2017, S requested 16 sets of technical data from 8 subcontractors without issuing the required written documentation in advance.
- Correction orders and fines imposed (KRW 270 million).

#### ■ Assessment of Illegality

- S misused technical data held by the subcontractor (even if the subcontractor did not create the data, it was considered to be in their possession) by providing it to another company.
- Additionally, S failed to issue the necessary documentation when requesting technical data.

### Case 3: Unjust Commission Cancellation and Failure to Issue Written Documents by Construction Company L

#### ■ Case Summary

- In June 2018, Company L commissioned subcontractor for mechanical facility construction.
- In March 2019, L unilaterally instructed the subcontractor to withdraw from the construction site.

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- Despite changes in the construction content (such as altering the kitchen exhaust vent angle in March 2019), L did not issue revised written documents reflecting these changes.
- Disposition: Correction orders and fines imposed (KRW 360 million).

■ Assessment of Illegality

- L unjustly canceled the commission without any grounds to hold the subcontractor responsible.
- Additionally, L failed to issue written documents regarding the additional and modified construction work.

Reference: Summary of Obligations/Prohibitions in Subcontracting

Category		Details
Prime Contractor	Obligations (9 items)	<div> <div>① Issuance of written documents and preservation of records</div> <div>② Advance payment</div> <div>③ Issuance of domestic letters of credit</div> <div>④ Inspection and notification of inspection results</div> <div>⑤ Payment of subcontracting payments</div> </div> <div> <div>⑥ Payment guarantee for construction subcontracting payments</div> <div>⑦ Payment of refunds for customs duties, etc.</div> <div>⑧ Adjustment of payments due to design changes</div> <div>⑨ Payment adjustment for cost fluctuations</div> </div>
	Prohibited Acts (13 items)	<div> <div>① Unjust special agreements</div> <div>② Unjust determination of payments</div> <div>③ Forced purchase of goods or services</div> <div>④ Unjust cancellation or refusal to accept commission</div> <div>⑤ Payment of subcontracting payments</div> <div>⑥ Reduction of subcontracting payments</div> <div>⑦ Unjust claims for goods purchase</div> </div> <div> <div>⑧ Unjust economic demands</div> <div>⑨ Demand for or misuse of technical data</div> <div>⑩ Unfair payment in kind</div> <div>⑪ Unfair interference in management</div> <div>⑫ Retaliation</div> <div>⑬ Illegal acts</div> </div>
Ordering Party's Obligations		Direct payment of subcontracting payments
Subcontractor's Obligations and Compliance		<div> <div>① Preservation of documents</div> <div>② Fulfillment of duties in good faith, non-cooperation with prime contractor's illegal acts</div> <div>③ Performance guarantee for construction subcontracting payments</div> </div>

- Addendum -

1. This regulation shall take effect as of June 13, 2024.