Yulchon Legal Update

August 2025

Significant Changes to Korea's Union Act Expected Imminently

The so-called "Yellow Envelope Act" passed through the Legislation and Judiciary Committee of the Korean National Assembly on August 1, 2025, and appears headed towards final passage this month. Further significant changes to the legislation are unlikely, and the president has expressed his intention to sign the bill into law. Another version of the bill was vetoed by the previous president multiple times.

This legislation will make significant changes to Korea's Trade Union and Labor Relations Adjustment Act (the "Union Act"). This version of the bill is not identical to the version vetoed by former-president Yoon last year, but is very similar in its scope and approach.

Expanded scope of "employer" under the Union Act

In the current Union Act, an "employer" is defined as "a business owner, person responsible for the management of the business, or any person acting on behalf of the business owner with regard to matters concerning the workers of that business." This has traditionally been interpreted to refer to a legal employer that is in an employer-employee relationship with employees.

The Yellow Envelope Act will expand the definition of "employer" to also include "a person who, even if not a party to the employment contract, is in a position to substantially and concretely control and determine the working conditions of the workers . . . ." The effect of this would be to make a large customer or client the "employer" of its outside supplier's or contractor's employees for purposes of the Union Act, if it *substantially and concretely controls and determines their working conditions*. In that case, the customer or client company would be subject to important legal obligations and restrictions in relation to any union representing the outside supplier's or contractor's employees:

(i) It would be obliged to collectively bargain in good faith with such a union.

Related Areas

Labor & Employment

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(ii) It would be prohibited from hiring replacement workers in the event of any lawful industrial action.

(iii) It (and the responsible individuals) could be held liable for unfair labor practices towards such a union or such workers.

Permission for unions to include non-employee members

Under the current Union Act, only "employees" can be members of a union, and a union that allows non-employee members can be denied legal recognition. The Yellow Envelope Act removes this restriction, allowing unions to include non-employee members. This would prevent employers from attempting to deny recognition to unions that allow some non-employee members; though it appears that unions would still need to be established and led by employees.

Expanded justifications for industrial action

The current Union Act only allows a union to engage in industrial action due to an impasse in a dispute over the determination of working conditions such as wages, working hours, welfare, and dismissal. Other kinds of disputes are not a valid basis for industrial action. The Yellow Envelope Act will change this, allowing unions to engage in industrial action for a broader set of reasons. Under the new law, unions will also be allowed to engage in industrial action for disputes over clear *violations* of the CBA, or disputes over *management decisions* affecting working conditions, like restructuring.

Limiting liability for damages

Traditionally, courts have viewed unions and union members participating in illegal industrial action as joint tortfeasors, holding them jointly and severally liable for damages incurred by the employer. This meant that the employer could claim full compensation for damages from either the union or the individual union members involved. However, in 2023, the Supreme Court, while recognizing the principle of joint and several liability, ruled to limit the scope of responsibility for individual union members based on the degree of their individual fault and contribution to the damages. (Sup. Ct. 2017*da*46274 (June 15, 2023).)

The Yellow Envelope Act effectively codifies that Supreme Court decision limiting the damages individual union members can be responsible for. In addition, it includes several other exemptions and defenses intended to limit or prevent liability by unions and union members for their actions, including:

- adding other "activities of a trade union" to the existing prohibition on claims for damages for legitimate "collective bargaining" and "industrial action" under the Union Act;
- exempting unions and workers from liability for damages if they inevitably caused the harm in defense of their interests, due to the employer's illegal act;

- allowing a union or workers to request a court to reduce or exempt the damages they are liable for based on factors such as economic status, dependents, and minimum living expenses;
- prohibiting the exercise of the right to claim damages for purposes such as endangering the existence of the union or impeding its operation; and
- expressly allowing the employer to exempt the union or workers from liability for damages even when they are found liable—effectively allowing management to agree to waive such damages without violating fiduciary duties.

What it means for employers

Among the changes that will be made by the Yellow Envelope Act, the most significant will be the expansion of what constitutes an "employer" under the Union Act. This is expected to immediately result in various subcontractor unions demanding collective bargaining with prime contractors or dominant customers and clients. For large companies that rely on arguably dependent or controlled outside contractors, this will expose them to potential disputes over collective bargaining and unfair labor practices, as well as potential disruptions due to industrial action.

The involvement of a union representing an outside contractor's employees, or even multiple such unions, will also make the legal process for unifying the bargaining channel more difficult and uncertain. Korea law allows multiple unions representing employees with respect to the same employer, but provides a procedure to unify bargaining through a single channel. The new law will create uncertainty over which unions actually have a right to bargain and how to unify the bargaining channel among all unions. It may also be complex for unified bargaining representatives to represent both company employees and outside contractor employees.

Finally, unions will be legally allowed to engage in industrial action over a broader set of disputes, including disputes over management decisions like restructuring or relocation. Practically, unions were able to do this previously only by finding pretextual legitimate reasons for industrial action. This may make it more challenging and risky for businesses to refuse to bargain over matters that have traditionally been considered management prerogatives.

The legislation is to become effective six months after promulgation. If the bill passes the National Assembly and is passed into law soon, that will not leave much time for companies to evaluate their labor practices and relationships with outside contractors, and determine whether any compliance steps or adjustments should be made. Companies that may be affected by this new legislation should begin to review their compliance footing soon.