REVIEW

UNAVOIDABLE CHOICES IN "4T's"

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A Review of "Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions" by Stanislaw Soltysinski, in 196 Recueil des Cours *239 (1986-I) of the Hague Academy of International Law.*

Although its dean may find the term uncomfortable, "elite" properly describes the University of Pennsylvania Law School. A limited student population, selected from the best college graduates in the country, is taught by an outstanding group of scholars, many of whom bring to their teaching duties experience gained in other fields, in positions of public service, and from other cultures, other times.

One of the most experienced of those teachers is Stanislaw Soltysinski. In an active professional life, beginning with his first law degree in 1961, Professor Soltysinski has studied at the London School of Economics and Oxford and Columbia Universities, has served as a professor and as dean of the Adam Mickiewicz University in Poznan, Poland, and has taught at Penn. He has advised the Polish government and numerous Polish foreign trade enterprises and ministries on the "realities" of dealing with Western companies. He has also found time to participate in UNCTAD conferences on international technology transfer. Professor Soltysinski speaks and writes in English and Polish with equal facility, and he can obviously rummage with full understanding through texts in German, French, and even Latin.

All of this impressive background has been brought to bear on the preparation of his excellent monograph entitled "Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions." It is 140 pages of a scholar's well-documented research, a pro-

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fessor's well-organized lesson, an advocate's well-argued position paper, and a man of the world's well-considered advice. Having had unique opportunities to counsel businessmen and bureaucrats in Poland and the United States, and to teach skeptical students in both countries, Professor Soltysinski brings to his subject sensible insights and practical suggestions. He also recognizes the importance to "his" Second World of Socialist countries, no less than to the Third World of the lesser developed countries (LDCs), of common sense applied to the glamorous concept of transnational technology transfer transactions (the so-called "4T's").

4T's conjure to governments, particularly in the LDCs, shortcuts to development. To the Socialist countries they are seen as opportunities to catch up with Western material success. To aggressive businessmen in Osaka, 4T's are the deals to get ahead and stay ahead in The Race for world technological hegemony. To the more tired folks in Pittsburgh, 4T's promise return to market primacy or, at least, some return from costs already sunk.

4T's are usually arranged, accomplished, and paid for pursuant to contracts—legal documents—drafted by lawyers. Thus, it is natural to assume that among the standard provisions of such documentation there would be expressions of the parties' choice of a body of law to govern their transactions (which, by definition, cross at least one border between two legal sovereigns) and of a forum in which that law would be applied.

Professor Soltysinski's monograph accepts that assumption. Its thesis is, essentially, that a choice must be made, and that current theory and practice in international law allow parties to make such choices. However, the author posits, in the event that the selection of a governing law or forum is overlooked or inadequately specified, certain principles based on the unique character of technology transactions ought to be applied.

Indeed, Professor Soltysinski seems to argue for his principles of choice even in the face of party selection of what he may regard as an inappropriate law or forum. No less significant to these general points is his ideological commitment to the notion that the "haves" of the world owe a duty to the "have nots" to provide access to technology. He acknowledges the apparent equal sovereignty of each nation. But their unequal economic strength in approaching the bargaining table at which a 4T is proposed for negotiation requires, in his scheme, some tilts that favor transfer to the newcomer and reduce the power of the transferor to dictate what the recipient can do with the technology made available.

Having myself practiced in the area of 4T's for close to thirty years, I have much sympathy and understanding for many of Professor Soltysinski's points. I, too, have come to marvel at the extent to which the world's legal systems have increasingly permitted contracting parties—particularly entirely "private" parties—to fashion for themselves a real "law of the contract" that, to the extent it is created, recorded, and not patently offensive to some "public law," is followed by the parties in their relationship and enforced by courts and tribunals when one or all parties no longer comply. It is fashionable to complain these days about the over-regulation of many business transactions. And the complainers are right. But it is still true that regulations intrude primarily at the margins. The manufacturing of a product, the delivery of a service, the sharing of information, the payment of a royalty or purchase price—the heart, muscle and mind of a commercial transaction—are provided in the form and at the time fashioned by the contracting parties.

After World War II, the United States had the material goods and intangible information the rest of the world wanted. United States industry commanders delegated to their lawyer lieutenants (as is much more traditional in this country than anywhere else) the task of preparing the documents to transfer the hardware and the soft. English became the language of all international commerce (how else does an Italian speak to a Japanese businessman?). And American styles of lawyering and contracting became the world's standards. Those standards may be alien to newcomers to international transactions, but, to a very considerable extent, all large commercial transactions, and particularly 4T's—whether signed in Tokyo or Cleveland, Buenos Aires or Frankfurt—will look similar, and *be* similar in form. Even when the venue of the scenario moves to Warsaw or Nairobi, Beijing or Mexico City, the papers will bear a striking resemblance to one another.

Nevertheless, no 4T of any significance can be closed by its participants without at least some look at the welter of often very different government-mandated considerations that may play a role in determining whether the transaction is viable (or dead on arrival). The parties must consider, most importantly, the export controls on the technology to be transferred, and their effect on the recipient's ability to market what it makes with the data it bought. They must consider no less the rules of the recipient's country, which can undermine the economics of a deal through requirements for the use of local (possibly unsuitable) managers, labor, parts, or distribution networks. They must review rules specifying environmental or aesthetic criteria, historic preservation, worker safety, consumer protection, and scores of other "public

order" concepts that governments everywhere now load on all the world's commercial dealings in ever greater detail.

In courtly, professional prose, Professor Soltysinski urges all lawyers drafting and executing a 4T contract "always [to] pay due attention to the nature and effects of non-observance of the formalities required by [such] *lex loci protectionis*" (p. 307). He has looked on this scene through a scholar's eyes and has sought to find in the literature of the law the principles that all parties to a 4T could accept to order their relationships. In truth, to an American lawyer, the author's citation of numerous Latin maxims seems stuffy. (Eight different Latin phrases are used within the two pages 282-83 alone; three newcomers appear on the next two pages.) They are as unfamiliar as unnecessary to persuade the reader of the Professor's erudition and good sense.

On the other hand, Soltysinski courageously calls a spade a spade as he sees it. For example:

> —He praises the extensive growth of the concept of party autonomy in the legal systems of Western developed countries, while noting that the idea fails to protect adequately some legitimate interests of weaker parties in developing lands (p. 259);
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> —He sympathizes with the efforts of the developing countries' governments to intrude in 4T negotiations; however, he aptly notes not only that their initiatives are an "assault upon the central institution of modern private international law" (i.e., party autonomy) (p. 263), but that the results have often been the exact opposite of those sought: "isolation of the market and the overall higher costs of acquisition of technology" (p. 354);
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> —He shows how useless are the "modern" theories by which a governing law is to be selected by reference to the law of the jurisdiction of the party with the most "characteristic obligation" or greatest contact to the performance (p. 315). 4T's are full of "characteristic obligations" by both parties in at least two countries. And a typical 4T can involve a patent licensor, an engineering company providing process engineering, a company providing construction services, another bringing start-up services and know-how, suppliers of specialized equipment selling their unique items and a licensee and its downstream affiliates that will process the product made in the licensed facility. Each actor in this configuration could be in or from a different country and engage in contractual performances in at least two countries.

Based on what he says are his "empirical studies" of forty 4T's involving Polish foreign trade organizations (p. 319), Soltysinski concludes that the most appropriate law to govern such relationships is the law of the place where the technology will be primarily used. These concepts he would apply to know-how licenses no less than patent agreements (p. 324), and to contracts for the provision of technical services (p. 331).

Substantially less space is devoted to Soltysinski's review of choice-of-forum clauses. He notes historic antipathy to party choices that divest courts of the right to adjudicate disputes and the difficult problem raised by public laws that may be—at the least—unsuitable for private (or foreign court) dispute resolution (p. 348). For example, should a Polish court, even selected voluntarily by a U.S. patent licensor, have jurisdiction to determine whether the licensor may properly invoke its parallel German patent to prevent the Polish licensee from selling licensed goods in the Federal Republic if the licensee believes the German patent is invalid? And can that Polish court consider a claim of the licensee that market-restricting clauses in its 4T contract violate U.S. or E.C. competition rules?

Soltysinski also sketches the search for alternatives, and he rightly observes that the identification of a "really *neutral* forum is a bit more complex than advertised by the partisans of the cause of arbitration" (p. 345) (emphasis in original). He is particularly doubtful that Switzerland—often assumed to be a model neutral forum—can serve as a proper impartial site for 4T dispute resolution in transactions between Western and Socialist countries. Even "many United States fora" are preferred (p. 346). But he concludes that arbitration and other forms of alternative dispute resolution "should be encouraged . . . [as] the best available forum to resolve controversies arising between parties from disparate socio-economic systems" (p. 354). He extends this proposal "to some extent" to public policy issues, such as antitrust law violations (p. 355), but he does not stake the ground where his "extent" ends.

Mine extends to the limits of the parties' right to contract. I have often thought it anomalous for a court to regard a patent license a lawful contract but to hold a private arbitrator's decision that a patent needs to be respected (or may be disregarded) as an inappropriate intrusion into "public law." A patent is *only* a grant of a government to the holder permitting the latter to bring legal proceedings to prevent another person from exploiting the invention claimed in the patent. In most countries the patentee need not use the patented invention during the life of the patent and need not bring proceedings to prevent others from doing so. The patentee, in effect, receives for the public disclosure

of his invention a right that may or may not be exercised. If he is permitted to enter into a private contract with another party, effectively exchanging for a payment ("royalty") his monopoly right to exclude the licensee, he ought also to be permitted—solely for the purposes of their internal relationship—to rely on a private dispute resolution mechanism. United States patent law has now adopted that view with respect to U.S. patents. Moreover, just before the publication of Professor Soltysinski's monograph, the United States Supreme Court strongly supported the notion of private arbitration even of antitrust claims raised under "international contracts."[1]

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[1] *See* Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614, 628-40 (1985) [hereinafter *Mitsubishi*]. Although this review was not to be encumbered with footnotes, one such note may be of interest both to Professor Soltysinski and to readers of this journal. It regards the rather special concern expressed by the United States Department of Justice about the ability (or right) of private parties to settle a dispute centered on U.S. parties' allegations that foreign competitors are "dumping" in the American market. (Professor Soltysinski is himself an avid student of and commentator on U.S. antidumping law, particularly as it affects countries such as his native Poland. *See, e.g.*, Soltysinski, *The U.S. Import Relief Laws and Trade with Centrally Planned Economies*, 3 FLA. INT'L L. J. 59 (1987).)

The Antitrust Division of the Reagan Administration took a remarkably different attitude towards most agreements between competitors, many of which would have been regarded in previous administrations as *per se* violations of the antitrust laws, particularly with regard to 4T's. *See, e.g.*, the Department's rejection of the "prohibition" of "package licensing" in patent licenses—announced by the Supreme Court as recently as 1969 in Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 135, 138 (1969)—in U.S. DEPARTMENT OF JUSTICE, ENFORCEMENT GUIDELINES FOR INTERNATIONAL OPERATIONS 66 n.257 (Final Version, November 10, 1988) [hereinafter INTERNATIONAL OPERATIONS]. These views go beyond the statutory reversal of the *Zenith* holding (supported by the Department) enacted on November 19, 1988, as the Patent Misuse Reform Act of 1988, Pub. L. No. 100-703, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5) (Supp. VI 1988)). Nevertheless, the Department states that any agreement of U.S. petitioners to withdraw dumping claims on the basis of the promise of a foreign competitor to raise export prices to the U.S. market (and thus stop "dumping") would subject both the U.S. and foreign producers to action under the antitrust laws. INTERNATIONAL OPERATIONS at 48 n.221. But why do dumping cases deserve such a special—hallowed—exemption from the notions that (a) most disputes between private parties should be settled, and (b) a settlement that persuades a complainant to withdraw its complaint is the most desirable way to achieve the purposes of the law the complainant invoked?

As Soltysinski notes, the Supreme Court has approved withdrawals of litigation, in favor of private settlements, based on claims of patent infringement or antitrust violations in international contract contexts (pp. 348-49) (referring to *Mitsubishi*). Why treat dumping claims differently, particularly in light of the Supreme Court's "exposure" of their questionable rationale? *See* Matsushita Electric Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 588-93 (1986). The Department's "policy" states only—incorrectly—that "even if the Department would not challenge pricing as predatory under the antitrust laws . . . such pricing by foreign firms selling into the United States may *violate* U.S. antidumping law. The purpose of the U.S. antidumping law is different from the purpose of the antitrust laws . . . ." INTERNATIONAL OPERATIONS at n.56 (emphasis added). In fact, foreign firms do not "violate" the antidumping law by selling at "less than fair value"; they merely subject themselves to possible an-

But my extent reaches even further. I would allow and encourage the parties fully to exercise their rulemaking rights and abilities at the outset of their relationships, when the 4T is in the making. At that juncture the parties have focused their minds on their objectives and expectations, and they have invested their material and mental resources in preparing a code of rules for their relationship. They should be held to those rules. To the extent that what they have written down in their contractual "constitution" is insufficiently precise or understandable, reference could be made to the usages of the trade in the place where the party charged with a failure to act, or with a wrongful act, committed its delict. That is the environment which that party can properly be charged with knowing (while the "foreigner" to the 4T may not). Finally, arbitrators (or mediators) may decide a dispute in accordance with their views of what is just and equitable under the circumstances. This "freedom" to determine justice and equity is not intended to place into Solomon's hands a sword with which to cleave the babe in two. It is intended to allow a decision maker to consider—as a third order of priority, where the preceding two have been inadequate—extra-contractual criteria useful in reaching a fair judgment. Pre-eminent among those criteria can be, even should be, the law of the place in which the performance of the contract was anticipated. (And in defining "performance," I share Soltysinski's view that a patent and know-how license by a U.S. firm to a Polish licensee is primarily "performed" in Poland, even though the licensor's inventions were conceived and perfected in this country, all of the data to be delivered are based on U.S. experience, written in English in the licensor's U.S. offices, and the contract, in English, was negotiated and signed in New York.)

The considerations supporting these views—now largely accepted by the United States Supreme Court as well—are discussed in greater detail in my article "Effective International Commercial Arbitration,"[2] from which I have drawn the model arbitration clause for a 4T contract appended here (with a few refinements based on ten years of added experience and my recognition of many of the sensible points explored so well in Soltysinski's monograph).

With international trade a rapidly expanding portion of the American economy, and 4T's a prominent feature of U.S. international commercial dealing, the issues Professor Soltysinski defines and reviews

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tidumping duties following proceedings which are almost always initiated by a domestic competitor whose sole interest *should* be to avoid predatory behavior from competitors abroad (or within the country).

[2] 9 LAW & POL'Y INT'L BUS. 1191, 1225-26 (1977).

take on added importance for every American lawyer. The Yearbooks of the Academy of International Law are not easily found in American law libraries. I can only hope that reprints in more accessible form will make Soltysinski's valuable insights available to the many practitioners who would enjoy and profit from his work.

APPENDIX

(The following model arbitration clause is taken from a joint venture agreement between an Italian company and a Japanese company relating to their joint venture for marketing the Japanese firm's products in Western Europe.)

Disputes

(1) Any and all disputes arising out of or in connection with the negotiation, execution, interpretation, performance or nonperformance of this Agreement (including, specifically, the validity, scope and enforceability of this arbitration agreement and any of the patents under which rights have been or may be granted hereunder) shall be solely and finally settled by arbitration, which shall be conducted where best suited for the resolution of the dispute in light of the convenience of the parties and their documents and witnesses, or, failing agreement on such place, in [Amsterdam, Holland] by a single arbitrator selected by the parties. The arbitrator shall be a lawyer familiar with international business transactions, conversant in English, and not a national of [Japan] or [Italy]. The parties specifically agree to renounce all recourse to litigation and that the award of the arbitrator shall be final and subject to no judicial review. The arbitrator shall conduct the proceedings in the English language, and pursuant to the then-existing Rules of the International Chamber of Commerce. If the parties fail to agree on the arbitrator within 30 days of the date one of them invokes this arbitration agreement, either may apply to the Court of Arbitration of the International Chamber of Commerce or to an appropriate court in [the Netherlands] to make the appointment. The arbitrator shall be bound by no substantive law, and shall decide in descending order of priority in accordance with: (a) the language of this Agreement; (b) the usages and customs of the trade in the country of the party claimed to be responsible for taking or failing to take action; and (c) what is just and equitable under the circumstances, in which connection the arbitrator may take into account the law of the country applicable to the performance of the Agreement.

(2) The parties agree to facilitate the arbitration by: (a) making available to one another and to the arbitrator for inspection and extraction all documents, books, records and personnel under their control or controlling such party if determined by the arbitrator to be relevant to the dispute; (b) conducting arbitration hearings to the greatest extent possible on successive, contiguous days; and (c) observing strictly the

time periods established by the Rules or by the arbitrator for the submission of evidence and of briefs.

(3) Any Party may apply to a court of competent jurisdiction for injunctive relief or other interim measures in aid of the arbitration proceedings, but not otherwise.

(4) Judgment on the award of the arbitrator may be entered in any court having jurisdiction over the parties or their assets. The arbitrator shall divide all costs (other than fees of counsel) incurred in conducting the arbitration in his final award in accordance with what he deems just and equitable under the circumstances.