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Technology Transfer Rules: A Study in Comparative Law

by William Sprague Barnes*

I. INTRODUCTION

The rules which govern contracts for the transfer of technology between Latin America and the developed countries of North America and Europe are complicated by the fact that both transferor and transferee nations legislate them and frequently enact significant changes in the legislation.¹

In Latin America, as governments seek to eliminate those clauses which restrict the power of the recipient to take full advantage of the technology that has been acquired, contracts for technology transfer have come under scrutiny. Legislation enacted in Mexico,² Brazil,³ Chile,⁴ Argentina,⁵ the

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1. For example, there was a trend toward strict rules in the recipient countries which are now being modified and, there is a trend toward greater scrutiny of such transfers in the major transferor countries, especially in Europe and Japan. See TECHNOLOGY TRANSFER: LAW AND PRACTICE IN LATIN AMERICA, IX (B. Carl ed. 1978) [hereinafter cited as Carl]: "[I]f the results are unsatisfactory, the terms of the offer can be revised. The 1977 statutes of both Chile and Argentina represent such modification." *Id.* Several methods of transferring technology exist. They include individual experts, contracts for the supply of machinery, turnkey contracts and technology licensing agreements. UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO), GUIDELINES FOR THE ACQUISITION OF FOREIGN TECHNOLOGY IN DEVELOPING COUNTRIES 8-9 (1973) [hereinafter cited as UNIDO GUIDELINES]. This article focuses on the use of technology licensing agreements. Such agreements have traditionally been advantageous to the licensor. D. GOULET, THE UNCERTAIN PROMISE: VALUE CONFLICTS IN TECHNOLOGY TRANSFER 56-60 (1977).

2. Registro de la Transferencia de Tecnologia (Mexican Law on the Registration of the Transfer of Technology and the Use and the Exploitation of Patents and Trademarks) [Mexican Technology Transfer Law], Law of Dec. 28, 1972, [1972] D.O., Dec. 30, 1972 (Mex.), translated in 12 INT'L LEGAL MAT'LS 421 (1973). See also Mexican Law on Inventions and Trademarks, Law of February 8, 1976, [1976] D.O., February 10, 1976 (Mex.). The former statute became effective on January 29, 1973. Hyde & de la Corte, *Mexico's New Transfer of Technology and Foreign Investment Laws — To What Extent Have the Rules Changed?* 10 INT'L LAW. 231 (1976) [hereinafter cited as Hyde & de la Corte].

3. Law No. 5,772 (Industrial Property Code of 1971), Law of Dec. 21, 1971, [1971] 7 Coleção 190 (Braz.), has been augmented by the Acto Normativo (Normative Act), No. 15, Law of Sept. 11, 1975, [1975] Revista da Propriedade Industrial No. 256 (Sept. 16, 1975).

4. Decree-law No. 600, Law of March 18, 1977, DIARIO OFICIAL DE LA REPUBLICA (July 13, 1974) (Chile), translated in 17 INT'L LEGAL MAT'LS 134 (1978), was enacted by the Chilean Legislature shortly after Chile's withdrawal from ANCOM. It modified a 1974 Decree Law governing foreign investment. Wesley, *Chile*, in Carl, *supra* note 1, at 135-36, 281-82 [hereinafter cited as Wesley].

5. The 1974 Argentine Law on Transfer of Technology, Law of Sept. 27, 1974, [1974 Argen-

Philippines,⁶ Venezuela,⁷ and the Andean Group⁸ was originally inspired by United States and European efforts to control restrictive business practices and to maintain competition. However, the motivation for the Latin American regulation of these contracts is the protection of nationals of the less developed countries from onerous provisions in international contracts with corporations from the developed countries. It is an oversimplification to explain the rules governing technology transfer contracts in Latin America today in terms of economic nationalism. Royalty payments to foreign licensors are subject to a deep-rooted distrust and result from a perceived inferiority of bargaining position.⁹ Moreover, what may well be sensible provisions for

tine Law], [1974] A Anuario No. 20.794 (Arg.), reprinted in 14 INDUS. PROP. 338 (1975); Law No. 21.617, Law of Aug. 12, 1977 (Arg.), reprinted in Carl, *supra* note 1, app. G, was implemented by Decree No. 1885 of Aug. 15, 1977, BUL. OF. (Aug. 8, 1978), reprinted in 60 BOLETIN DE INFORMACIÓN LEGAL 10-11 (1978). These are in line with the proposals of the Group of 77. See, e.g., Dessemontet, *Transfer of Technology under UNCTAD and EEC Draft Codifications: A European View on Choice of Law in Licensing*, 12 J. INT'L L. & ECON. 1, 10 n.30 (1977) [hereinafter cited as Dessemontet].

6. The three principal laws in the Philippines on foreign investment are: 1) R.A. No. 5186 (Investment Incentives Act), Law of Sept. 16, 1967 (Phil.); 2) R.A. No. 5455 (Foreign Business Regulation Act), Law of Aug. 15, 1968 (Phil.); and 3) R.A. No. 6135 (Export Incentives Act), Law of Aug. 31, 1970 (Phil.). These are discussed in Hilado, *The Legal and Administrative Regulation of Transfer of Technology: The Philippine Setting*, 51 PHIL. L. J. 69, 93 (1976) [hereinafter cited as Hilado]. On December 14, 1977, Presidential Decree No. 1263 entitled "Amending Portions of Republic Act No. 165 Otherwise Known as the Patent Law" was signed. *Id.* at 93. This decree established a foreign technology licensing code very similar to the UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD), Draft Texts Submitted to the Intergovernmental Group of Experts on an International Code of Conduct on Transfer of Technology, Annex II (Revised Text of Draft Outline of an International Code of Conduct on Transfer of Technology: Submitted on Behalf of the Experts from the Group of 77), U.N. Doc. TD/AC.1/9 (1977) [hereinafter cited as Group of 77 Draft], reprinted in 17 INT'L LEGAL MAT'LS 462 (1978). The 7th Plenary meeting of the United Nations Conference on an International Code of Conduct on the Transfer of Technology has resulted in a slightly altered version although the draft remains substantially the same. See UNCTAD, Draft International Code of Conduct on the Transfer of Technology, U.N. Doc. TD/CODE TOT/9; UNCTAD, Documents of the Conference, U.N. Doc. TD/CODE TOT/10.

7. Decree 746 of Feb. 11, 1975, in 11 DER. DE LA INTERGRACIÓN 318 (1975), contains significant restrictions on technology agreements. Decree 2442 of Nov. 8, 1977, arts. 63-73, GAC. OF., Nov. 15, 1977, No. 2,100 Ex. further restricts such agreements. See Pate, *Present and Future Venezuela Technology Policies: Implementation and Implications for Technology Suppliers and Foreign Investors*, 9 LAW AM. 1 (1977) [hereinafter cited as Pate].

8. The basic law on technology transfer and patents as well as the general problem of foreign investment is Decision 24 of the Commission of the Cartagena Agreement, Common Regime of Treatment of Foreign Capital and of Trademarks, Patents, Licenses, and Royalties, [Decision 24], Law of Dec. 31, 1970, [1971] R.O. No. 264, at 1 (Ecuador), translated in 11 INT'L LEGAL MAT'LS 126 (1972), as amended, translated in 16 INT'L LEGAL MAT'LS 138 (1977). Decision 84 on the Basis for a Subregional Technological Policy, 1974, GRUPO ANDINO, Sep. No. 28, at 1-11 (June, 1974), translated in 13 INT'L LEGAL MAT'LS 1478 (1974), established the basis for transfer of technology in the region. Decision 85 on Industrial Property, 1974, GRUPO ANDINO, Sep. No. 28, at 11-12 (June, 1974), translated in 13 INT'L LEGAL MAT'LS 1489 (1974), approved the Regulation for the Application of Rules on Industrial Property.

9. See Wesley, *supra* note 4, at 132, where reference is made to a lack of sophistication in negotiations and an inability to assimilate foreign technology in Chile.

maintaining competition and assuring a free market in developed countries of Europe, North America and Japan, have been used as the basis for a series of measures which could inhibit the technological development and economic growth of Latin American countries.¹⁰ The systematic licensing of technology to controlled local subsidiaries by U.S. firms is justified by a centralized international finance function which requires the optimal channels of fund flows.¹¹

This article will compare the technology transfer provisions for the Latin American countries with the United States and European antitrust provisions applicable to licensing agreements. The draft Code of Conduct formulated by the Pugwash Conferences and sponsored by United Nations Conference on Trade and Development¹² will be discussed as a basis for evaluating the extent to which the Latin American national legislation has fulfilled the goals and purposes enumerated in the United Nations Conference on Trade and Development (UNCTAD) documents.

First, the article sets out and examines the four basic alternative sets of rules to govern the transfer of technology: the applicable U.S. antitrust law, the applicable European antitrust law, the various Latin American national licensing regulations, and the international efforts to formulate a Code of Conduct regulating technology transfer.¹³ Business spokesmen have criticized binding

10. One example of this is the unbundling approach. Nattier examines the unbundling approach in Brazil:

"An initial prescription is that transactions containing elements that fall within several categories must be covered by separate contracts; that is, a single agreement may not cover a patent license, a transfer of proprietary know-how and a trademark license. Rather, these must be three separate agreements." Nattier, *Brazil*, in Carl, *supra* note 1, at 145, 156.

For other examples of unbundling, see Group of 77 Draft, *supra* note 6, chs. 3.2(vi), 4.2(12), reprinted in 17 INT'L LEGAL MAT'LS at 467. On trademarks in Brazil, see Daniel, *Guidelines for Trademark License Agreements and Transfer of Technology in Brazil*, 73 PAT. & T.M. REV. 83 (1975), which states that "the maximum royalty permitted for a trademark license agreement is 1% of the net sales of the products which are identified by the trademark." *Id.* at 87.

11. Wesley, *supra* note 4, at 133, refers to this as a common practice, considered an abuse which is eliminated by Decision 24, Law of Dec. 31, 1970, [1970] R.O. No. 264, at art. 20, as amended, translated in 16 INT'L LEGAL MAT'LS at 138. In March 1977, Chile enacted Decree-Law No. 600, Law of March 18, 1977 (Chile), translated in 17 INT'L LEGAL MAT'LS 134 (1978), withdrawing from the Andean Pact and removing the requirements of approval of technology transfer where total value is less than 5 million U.S. dollars, or in sectors reserved to the state or public services or licenses made by a foreign state. Wesley cites other examples of the trend toward liberalization in Chile. Wesley, *supra* note 4, at 137.

12. UNCTAD, Report of the Working Group on Code of Conduct of Transfer of Technology of the Pugwash Conference on Science and World Affairs, U.N. Doc. TD/B/AC.11L.12 (1974) [hereinafter cited as the Pugwash Code].

13. For background information on all three topics in summary form in one specific area, see Silverstein, *Sharing United States Energy Technology with Less-Developed Countries: A Model for International Technology Transfer*, 12 J. INT'L LAW & ECON. 363, 379-96 (1978) [hereinafter cited as Silverstein]. A thorough analysis of the international efforts is available in Finnegan, *A Code of Conduct Regulating International Technology Transfer: Panacea or Pitfall?*, HASTINGS INT'L & COMP. L. REV. 57, 67-87 (Inaugural Issue, 1977) [hereinafter cited as Finnegan]. The study, prepared by Eduardo White of INTAL and published by UNCTAD, is the most complete source on Latin

governmental regulations as counterproductive,¹⁴ but that specific study is beyond the scope of this article.

Second, it will focus on the specific attempts of less developed countries and international organizations to regulate, or that have been proposed to regulate, international licensing agreements. After discussing the substantive nature of these various rules and the practices they are directed at, the author concludes that the Latin American nations will urge the adoption of the Group of 77 Draft International Code of Conduct for the international regulation of technology transfer as a legally binding instrument in both regional and global forums as soon as possible.

II. THE UNITED STATES AND THE EUROPEAN COMMUNITY

A. *United States View*

The U.S. Government¹⁵ is not willing to recognize proprietary rights in

American rules. UNCTAD, Control of Restrictive Business Practices in Latin America, U.N. Doc. ST/MD/4 GE. 75-45034, at 53-105 [hereinafter cited as Restrictive Business Practices]. An earlier publication of the Council of the Americas, TECHNOLOGY TRANSFER AND GEOGRAPHIC PERSPECTIVE (R. Driscoll and H. Wallander eds. 1974), covers the history of UNCTAD and other international efforts as well as the efforts of Mexico, the Andean Group, Brazil and Argentina. A background paper for a seminar in June 1977 updates the Council of the Americas work. Kantor, Restrictive Business Practice in Latin America, (unpublished seminar paper, June, 1977) (copy in author's possession). The literature in this field is expanding rapidly both in Europe and in Latin America, in German, French, and Spanish language journals. The two most useful sources for all developments are the BOLETIN DE INFORMACIÓN LEGAL DEL INTAL and DER. DE LA INTEGRACIÓN which have published comparative studies on technology transfer rules. No effort is made here to cover a related set of issues, namely, whether the U.S. and foreign policies operate as constraints or incentives to technology transfer. Four such issues are trade and export controls, financing and insurance policies, antitrust, and taxation. 4 PUBLIC POLICY AND TECHNOLOGY TRANSFER 353-510 (Fund for Multinational Management Education, Council of the Americas, U.S. Council of the International Chamber of Commerce & George Washington University eds. 1978) [hereinafter cited as PUBLIC POLICY AND TECHNOLOGY TRANSFER]. For example, substantial tax disincentives are encountered in both the U.S. and foreign countries. *Id.* at 382. However, for an excellent general overview of the policy implications of technology transfers comparing corporate strategies and purchaser group objectives, see Baranson, *Policy Implications of Technology-Sharing Trends*, in TECHNOLOGY AND THE MULTINATIONALS: CORPORATE STRATEGIES IN A CHANGING WORLD ECONOMY 143-63 (ed. 1978).

14. The results of a questionnaire on key issues in technology transfer administered by the International Management and Development Institute (IMDI) are published in INTERNATIONAL MANAGEMENT AND DEVELOPMENT INSTITUTE, FINAL REPORT ON SCIENCE, TECHNOLOGY AND DEVELOPMENT (1979). Approximately 90% of the respondents thought that national legislation by both home-and-host-country governments and the idea of a binding international Code of Conduct were as a rule counterproductive, whereas nonbinding guidelines were considered constructive by 73% of the group. *Id.* at 12.

15. In the United States, and more recently in Europe, there has been a running battle between the innovative private company that invests heavily in research and development (R&D) to keep ahead of its competition, and the government which regulates more and more business activity. That battle is most vociferous in the area of inventions, patents, know-how, trade secrets, trademarks, and copyrights of training manuals, industrial designs and models all of which are

know-how¹⁶ which are not patentable, because they are not property and therefore not protected by law.¹⁷ However, the licensee of a patent,¹⁸ trademark,¹⁹ or copyrighted design²⁰ will not be satisfied nor will he produce efficiently without the guarantee of know-how.²¹ As long as licensing agreements were predominantly concerned with rights to use a patent or other industrial

able to be licensed in an international technology transfer. For a worthy discussion of the present state of European patent and licensing attitudes and a few cogent remarks on the difference between the EEC and the U.S. approaches, see Ehrenhaft, *A Common Law Lawyer Looks at the Common Market's New Patent Licensing Regulation*, 12 INT'L LAW. 741 (1978) [hereinafter cited as Ehrenhaft]. If a company has substantial contract work with the government, the government uses its leverage to force the private company to disclose proprietary information. Obviously the enormous investment in R&D and emphasis on innovation has to be justified by some reasonable return in the form of royalties from patent licensing and know-how agreements. See Case, Marthinsen, & Moss, *Trade Secrecy and Patents* (unpublished manuscript, 1978) (copy in authors' possession), in which the authors stress the changes in patent licensing which government controls have forced on private industry.

16. "[T]echnology or know-how denoted the sum of knowledge, experience and skills necessary for manufacturing a product or products and for establishing an enterprise for this purpose." UNIDO GUIDELINES, *supra* note 1, at 1-2; see World Intellectual Property Organization, *Legal Aspects of License Agreements*, in UNIDO GUIDELINES, *supra* note 1, at 49 [hereinafter cited as WIPO]. Know-how has been defined to include "inventions, processes, formulae, or designs which are either unpatented or unpatentable; it may be evidenced by some form of physical matter, such as blueprints, specifications, or drawings; . . . and it may involve accumulated technical experience and skills which can best, or perhaps only, be communicated through the medium of personal services." Creed & Bangs, *Know-How Licensing & Capital Gains*, 4 PAT., T.M. & COPYRIGHT J. RESEARCH & EDUC. 93 (1960).

17. "So far as the unpatented know-how element is concerned, no proprietary rights exist in respect of which a 'license' in its true sense could be granted." WIPO, *supra* note 16, at 50. What U.S. law *does* protect is copyrights, trademarks, patents, and certain categories of know-how. See Reeves, *Antitrust and International Technology Licensing: A Primer*, 11 CORNELL INT'L L. J. 262 (1978):

The law of copyrights guards the uniqueness of a written or performed creative work.

The law of trademarks protects the distinctive way a product or service is identified and distinguished through the use of a symbol or mark. The law of patents safeguards inventions that meet sufficient statutory and constitutional standards of novelty, utility and nonobviousness. Know-how, often referred to as trade secrets, protects technical knowledge, experience and skills that are most effectively transferred either by a writing or by observation of the actual performance of those possessing such knowledge, experience, and skills.

Id. at 266.

18. The term 'patent' refers to the "exclusive right, granted under the law, relating to the exploitation of a technical invention." WIPO, *supra* note 16, at 49.

19. A trademark "is a visible sign, protected by an exclusive right granted under the law, which serves to distinguish goods of one enterprise from those of other enterprises." *Id.* For various definitions of trademark, see *Dresser Industries, Inc. v. Heraeus Engelhard Vacuum, Inc.*, 395 F.2d 457 (3d Cir.), *cert. denied*, 393 U.S. 934 (1968); *Sweetarts v. Sunline, Inc.*, 380 F.2d 923 (8th Cir. 1967); *Smith v. Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968).

20. A copyright is a legal grant which secures to an author the exclusive right to his writings. See *Copyrights*, 17 U.S.C. §§ 1, 4 (1976).

21. "If a party who must spend large amounts of that money to create this property has no protection of the results from that expenditure, then the money will not be spent and society will be deprived of its values." Arnold, Goldstein & Nation, *An Overview of U.S. Antitrust & Misuse Law for Licensors & Licensees* in *PATENT ANTITRUST 1978*, at 311, 393 (1978).

or intellectual property, the rules on know-how were subsumed as ancillary to the principal thrust of the contract. But as patents run out or become unobtainable because the particular process lacks the required level of invention, the multinational firm may find more and more of its overseas contracts involving only know-how. This also may be due to the nature of the foreign demand, where local manufacturers seek only the technical knowledge necessary to construct the plant and put it on-stream.

International legal protection and licensing of know-how first developed on the assumption that it was a form of industrial property.²² As between licensor and licensee, something of value is transferred for consideration and there is a valid contract binding the parties. But in *Lear v. Adkins*,²³ the U.S. Supreme Court, adhering to the principle of free access to knowledge,²⁴ imposed narrow limits on monopoly which "cannot be frustrated by private agreements. . . ."²⁵ Contracts to license unpatentable know-how and trade secrets are unenforceable in the federal courts of the United States because such contracts are distinguished from the licensing of protected industrial property such as patents, trademarks, and copyrights.²⁶ The dictum in *Lear*²⁷ was the basis for holding that federal patent law requires an inventor to submit his ideas to the Patent Office before he can compel payment for the use of his idea.²⁸

In 1974, the U.S. Supreme Court recognized the legitimate interests of licensors in executing binding contracts providing know-how and trade secrets

22. III S.P. LADES, PATENTS, TRADEMARKS AND RELATED RIGHTS: NATIONAL AND INTERNATIONAL PROTECTION 1624 (1975) [hereinafter cited as LADES].

23. 395 U.S. 653 (1968).

24. "Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain." *Id.* at 670.

25. *Id.* at 677. See also *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), holding unenforceable a contract to pay a royalty after the patent had expired.

26. Root, *The Validity of Transnational Technical Know-How Licensing Agreements in the United States Courts*, 2 CALIF. W. INT'L L. J. 128 (1971). Following the decisions in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Bright Lighting Co., Inc.*, 376 U.S. 234 (1964), the Supreme Court held that states could not employ unfair competition laws to protect industrial designs which were not patented or copyrighted because this area was pre-empted by federal law under the Supremacy Clause, U.S. CONST., art. VI, cl. 2. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974). In *Lear v. Adkins*, 395 U.S. 653 (1969), the Supreme Court applied the reasoning of *Sears* and *Compco* to hold that a patentee could not rely on state contract law as the basis for collecting royalties under a patent licensing agreement after the underlying patent had been declared invalid. *Id.* at 662.

27. *Id.* at 677.

28. *Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271, 274 (S.D.N.Y. 1970), *rev'd*, 442 F.2d 216 (2d Cir. 1971). The first suggestion that the Supreme Court was prepared to retreat from the hard line taken in *Sears* and *Compco* came in *Goldstein v. California*, 412 U.S. 546 (1973). *Goldstein* raised the question of whether a state could prevent the duplication of sound recordings which, prior to the Sound Recording Act of 1971, Pub. L. No. 92-140, 85 Stat. 391 (1971), were not incompatible. In this area, the Court determined that it would not imply a Congressional intent to pre-empt the field absent specific provisions to the contrary. *Goldstein*, 412 U.S. at 567-70.

for a payment by the licensee.²⁹ The opinion of the majority fails to clarify the status of international technology transfer agreements, although it differentiates between patent rights and trade secret rights.³⁰ Whether the latter are truly proprietary rights is still in doubt, since the enforcement of such rights depends on the private law of contracts rather than the public grant of a patent or other form of industrial property.

However, the Department of Justice has attempted to give guidance concerning antitrust implications of international agreements by publishing a set of guidelines.³¹ Since know-how licensing lacks any statutory protection,³² know-how licenses, according to the Department, will generally be subject to stricter antitrust standards than those applied to patent licenses.³³

United States courts have tended to permit moderate restraints of trade when a legitimate business objective is pursued, i.e. transfer of technology, only if the restraint is reasonably ancillary to this main purpose.³⁴ "This involves a balancing of the anticompetitive effects of the restraint . . . against the business considerations which are alleged to justify the arrangement."³⁵

B. *The European View*

In the European Economic Community, the rules on competition are set forth in Articles 85 and 86 of the Treaty of Rome.³⁶ These provisions, modeled after sections 1 and 2 of the Sherman Act,³⁷ prohibit agreements that affect, prevent, restrict or distort competition within the Common Market.³⁸ Any agreements "prohibited pursuant to [Article 85 (1)] shall be automatically void"³⁹ unless exempted by Article 85(3).⁴⁰ However, only a small number

29. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) held that states could enforce trade secrets through state law since Congress has left the area unattended. *Id.* at 478-79.

30. *Id.* at 471. At present it is estimated that licenses on unpatented know-how account for approximately 98% of all technology transfer to LDC's. Dessemontet, *supra* note 5, at 14.

31. U.S. Dep't. of Justice, (Antitrust Division), *Antitrust Guide for International Operations* (Jan. 26, 1977), reprinted in 16B J. VON KALINOWSKI, *BUSINESS ORGANIZATIONS* (1979) [hereinafter cited as *Antitrust Guide*].

32. See note 16 *supra*.

33. See *Antitrust Guide*, *supra* note 31.

34. *United States v. Addyston Pipe and Steel Co.*, 85 F. 271 (6th Cir. 1898), *modified and aff'd*, 175 U.S. 211 (1899).

35. *Antitrust Guide*, *supra* note 31, at 168.

36. *Treaty Establishing the European Economic Community*, March 25, 1957, 298 U.N.T.S. 11 (1958) [hereinafter cited as *Treaty of Rome*].

37. Finnegan & Zotter, *The U.S. Antitrust Laws: The Philosophical and Practical Foundations For Foreign Antitrust Systems*, in *PATENT ANTITRUST 1978*, at 105, 109 (1978) [hereinafter cited as *Finnegan and Zotter*].

38. *Treaty of Rome*, *supra* note 36, art. 85(1).

39. *Id.* art. 85(3).

40. *Id.* art. 85(3).

of cases in the 1960's and early 1970's have dealt with the relationship of the Treaty of Rome to licensing agreements.⁴¹

Despite the spate of cases in the European Community, there is presently a desire to encourage the transfer of technology and the conclusion of licensing agreements, rather than regulations which specify a long list of prohibited clauses.⁴²

However, there has been an attempt by the EEC Commission to formulate specific guidelines for certain types of patent licensing agreements.⁴³ The latest formulation lists practices considered automatically exempt from the proscribed conduct of Article 85(1).⁴⁴ The basis for this list is that "those arrangements which, although they may violate Art. 85(1), nevertheless may be held to benefit the public interest."⁴⁵ Therefore, even though not yet in force, these guidelines are a valuable tool for predicting the Commission's attitude with respect to specific clauses and provisions. Thus, we can assume that even a relatively mild control of licensing agreements will not be accepted in Europe.

In Europe, as in the United States, the courts have attacked patent licensing which includes schemes to restrain trade and eliminate competition. A series of cases in the U.S. federal courts⁴⁶ led the Department of Justice to scrutinize international technology licensing agreements for possible anti-competitive effects,⁴⁷ whereas the European cases have tended to protect the licensee.⁴⁸

The purpose of this scrutiny is to keep firms from monopolizing the innovations which they have worked so hard and spent so much to develop.⁴⁹ If a sub-

41. *E.g.*, *Re the Agreement of Burroughs AG and Etablissements L.*, [1972] J.O. No. L 13/50, 11 Comm. Mkt. L.R. D67 (1972); *Re the Agreements of the Davidson Rubber Co.*, [1972] J.O. No. L 143/1, 11 Comm. Mkt. L.R. D52 (1972); *Re the Agreement between Kabelund Metallwerke Neumeyer A.G. and Les Etablissements Luchoire S.A.*, [1975] J.O. No. L 222/34, 16 Comm. Mkt. L.R. D40 (1975); *Association Des Ouvriers en Instruments de Precision (A.O.I.P.) v. Beyard*, [1976] J.O. No. L 6/8, 17 Comm. Mkt. L. R. D14 (1976).

42. *See* Finnegan & Zotter, *supra* note 37, at 109; Basset, *EEC Group Exemption for Patent Licenses*, 6 INT'L BUS. LAW. 226 (1978); *see also* Ehrenhaft, *supra* note 15, at 741-43, 747, 755 for a list of the clauses, a recommended list of deleted topics, and a critique of the draft.

43. Finnegan & Zotter, *supra* note 37, at Appendix C.

44. *Id.* In addition to those enumerated as exempt or "white" clauses in Article 1, an equal number of practices in Article 2 are unavailable for automatic exemption and might therefore be construed as a list of prohibited practices or "black" clauses under Article 85. *Id.*

45. *Id.* Even in its revised form, the EEC Draft Regulation which evolved from EEC Regulation 19/65 is not likely to be accepted. *See* Ehrenhaft, *supra* note 15, at 743.

46. *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951); *United States v. National Lead Co.*, 63 F. Supp. 513 (S.D.N.Y. 1945); *United States v. Imperial Chemical Industries*, 100 F. Supp. 504 (S.D.N.Y. 1951).

47. *See* Antitrust Guide, *supra* note 31.

48. For insight into the current status of EEC law and the European Court's approach to handling patent licensing cases involving restrictive clauses, *see* *Association Des Ouvriers en Instruments de Precision (A.O.I.P.) v. Beyard*, [1976] J.O. No. L 6/8, 17 Comm. Mkt. L. R. D14 (1976).

49. The license may encounter antitrust obstacles if it contains restrictions which are

stitute technology is not available at an equivalent cost, the government steps in to investigate the possibility of anticompetitive practices. Whether this scrutiny will become more severe as firms turn to trade secrets and know-how agreements remains to be seen. Eventually government intervention becomes counterproductive, since firms encountering too much regulation often withdraw into the safety of undisclosed trade secrets. "If trade secret protection is more attractive from a business point of view than patent protection, it is not hard to imagine a group of firms . . . excluding competitors without access to the secret and forever preventing the knowledge from passing into the public domain."⁵⁰

C. *General Discussion: Interests of Host and Home Countries*

In general terms, the home country restricts the licensor as to the type of property rights and the conditions under which such rights can be transferred. The host country simultaneously restricts the form or amount of payment and other conditions which can be demanded of the licensee. Both countries may be involved in the case of a breach of contract and either licensor or licensee may be liable for damages. Legal hazards arise in both countries and affect both parties.

Licensors tend to be in a stronger bargaining position to dictate the terms, especially if their position is economically superior to the licensee. As a result of the inequalities of bargaining power, legislation has established greater

not reasonably adapted to securing for the patentee rewards ancillary to the grant, or if the license is used to provide the patentee with powers exceeding those inherent in the original grant. Since benefit is the primary motivation for the patent law, a license which tends to impede implementation of those ends by restraining trade will be subject to antitrust scrutiny.

16G J. VON KALINOWSKI, *BUSINESS ORGANIZATIONS* § 59.06(1)(a) (1979) [hereinafter cited as VON KALINOWSKI].

Areas subject to scrutiny typically involve *package licensing*. See *American Security Co. v. Shatterproof Glass Corp.*, 268 F.2d 769 (3d Cir.), *cert. denied*, 361 U.S. 902 (1959) (mandatory package licensing); *but cf. Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) (arranged for convenience of both parties). For *field-of-use restrictions*, see *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938) (field-of-use restrictions approved); *Benger Labs, Ltd. v. R.K. Laros Co.*, 209 F. Supp. 369 (E.D.Pa. 1962), *aff'd*, 317 F.2d 455 (3d Cir.), *cert. denied*, 375 U.S. 833 (1963) (proper to license one company for human field and another for the veterinary field). For *quantity restrictions*, see *American Equipment Co. v. Tuthill Building Material Co.*, 69 F.2d 406 (7th Cir. 1934); *United States v. National Lead Co.*, 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947). For *restrictions on resale*, see *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873) (exhaustion of patent by first sale); *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977); for *tying clauses*, see *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969); *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610 (1977). For *price fixing*, see *United States v. General Electric Co.*, 272 U.S. 476 (1926); *United States v. Line Material Co.*, 333 U.S. 287 (1948).

50. Silverstein, *supra* note 13, at 385. Cf. Davidow, *U.S. Antitrust Laws and International Transfers of Technology — The Government View*, 43 *FORDHAM L. REV.* 733 (1975).

governmental control and supervision over contracts, particularly in the public services, communication, and extractive industries. To the extent that standardized contracts in the licensing field contain or refer to legal rules which are detailed and can supplant national laws, there is little left to be governed by the proper law of the contract.

Patents and technology transfer are the most critical instrumentalities by which developing nations achieve economic and social goals⁵¹ and attain equality with the developed nations.⁵² As licensees or host countries, developing nations seek to insure that the specific forms of technology they receive are suitable to implement those goals since the "global enterprises will impart only such technology as suits their purposes."⁵³ From the perspective of developing nations, it is essential that the bargaining position of the licensees of technology from the developing countries be strengthened.⁵⁴ One of the aims of the national legislation and international drafts is to improve the negotiating posture of the licensee as well as to identify and prohibit abusive licensing practices. Latin American nations are seeking to put licensees in an equal position vis-a-vis the licensor.

That developing nations are not in an equal position with respect to developed countries is demonstrated by the one-sided nature of many licensing agreements. These agreements may represent adhesion contracts.⁵⁵ Contracts of adhesion in municipal law results from unequal bargaining power and are characterized by lack of knowledge, lack of choice, bargaining inadequacy, gross imposition of terms and unconscionable results.⁵⁶

The provisions of many licensing agreements contain a price fixing provi-

51. The Role of Patents in the Transfer of Technology to Less-Developed Countries, Report of the Secretary-General of the United Nations, U.N. Doc. E/3861/Rev. 1 (1964); Kunz-Hallstein, *Patent Protection, Transfer of Technology and Developing Countries — A Survey of the Present Situation*, 6 INT'L REV. COPYRIGHT & INDUS. PROP. L. 427-28 (1975) [hereinafter cited as Kunz-Hallstein].

52. See Office of the Director General of the National Registry for the Transfer of Technology (Statement by Counsel), *Changing the Rules: International Law and the Developing Countries: The ABA Workshops of 1977*, 12 INT'L LAW. 265 (1977):

The International Community has recognized that technology is a part of the universal human heritage and that all countries must have the right to its access in order to improve their standard of living; that transfer of technology can play an effective role in the elimination of poverty and economic inequality among countries; and, finally, that it can contribute toward the establishment of a new international economic order.

Id. at 276.

53. Constantino, *Global Enterprises and the Transfer of Technology*, 7 J. CONTEMP. ASIA 44, 46 (1977).

54. Kunz-Hallstein, *supra* note 51, at 441-42.

55. See generally Wilson, *Freedom of Contract and Adhesion Contracts*, 14 INT'L & COMP. L. Q. 172 (1965).

56. See generally Bolgar, *The Contract of Adhesion*, 20 AM. J. COMP. L. 53 (1972).

sion,⁵⁷ export restrictions,⁵⁸ tie-in clauses,⁵⁹ grant-back provisions⁶⁰ and a royalties clause⁶¹ which demonstrate the one-sided nature of the agreement. These provisions are illustrative of the inequality of bargaining power⁶² that existed between interests of the licensees and licensors.

In a comparative survey of these government restrictions on licensing, the most liberal will recognize know-how as a fully licensable right that requires no registration, where no limits will be placed on the length or term of the agreements, and where clauses will be allowed stating that monopoly extends beyond the patent, or other industrial property, both in time and space.⁶³ In countries where the balance of payments and availability of foreign exchange has improved, the requirements of registration and limits on royalty payments are being liberalized. Such liberal countries allow clauses restricting the licensee's exports to avoid competition in the licensor's own market. Most of the reservations expressed by governmental agencies regarding licensing contracts are concerned with certain industries and with rates of royalties.⁶⁴

III. INTERNATIONAL PROPOSALS FOR RULES OF CONDUCT GOVERNING TECHNOLOGY TRANSFER

In order to appreciate the reason for the strong reaction against freedom of contract in technology transfer, the UNCTAD reports need to be studied in detail. Less than 1% of all patents issued from 1971 to 1975 were owned in one of the developing countries.⁶⁵ The approach of the international draft codes has been to restrict freedom of contract in technology transfer agreements and impose certain restrictions upon the ability of the licensor to dictate the terms of a licensing agreement. In its 1975 Report on major issues arising from the transfer of technology to developing countries, UNCTAD estimated that these nations were paying one-and-a-half million dollars for technology and could be paying nine million dollars by the end of the 1970's.⁶⁶

57. See 16G VON KALINOWSKI, *supra* note 49, § 59.06 [1][c][i]; see also 16 VON KALINOWSKI, BUSINESS ORGANIZATIONS §§ 6.02 [2][a], 6.02 [3][b] (1979). The most thorough definition of price-fixing made by the courts is found in *United States v. Socony Vacuum Oil Co.*, 310 U.S. 150 (1940).

58. 16G VON KALINOWSKI, *supra* note 49, § 59.06 [1][a][iii].

59. *Id.* § 59.06 [1][a][iii], 6.02 [a][b], 6.02 [3][c].

60. *Id.* § 59.03 [3][a].

61. 14 H. EINHORN, BUSINESS ORGANIZATIONS § 3.01 (T. Costner ed. 1979) [hereinafter cited as EINHORN].

62. See *Macaulay v. Schroeder Publishing Co. Ltd.*, [1974] 1 W.L.R. 1308, 1316 (H.L.).

63. See H. COHEN-JEHORAM, THE PROTECTION OF KNOW-HOW IN 13 COUNTRIES 14-164 (1977).

64. See, e.g., Law of Aug. 12, 1977, [1977] OF. GAZ. (Aug. 16, 1977) (Arg.), reprinted in 49 BOLETIN DE INFORMACIÓN LEGAL 1-3 (1977).

65. Mangalo, *Patent Protection and Technology Transfer*, 9 INT'L REV. COPYRIGHT & INDUS. PROP. L. 100, 111 n.46 (1978) [hereinafter cited as Mangalo].

66. The Role of the Patent System in the Transfer of Technology to Developing Countries,

The reports led to a declaration which called for a revision of the Paris Convention on Industrial Property⁶⁷ to fulfill the following objectives:

1. The industrial property system can serve as a useful tool for facilitating transfer of technology to developing countries if the international standards are adapted to the economic, social and political conditions and national development objectives of developing countries and if they do not constrain in any way the flexibility of each country to adapt its laws and practices to its own needs.
2. The immediate and continuing task of the system should be to provide, in the shortest time possible, the broadest available technical assistance to help developing countries to strengthen their scientific and technical infrastructures and to train their specialists.
3. The international standards should reflect the historical and economic changes which have taken place, and the new trends in national legislation and practices of developing countries (whether or not they are members of the Paris Union).

Developing countries have sought to acquire technology to assist their economic development through various international forums, relying upon emerging sources of international law.

These new sources of international law of foreign investments and technology transfer include the resolutions and drafts of the United Nations General Assembly,⁶⁸ United Nations Industrial Development Organization,⁶⁹ United Nations Conference on Trade and Development (UNCTAD),⁷⁰

Report Prepared Jointly by the United Nations Department of Economic and Social Affairs, the UNCTAD Secretariat, and the International Bureau of the World Intellectual Property Organization, U.N. Doc. TD/B/A.C. 11/19, at 20-29 (April 23, 1974).

67. Convention for the Protection of Industrial Property, revised at Stockholm, July 14, 1967, 21 U.S.T. 1583, T.I.A.S. No. 6923, [hereinafter cited as Paris Convention].

68. *E.g.*, Declaration on the Establishment of a New International Economic Order, G.A. Res. 3201, 6 U.N. GAOR, Special Supp. (No. 1), U.N. Doc. A/9559 (1974) [hereinafter cited as Declaration]; Programme of Action on the Establishment of a New International Economic Order, G.A. Res. 3202, U.N. GAOR, Special Supp. (No. 1), U.N. Doc. A/9559 (1974) [hereinafter cited as Programme]; Charter of Economic Rights and Duties of States, G.A. Res. 3281, 29 U.N. GAOR, Supp. (No. 30), U.N. Doc. A/9631 (1974) [hereinafter cited as Charter].

69. On the importance of patents and transfer of technology, *see* International Centre for Industrial Studies (UNIDO), Functions and Organization of National Offices for Transfer of Technology, U.N. Doc. ID/WG.228/3 (1976); Mangalo, *supra* note 65, at 118.

70. Since 1974, a group of experts has been addressing itself to the problems of technology transfer in the developing countries and a revision of the Paris Convention. *See* UNCTAD, The Role of the Patent System in the Transfer of Technology to Developing Countries, U.N. Doc. TD/B/AC.11/19 (1974); Kunz-Hallstein, *supra* note 51. UNCTAD reports deny the advantage of an international patent system for the development of the LDC's and call for a revision of national patent laws as well as relevant international agreements.

World Intellectual Property Organization (WIPO)⁷¹ and the contemporary practice of states.⁷²

A. *The Charter of Economic Rights and Duties of States*

The Charter of Economic Rights and Duties of States⁷³ called for the establishment of a new international economic order based on sovereign equality and the interdependence of the developed and developing countries.⁷⁴ It was promulgated in response to the urgent need to establish or improve norms of universal application for the development of international economic relations on a just and equitable basis.⁷⁵ The Charter seeks the promotion of the economic and social progress of the entire international community. Article 13 of the Charter recognizes the need of developing states to acquire technology and the need to acquire it "in accordance with procedures which are suited to their economies."⁷⁶

B. *The Resolutions of the New Economic Order*

Article 4(p) of the Declaration on the Establishment of a New International Economic Order asserts that the developing countries should have access to technology through technology transfer.⁷⁷ Article (e) of the Declaration calls for:

(e) Full permanent sovereignty of every State over its natural resources and all economic activities. In order to safeguard these resources, each State is entitled to exercise effective control over them and their exploitation with means suitable to its own transfer of ownership to its nationals, this right being an expression of the full permanent sovereignty of the State.⁷⁸

In addition, section IV of the Program of Action on the establishment of a New International Economic Order reiterates these concepts and calls for developing nations "(d) to adapt commercial practices governing transfer of technology to the requirements of the developing countries. . . ."⁷⁹

71. In February 1975, The World Intellectual Property Organization (WIPO) met in Geneva and issued a draft of revision of the Paris Convention on 14 basic issues questioning the very heart of the Paris Convention. Second Session of the WIPO Permanent Technical-Legal Program for the Acquisition by Developing Countries of Technology Related to Industrial Property at Geneva, March 17-21, 1975, WIPO Doc. AT/PC/II/12 (1975) [hereinafter cited as WIPO Report].

72. See notes 2-8 *supra*.

73. Charter, *supra* note 68.

74. *Id.* preamble.

75. *Id.*

76. *Id.* art. 13.

77. Declaration, *supra* note 68.

78. *Id.*

79. Programme, *supra* note 68.

C. *The United Nations Conference on Trade and Development Activities*

The aim of UNCTAD efforts has been to lessen the negative effects on developing countries that arise from patent protection and to assure their access to technology under fair and equitable conditions.⁸⁰ Since 1974, groups of experts have implemented these aims by producing a Code of Conduct⁸¹ and a revision of the Paris Convention for the Protection of Industrial Property as revised at Stockholm, 1967 (hereinafter Paris Convention).⁸² In 1970 the General Assembly accepted these goals in its adoption of the International Development Strategy.⁸³ Among other provisions, these sources of law reject the concept of national treatment of foreigners.⁸⁴

D. *The Activities of the World Intellectual Property Organization*

Non-recognition by developing countries of the concept of national treatment is central to the revisions of the Paris Convention proposed by WIPO.⁸⁵ Their fourteen point working paper eliminates "the very basis principle of national treatment of foreigners" and identifies thirteen other problems with the Paris Convention.⁸⁶

80. C. OKOLIE, *LEGAL ASPECTS OF THE INTERNATIONAL TRANSFER OF TECHNOLOGY TO DEVELOPING COUNTRIES* vi (1975) [hereinafter cited as OKOLIE].

81. UNCTAD is working on an international code of conduct for the transfer of technology. See UNCTAD, *Draft Texts Submitted to the Intergovernmental Group of Experts on an International Code of Conduct on Transfer of Technology, Annex I (Tentative Composite Draft Text of the Proposed International Code of Conduct on Transfer of Technology)*, U.N. Doc. TD/AC.1/9 (1977) [hereinafter cited as Composite Draft], reprinted in 17 *INT'L LEGAL MAT'LS* 453 (1978). The Trade and Development Board's Committee on the Transfer of Technology has established an Intergovernmental Group of Experts to Prepare the Code of Conduct. Several outline drafts have been prepared, including one by the developing countries, Group of 77 Draft, *supra* note 6; and one by the developed countries, UNCTAD, *Draft Texts Submitted to the Intergovernmental Group of Experts on an International Code of Conduct on Transfer of Technology, Annex III (Revised Outline of a Code of Conduct Consisting of Guidelines for the International Transfer of Technology)*, U.N. Doc. TD/AC.1/9 (1977) [hereinafter cited as Group B Draft], reprinted in 17 *INT'L LEGAL MAT'LS* 473 (1978). The most recent session of the United Nations Conference on an International Code of Conduct on the Transfer of Technology has resulted in a slightly altered version although it remains substantially the same. UNCTAD, *Draft International Code of Conduct on the Transfer of Technology*, U.N. Doc. TD/CODE TOT/9, and UNCTAD, *Documents of the Conference*, U.N. Doc. TD/CODE TOT/10. "The substance of the 77 Outline, which incorporates radical departures from the traditional concepts followed in international licensing practice is likely to be issued by UNCTAD as the finalized code of conduct. . . ." Dessemontet, *supra* note 5, at 1-2.

82. Paris Convention, *supra* note 67; Mangalo, *supra* note 65, at 116.

83. OKOLIE, *supra* note 80.

84. Kunz-Hallstein, *supra* note 51, at 428; Mangalo, *supra* note 65, at 116.

85. WIPO Report, *supra* note 71, ISSUE 1.

86. *Id.* The Fourteen Points for revision of the Paris Convention, *supra* note 67, include:

1. The Principle of National Treatment.
2. The Principle of Independence of Patents for the Same Invention Granted in Different Countries.

E. UNCTAD and Attempts at Model Legislation

It is obvious that the rules governing technology transfer in the countries involved will be of importance in any contract to license or otherwise transfer industrial property and know-how from one country to another. The most recent trends and developments go beyond the analysis of existing home and host country legislation to the introduction of model legislation based on a comparative study of the laws governing technology transfer. This work was inspired by the work of Eduardo White⁸⁷ and other Latin American experts,⁸⁸ and has developed in a series of so-called Pugwash Conferences on Science and World Affairs sponsored by the United Nations.⁸⁹ The guidelines of the OECD which were advanced at the Pugwash Conference on Science and World Affairs did not attempt to achieve a set of rules governing international transactions, but rather sought to set a standard to be utilized by each country as a yardstick for its own policy.

The conference, held in Geneva in April 1974, produced a working group report which recommended a Code of Conduct on the transfer of technology.⁹⁰ During the last few years, especially at the UNCTAD IV Conference in Nairobi in May 1976, the intergovernmental group of experts has been drafting similar codes of conduct for the transfer of technology.⁹¹ It is not possible here to point out all the differences between the OECD Recommendations and the Group B draft, since they identify clauses which are considered as restrictive business practices.⁹² The OECD-sponsored draft differs

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3. Working Requirements.
 4. Grace Period.
 5. Licenses of Right.
 6. Grant of Preferential Treatment to Developing Countries Without Reciprocity.
 7. Technical Assistance.
 8. Type of Protection Other than Patents.
 9. Trademarks, Industrial Designs, and Appellations of Origin.
 10. Reservations.
 11. Deletion of the Colonial Clause.
 12. Scope of Protection of Process Patents.
 13. Right of Priority.
 14. Principle of Unanimity.

Note 71 *supra*. See Kunz-Hallstein, *supra* note 51, at 430-31.

87. *E.g.*, Restrictive Business Practices, *supra* note 13.

88. See, *e.g.*, Aracama, *El derecho de las Patentes en America Latina Estado actual y perspectivas futuras*, in 9 DER. DE LA INTEGRACIÓN 75 (1971); Caedenas & Pena, *Los acuerdos subregionales y el tratado de Montevideo*, in 2 DER. DE LA INTEGRACIÓN 10 (1968).

89. Pugwash Code, *supra* note 12. See also Finnegan, *supra* note 13, at 67.

90. Pugwash Code, *supra* note 12.

91. See, *e.g.*, Composite Draft, *supra* note 81.

92. For an excellent and thorough analysis of the supplier guarantees in the Group of 77 Draft Code and the relationship to the Group B Code, see Comment, *The Group of 77 Draft Provisions Concerning Supplier Guarantees for the Proposed International Code of Conduct on Transfer of Technology*, 9 GA. J. INT'L L. 69 (1979) [hereinafter cited as *Group of 77 Draft Provisions Concerning Supplier Guarantees*].

from the others in that it only identifies a limited number of categories of such practices.

Article 5.1 of the Group of 77 draft details nine specific guarantees⁹³ which must be made by technology suppliers. Article 5.1 reads:

The enterprise supplying technology shall guarantee that:

1. The technology acquired is suitable for the manufacture of products covered by the arrangement;
2. The content of the technology transferred is full and complete for the purposes of the arrangement;
3. The technology obtained will be capable of achieving a predetermined level of production under the conditions specified in the agreement;
4. National personnel shall be adequately trained for service in the recipient country in the knowledge of the technology to be acquired including operation and management techniques of the enterprises;
5. The recipient shall have access to all improvements upon the techniques in question during the lifetime of the arrangement;
6. Where the recipient of the technology has no other alternative than acquiring capital goods, intermediate inputs and/or raw material from the technology supplier or any other enterprise designated by him, the prices of the articles shall not be higher than current international price levels;
7. Where the recipient of the technology has no other alternative than selling his output to the technology supplier or any other enterprise designated by him, the prices of the article shall not be lower than current international price levels;
8. Spare parts, components and other requirements necessary for using the imported technology shall, if required by the recipient, be provided for a specified period of time and without additional charges for maintaining this guarantee;
9. The technology suppliers, while drawing up the design specification of plants, will take fully into account the possibility of utilizing locally available resources.

In contrast, the OECD draft suggests that these guarantees *should* be provided whereas the Group of 77 uses the term *shall*.⁹⁴ This reflects a fundamentally variant approach to the code. The former group wishes to have a voluntary code with the tenor of the OECD guidelines. The latter set of countries demands that the code be mandatory and legally binding. Seymour Rubin points out three problems in defining the legal nature of the Code, one of

93. Group of 77 Draft, *supra* note 6, ch. 5.1, *reprinted in* 17 INT'L LEGAL MAT'LS at 468.

94. Group B Draft, *supra* note 81, ch. 2.1, *reprinted in* 17 INT'L LEGAL MAT'LS at 475; Group of 77 Draft, *supra* note 6, Preamble, *reprinted in* 17 INT'L LEGAL MAT'LS at 463.

which is precisely as stated above, i.e., whether it will be binding or merely persuasive.⁹⁵ In addition, he asks whether it will be addressed to governments or to the parties involved in the transactions. Finally, he questions the means by which the code will become effective: through national legislation or international law. However, it is of the utmost importance to realize that, whatever the answers to these questions may be, *some* form of regulation is necessary in the international technology arena.⁹⁶ The formulation of a Code through the instruments of the U.N. may be the only, albeit slow, means of accomplishing this goal.

IV. THE LATIN AMERICAN VIEW

Several countries in Latin America have established legislation for control of restrictive business practices in international licensing. Argentina⁹⁷ and Mexico⁹⁸ have special laws, while Brazil⁹⁹ has incorporated such rules into the law of industrial property. The central objective common to all of them is to control the monopoly or oligopoly power of foreign licensors. The laws classify various types of restrictive clauses, including such typical restrictions as territorial limitations, tie-in sales, price fixing, and other vertical restrictions. The method of control is usually to require the registration of all international license agreements.¹⁰⁰ The control methods follow three approaches: (1) absolute prohibition, (2) prohibition except in specific instances, and (3) optional prohibition at the discretion of the competent authorities.¹⁰¹ Considerable pressure has been applied to eliminate or modify particular practices in existing and new international licensing agreements, especially through the power of competent authorities to refuse registration.¹⁰²

These laws are not founded on a strong anti-trust or anti-monopoly tradition such as existed in the United States, but stem from efforts to regulate foreign investment. In Latin America, as in Europe before the successful establishment of the European Common Market, the government did not believe in competition as an effective means of maintaining fair prices and

95. Rubin, *Reflections Concerning the U.N. Commission on Transnational Corporations*, 70 AM. J. INT'L L. 73 (1976).

96. *Group of 77 Draft Provisions Concerning Supplier Guarantees*, *supra* note 92, at 104-06.

97. *See* note 5 *supra*.

98. *See* note 2 *supra*.

99. *See* note 3 *supra*.

100. *See, e.g.*, Mexican Technology Transfer Law, Law of Dec. 28, 1972, [1972] D.O. Dec. 30, 1972, art. 7 (Mex.), *translated in* 12 INT'L LEGAL MAT'LS at 423-24.

101. For a discussion of the control methods and their underlying rationale, *see* J. ALVAREZ-SOBERANIS, *THE NEED FOR THE FORMATION OF AN INTERNATIONAL CODE OF CONDUCT FOR THE TRANSFER OF TECHNOLOGY* 14-15 (1977). Sr. Alvarez-Soberanis was the Director General of the Mexican Register of the Transfer of Technology. *Id.* at 1.

102. *See, e.g.*, Mexican Technology Transfer Law, Law of Dec. 28, 1972, [1972] D.O. Dec. 28, 1972, arts 2-7 (Mex.), *translated in* 12 INT'L LEGAL MAT'LS at 422-24.

self-regulation of economic activity through market forces. Only in the last decade has any significant effort been made to regulate international licensing agreements.

As a result of working together in the past few years, the Latin Americans adhere to three principles that they have always had in common: first, state intervention, even to the extent of strengthening negotiations by making the government a party or a protector of local enterprises with a view to increasing their bargaining power;¹⁰³ second, registration of the contract with the possibility of approval or disapproval; and third, specific control of the clauses in licensing agreements. The latter impose obligations on the recipient which are not directly connected with the object of the agreement or, those which affect his power of decision and subject him to domination by the transferring enterprise.

Most of the Latin American codes provide that registration will be denied if unacceptable provisions are included or mandatory guarantees are omitted.¹⁰⁴ The following analysis of the principal prohibited clauses and guarantees does not attempt to cover all of these provisions in the Latin American countries. For the purpose of comparison, a few of the most controversial or significant can be considered.¹⁰⁵ In addition to the Latin American initiative which has sparked the UNCTAD Code of Conduct there is resentment against many current practices in the field of licensing. For example, the Latin American proposals are intended to curtail protection of unpatented know-how and trade secrets, to shorten the patent protection period and to require working of local patents. In addition, they propose to allow export of products manufactured using the technology that has been licensed and, to require greater disclosure in patents so that it is not necessary to obtain commercial and technical know-how in order to take advantage of the invention which they have acquired the right to use under the patent license.

The outstanding difference between U.S. law and the Mexican rules is the requirement of compulsory registration of all license agreements with the national registry for the transfer of technology.¹⁰⁶ Typical of all of the Latin American legislation, if the agreement is not registered within the time that it is prescribed under the law, the agreement will be unenforceable and illegal in

103. See text accompanying note 62 *supra*.

104. See, e.g., Mexican Technology Transfer Law, Law of Dec. 28, 1972, [1972] D.O. Dec. 30, 1972, art. 7 (Mex.), translated in 12 INT'L LEGAL MAT'LS at 423-24.

105. See The Role of the Patent System in the Transfer of Technology to Developing Countries, Report Prepared Jointly by the United Nations Department of Economic and Social Affairs, the UNCTAD Secretariat, and the International Bureau of the World Intellectual Property Organization, U.N. Doc. TD/B.AC.11/19 (Rev. 1), at 28-29 (1975). See also Fenlow, *World-Wide Licensing Challenges*, 1974 PAT. L. ANN. 115, 131-34, which summarizes the most important provisions of the Latin American laws.

106. THE LAW AND BUSINESS OF LICENSING (M. Finnegan & R. Goldscheider eds. 1975) [hereinafter cited as Finnegan & Goldscheider].

Mexico.¹⁰⁷ United States law is completely different, since there is no requirement that agreements be registered with any government agency.¹⁰⁸ "In the United States agreements are considered private agreements and may be kept secret between the companies unless there is a dispute between the licensor and the licensee that would cause the agreement to come before a court adjudicating the dispute."¹⁰⁹ The differences between the Mexican and U.S. laws are significant and are reflected in the objectives of the Mexican technology transfer law and those of U.S. antitrust laws.¹¹⁰ In the case of the United States, the laws are intended to insure free and open competition between companies operating in the same market.¹¹¹ Conversely, Mexican and other Latin American technology transfer laws are designed to help developing countries control the type, quality and price of technology that is introduced.¹¹² Therefore, the registration requirement in these countries is necessary to obtain detailed information concerning what technology is actually being transferred, how much is being paid for it, and whether it is in the national interest to allow it to be introduced on those terms. The licensing restrictions, or clauses of licensing contracts that are declared illegal in Mexico, are based directly on the same legal philosophy under which U.S. antitrust law prevents a licensor from requiring a licensee to accept conditions which he does not want to accept.¹¹³ Licensors in the U.S. and Europe increasingly are becoming accustomed to the application of antitrust laws to licensing agreements. Consequently, licensors are learning to live with stricter regulations.

Latin American legislation clearly condemns as illegal any requirement that the licensee should provide the licensor or the property with any improvements made in the licensed technology.¹¹⁴ In the United States, it is still legal

107. See note 104 *supra*.

108. Finnegan & Goldscheider, *supra* note 106, at 84.

109. *Id.*

110. The purpose of the antitrust laws is to maintain free competition in interstate and foreign commerce. See *American Column & Lumber Co. v. United States*, 257 U.S. 377 (1921); *United States v. Union Pacific R. Co.*, 226 U.S. 61, 66 (1912) ("to preserve from undue restraint the free action of competition in interstate commerce."); *Appalachian Coals, Inc. v. United States*, 288 U.S. 344 (1932). "The general objective of the antitrust laws is promotion of competition in open markets." THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS I (1955).

111. A clear manifestation of this idea is the requisite showing of 'relevant market' in many antitrust cases. See *United States v. Grinnell Corp.*, 384 U.S. 563 (1966); *United States v. E.I. DuPont de Nemours & Co.*, 351 U.S. 377, 393 (1956) ("Illegal power must be appraised in terms of the competitive market for the product"); *Times-Picayone Publishing Co. v. United States*, 345 U.S. 594 (1953); *United States v. Columbia Steel Co.*, 334 U.S. 495 (1948); *Standard Oil Co. v. United States*, 337 U.S. 293 (1943).

112. See notes 2-8 *supra*.

113. See generally *EINHORN*, *supra* note 61, at §§ 7.01-09.

114. *E.g.*, Mexican Technology Transfer Law, Law of Dec. 28, 1972, [1972] D.O. Dec. 30, 1972, art. 7, §§ IV, V, translated in 12 INT'L LEGAL MAT'LS at 423.

for licensors to require licensees to give such rights, at least to a non-exclusive license of any improvements or inventions made by the licensee.¹¹⁵ In some cases the licensor would agree to pay a royalty for the grant-back. It is doubtful that Latin American legislation could be interpreted to suggest that the licensor is free to require the licensee to grant a non-exclusive license to improvements.

Another example of the Latin American legislation includes a prohibition against the licensor placing limitations on export of goods or services produced under the license.¹¹⁶ This provision is considered especially onerous by U.S. licensors, since there is no equivalent provision in U.S. or European antitrust law.¹¹⁷ Territorial restrictions are permitted if they are reasonable in scope and duration; where a licensor has already given an exclusive license for one territory, it would be difficult to allow a Latin American licensee to export into the exclusive licensee's market, yet there appears to be an almost absolute prohibition in some countries. Similarly, to the extent that Latin American legislation prohibits the licensor from limiting the volume of production under the license, it is more strict than U.S. laws which permit such a provision if it is reasonable.¹¹⁸

In Argentina, the registration of technology transfer contracts required by Law No. 21.617 of August 12, 1977,¹¹⁹ has been modified by Law No. 21.879 of September 19, 1978.¹²⁰ Contracts between a foreign-owned local company and the company which directly or indirectly owns it may be approved if they can be considered as being made between independent enterprises. But payment of trademark royalties between those companies was not allowed, and any payments between them had to be justified annually.¹²¹ Now fixed amounts are to be allowed in cases of technical services from abroad, repairs,

115. Silverstein, *supra* note 13, at 382. The grant-back clause is a covenant by a licensee to disclose to the licensor any improvements pertaining to the licensed technology. The principal argument against grant-back clauses, especially those providing for a royalty-free assignment, is that they stifle research and development activities by patent licensees because only the licensor stands to profit from any significant innovations. In the case of *Transparent Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947), the Supreme Court held that such clauses are not *per se* violations of the U.S. antitrust law.

116. *See, e.g.*, Mexican Technology Transfer Law, Law of Dec. 28, 1972 [1972] D.O. Dec. 30, 1972, art. 7, § VII, translated in 12 INT'L LEGAL MAT'LS at 424.

117. *See* The Sherman Act, 15 U.S.C. §§ 1, 2 (1976); Clayton Act, 15 U.S.C. §§ 14, 18, 19 (1976); Robinson-Patman Act, 15 U.S.C. §§ 13e, 13c-13f; Federal Trade Commission Act, 15 U.S.C. § 45 (1976); Treaty of Rome, *supra* note 36, arts. 85-86.

118. *See* text accompanying note 34 *supra*.

119. Law No. 21.617, Law of Aug. 12, 1977 (Arg.), reprinted in Carl, *supra* note 1, app. G, was implemented by Decree No. 1885 of Aug. 15, 1977, BUL. OF. (Aug. 8, 1978), reprinted in 60 BOLETIN DE INFORMACIÓN LEGAL 10-11 (1978).

120. Law No. 21.879, Law of Sept. 19, 1978 (Arg.), reprinted in 61 BOLETIN DE INFORMACIÓN LEGAL 9 (1978).

121. 1974 Argentine Law, [1974] A Anuario No. 20.794 (Arg.), reprinted in 14 INDUS. PROP. at 338.

emergencies, and personnel training.¹²² This represents a further liberalization of the technology transfer rules of Argentina.

V. A COMPARATIVE ANALYSIS OF TRADE RESTRAINTS

The Group of 77 Code is intended to become a legally binding instrument,¹²³ whereas the OECD draft is offered simply as a guideline.¹²⁴ In any event, the comparison between the restrictive business practices singled out for comment in the international efforts and those in the United States, Europe, and Latin America are striking in their similarity. For example, a clause which requires the licensee to acquire materials, parts, or products for use with the licensed technology only from the licensor, is generally illegal under U.S. antitrust laws¹²⁵ and is also absolutely prohibited in the international technology transfer draft codes.¹²⁶

Although the Group of 77 Code spells out 40 different types of unacceptable provisions,¹²⁷ there are five offensive clauses which are particularly worthy of comparison.

1. Price Fixing: Clauses or practices whereby the supplier of technology reserves the right to fix the sale or resale price of the products manufactured.¹²⁸

The unacceptable clause in the OECD draft is the one which sets the price, quantity or output within the licensee's territory.¹²⁹ In both the United States and Europe, price fixing is considered contrary to public policy. In Latin America it is absolutely prohibited.¹³⁰

2. Export Restrictions: Clauses or practices prohibiting or limiting in any way the export of products manufactured under the licensed technology or a requirement of prior approval of the licen-

122. See note 120 *supra*.

123. Group of 77 Draft, *supra* note 6, Preamble, reprinted in 17 INT'L LEGAL MAT'LS at 463.

124. Group B Draft, *supra* note 81, ch. 2.1, reprinted in 17 INT'L LEGAL MAT'LS at 475.

125. See *Ansul Co. v. Uniroyal, Inc.*, 306 F. Supp. 541 (S.D.N.Y. 1969), modified, 448 F.2d 872 (2d Cir. 1971), cert. denied, 404 U.S. 1018 (1972). See also *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *International Business Machines Corp. v. United States*, 298 U.S. 131 (1936).

126. Composite Draft, *supra* note 81, ch. 4, reprinted in 17 INT'L LEGAL MAT'LS at 459; Group of 77 Draft, *supra* note 6, ch. 4.2(12), reprinted in 17 INT'L LEGAL MAT'LS at 467; Group B Draft, *supra* note 81, ch. 5.1(xi), reprinted in 17 INT'L LEGAL MAT'LS at 476.

127. Group of 77 Draft, *supra* note 6, ch. 4, reprinted in 17 INT'L LEGAL MAT'LS at 466-69.

128. See note 57 *supra*.

129. Group B Draft, *supra* note 81, ch. 4.2(20), reprinted in 17 INT'L LEGAL MAT'LS at 468.

130. See Decision 24, Law of Dec. 31, 1971, [1971] R.O. No. 264, arts. 20b, 25c, as amended, translated in 16 INT'L LEGAL MAT'LS at 146-48. Law No. 21,617, Law of Aug. 12, 1977 (Arg.), art. 10(i), reprinted in Carl, *supra* note 1, Appendix G. It is also prohibited by the Mexican Technology Transfer Law, Law of Dec. 30, 1972, [1972] D.O. Dec. 28, 1972 (Mex.), art. 7 (XI), translated in 12 INT'L LEGAL MAT'LS at 424. But there is no reference to price fixing in the law of Brazil. However, the National Institute for Industrial Property (INPI) has power to control price fixing clauses.

sor for exports are prohibited except in justifiable circumstances.¹³¹

In the OECD draft, unreasonable restrictions preventing export of the patented products to specified areas are proscribed.¹³² This is in accordance with, for example, Japanese FTC guidelines which quite sensibly provide that export restrictions may be considered unfair business practices except where: 1) the licensor has patent rights in a territory which the licensee is restricted from exporting to or; 2) where the licensor is already selling the licensed product in the restricted area under his normal business practice or; 3) finally where the licensor has already granted an exclusive license to a third party to sell in a restricted area.¹³³ The absolute restriction of such clauses is difficult to achieve in any legislation, although the laws of Mexico and the Andean Group do not allow so much flexibility as the Japanese rule cited above. For example, in the Andean Group export restrictions are only allowed in exceptional cases duly justified before the competent authority.¹³⁴

In the United States and Europe, export restrictions are only prohibited where unreasonable, and much of the case law in both jurisdictions centers on defining the nature of the reasonableness of the restriction.¹³⁵ It is obvious that export restrictions can only be imposed on the licensee, since it would be beyond the scope of his property rights in the technology for him to attempt to restrict the buyer. But one must be careful to distinguish between patent license agreements in which export restrictions are likely to be scrutinized carefully and know-how contracts or trade secret transfers which are not subject to the limitations of industrial property law.

3. Tie-in Clauses: Clauses which restrict the sources of supply of raw materials, spare parts, intermediate products, and capital goods. Such a clause is considered to be unacceptable under the various international draft codes.¹³⁶

The OECD Draft is precise in prohibiting clauses which oblige the licensee to obtain goods from a designated source or to sell to the licensor.¹³⁷ Quality control may require or justify some reasonable tie-in of supplies or capital

131. See note 58 *supra*.

132. Group B Draft, *supra* note 81, ch. 5.1 (XII), reprinted in 17 INT'L LEGAL MAT'LS at 478-79.

133. See Finnegan, *supra* note 13, at 53 n.52. These guidelines are reprinted in Finnegan & Zotter, *supra* note 37, at 195-98.

134. Decision 24, Law of Dec. 31, 1970, [1970] R.O. No. 264, art. 20(b), as amended, translated in 16 INT'L LEGAL MAT'LS at 146. For a discussion of the application of Decision 24 in Columbia and Venezuela, see Pate, *The Andean Common Market*, in Carl, *supra* note 1, at 59 [hereinafter cited as *The Andean Common Market*].

135. *United States v. Crown Zellerbach Corp.*, 141 F. Supp. 118 (N.D. Ill. 1956); *Etablissements Consten S.A. and Grundig-Verkaufs-GmbH. v. E.E.C. Commission*, [1966] D.S. Jur. 429, 5 Comm. Mkt. L.R. 418 (1966).

136. See note 47 *supra*.

137. Group of 77 Draft, *supra* note 81, ch. 5.1 (XI), reprinted in 17 INT'L LEGAL MAT'LS at 478.

goods. Therefore, it may be necessary to allow some exceptions to the general rule. Tie-in clauses which are unacceptable in regard to licensed industrial property may well be permissible, if not necessary, in the case of licensing of trade secrets and know-how.¹³⁸

The clauses which impose obligations to purchase equipment are not absolutely prohibited in Argentina¹³⁹ or Brazil,¹⁴⁰ and are allowed in Mexico¹⁴¹ if the goods cannot be purchased on more favorable terms elsewhere. In the Andean Code and in other Latin American countries, the mandatory purchase of tie-in goods is permitted only when the prices correspond to world market prices. In the Latin American view, all clauses which oblige the licensee to do business with the licensor or use his distribution channels are prohibited on the basis that they put too great a limitation on the rights of licensee. Similarly, a requirement that the licensee sell exclusively to the licensor at a price established by the licensor is absolutely prohibited.¹⁴²

It is interesting to note that the Latin American legislation includes grant-back clauses in the general category of tie-ins, rather than as a separate class of restrictions. This is also true of clauses which restrict the use of other technologies which are absolutely prohibited in the Andean Code.¹⁴³ The policy of the Brazilian authorities is to allow such restrictions if the prohibition applies only for the duration of the contract.¹⁴⁴

4. Unilateral Grant-Back Provisions: Unilateral grant-back provisions call for a flow of technology from the recipient without reciprocal obligations by the supplier and a requirement that all new technologies, patents, and improvements developed by the technology recipient shall be the property of the licensor.¹⁴⁵ Such grant-back clauses have been prohibited in the international drafts.

In the Group of 77 Draft exclusive grant-backs are prohibited, and then only if there is no reciprocal obligation imposed upon the technology supplier.¹⁴⁶ The OECD Draft prohibits a requirement that the licensee assign an exclusive grant-back to the licensor of all improvements discovered, but the assumption is that it is a restrictive business practice only if it amounts to an

138. See LADES, *supra* note 22.

139. Radway and Giacchino, *Argentina*, in Carl, *supra* note 1, at 224.

140. Nattier, *Brazil*, in Carl, *supra* note 1, at 157.

141. Hyde & De La Corte, *Mexico*, in Carl, *supra* note 1, at 27-28.

142. See generally Restrictive Business Practices, *supra* note 13.

143. Decision 24, Law of Dec. 31, 1970, [1970] R.O. No. 264, art. 20(d), as amended, translated in 16 INT'L LEGAL MAT'LS at 146. See generally *The Andean Common Market*, *supra* note 134.

144. For an in depth discussion of the Brazilian regulations, see Nattier, *Brazil*, in Carl, *supra* note 1.

145. See note 48 *supra*.

146. Group of 77 Draft, *supra* note 6, ch. 4.2(4), reprinted in 17 INT'L LEGAL MAT'LS at 466.

abuse of the dominant position of the licensor.¹⁴⁷ In the United States and Europe, a non-exclusive grant-back clause is not a violation of the competition policy,¹⁴⁸ and one assumes that most transferors of trade secrets or know-how would be able to enforce a contract which required that all improvements be transmitted to the licensor.

5. Royalties Clauses: Objectionable royalties clauses, those which have restrictions that would have effect beyond the duration of the contract, are those which are most difficult to assess.¹⁴⁹

In cases where the licensee undertakes not to contest the validity of the supplier's patents or if a clause restricts the use of the patented or any unpatented know-how which relates to the working of a patent after the patent has expired, international drafts would find such clauses unenforceable and not justifiable. Any effort to collect royalties on patents after they have expired is unenforceable under U.S. patent law.¹⁵⁰ A clause in which the licensee agreed not to challenge the validity of the licensor's patent was prohibited by the United States Supreme Court and in Europe.¹⁵¹

It would seem that the real purpose of prohibiting the continuation of restrictions on use after expiration of agreement in the international drafts as well as in the Latin American countries is based on the desire not to be subject to limitations of excessive duration. In the Latin American legislation there does not seem to be any rule which states that restrictions may not be imposed on the use of the matter licensed after the termination of the contract. However, in the administrative practice of most of the countries, it has been established that once the contract is expired no limitations can be enforced.

VI. CONCLUSION

Legislation has been enacted in the Andean Group, the Philippines, Mexico, Brazil, Argentina and Venezuela which facilitates their access to the technology of developed countries. Additionally, some of this legislation con-

147. Group B Draft, *supra* note 81, ch. 5.1 (VI), reprinted in 17 INT'L LEGAL MAT'LS at 478.

148. A nonexclusive grant-back clause may be legal and enforceable. However, the ultimate answer rests on the facts of each case and the determination of whether the clause unreasonably restrains trade. See *Transparent Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947).

149. See note 61 *supra*.

150. Post-expiration royalties are *per se* violations of the U.S. antitrust laws. *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964).

151. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. . . . If [the licensees] are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.

Id. at 670. See also note 41 *supra*.

For an excellent analysis of *Lear*, see McCarthy, "Unmuzzling" the Patent Licensee: Chaos in the Wake of *Lear v. Adkins*, 45 GEO. WASH. L. REV. 429 (1977).

tains national ownership requirements and provides for a regulatory regime for the transfer of technology through the process of registration.¹⁵² Registration is generally not allowed where agreements are inconsistent with national economic development goals.¹⁵³ Through the process of renegotiation, a state's new economic laws may be retroactively applied to pre-existing agreements.¹⁵⁴

In addition to delineating various unacceptable provisions in technology licenses, the Group of 77 Draft¹⁵⁵ and the Group B Draft¹⁵⁶ are both concerned with the subject of guarantees to be made by the supplier, the recipient and the recipient country. These guarantees relate to the goal of changing the status quo — a status quo which sees the U.S. as the leader of a 'technology cartel,' and which is characterized by the multinational corporation using the national and international patent system to preserve monopolies and quasi-monopolies in technology, e.g., particularly through the device of 'defensive' registration of patents in the technology receiving states.¹⁵⁷ Some of the basic changes necessary to challenge this status quo include (a) the unpackaging of technology transfers; (b) the prevention of abuse of dominant position of technology suppliers; (c) the development of technological capability in recipient countries; (d) assurance of effective performance of technology transfer agreements; (e) national regulation of technology agreements by recipient countries; and (f) equitable dispute settlement mechanisms.¹⁵⁸ It is obvious from this list that some of the restrictive clauses address similar problems; however, none provides a comprehensive approach.

In comparing European, United States and Latin American rules on the rights of a licensor to dictate the terms of his licensing agreement, the draft Regulations of the EEC are the most lenient, the U.S. more stringent, but still allowing some autonomy; and the Latin American national legislation is the

152. Venezuela, under Decree 746 as extended by Decree No. 1285, previously registered contracts had to be submitted for approval and renegotiated to conform to the regulations. Failure to conform might result in their cancellation. Pate, *supra* note 7, at 9. In Mexico pre-existing agreements were required to be submitted to the Ministry within 90 days of the Technology Law until January 29, 1975. Hyde & de la Corte, *supra* note 2, at 235. Those agreements not registered are without legal effect and will not be enforced in the courts. Mexican Technology Transfer Law, Law of Dec. 28, 1972, [1972] D.O. Dec. 30, 1972 (Mex.), art. 6, translated in 12 INT'L LEGAL MAT'LS at 424.

153. See, e.g., Kunz-Hallstein, *supra* note 5, at 435; Mangalo, *supra* note 65. See also, Restrictive Business Practices, *supra* note 13. For a discussion of whether the UNCTAD Code of Conduct has been successful in responding to the problems of the developing countries, see Comment, *Regulation of Transfer of Technology: An Evaluation of the UNCTAD Code of Conduct*, 18 HARV. INT'L L.J. 309 (1977).

154. See note 152 *supra*.

155. Group of 77 Draft, *supra* note 6, chs. 5.1, 5.2, reprinted in 17 INT'L LEGAL MAT'LS at 469-70.

156. Group B Draft, *supra* note 81, ch. 6.2, reprinted in 17 INT'L LEGAL MAT'LS at 477-78.

157. Silverstein, *supra* note 13, at 385.

158. *Id.* at 409-15.

strictest. The international draft of the developed OECD nations reflects the lenient national regulations of the dominant member states. Conversely, the draft of the Group of 77 Draft reflects the stringent national legislation of the Latin American states.¹⁵⁹

This brief review of five of the principal types of rules governing international technology transfer contracts and the nine supplier guarantees desired by the Group of 77 suggests that there is substantial agreement between the international drafts and the legislation of the more advanced Latin American countries. It is therefore concluded that the Latin Americans will urge adoption of these draft codes of conduct as legally binding instruments and will attempt to introduce them both on a global and a regional basis in the near future.*

159. *E.g.*, on the issue of choice of law the Group of 77 Draft, *supra* note 6, has excluded the autonomy of the parties to select the governing law by calling for the application of a licensee's national law in all contracts related to technology transfers. See Dessemontet, *supra* note 57, at 1-2, 8. The Mexican Technology Transfer Law, Law of Dec. 28, 1972, [1972] D.O. Dec. 30, 1972 (Mex.), translated in 12 INT'L LEGAL MAT'LS 421 (1973), and the 1974 Argentina Law, [1974] A Anuario No. 20.794 (Arg.), reprinted in 14 INDUS. PROP. 338 (1975) have incorporated the proposals of the Outline of the Group of 77 in adopting legislation which prohibits party autonomy. See Dessemontet, *supra* note 5, at 10. While not widely accepted, there is some precedent for legislation that curtails the power of two contracting parties to choose applicable law. Examples of this include Section I of the Carriage of Goods By Sea Act (1924-Great Britain). Wyatt, *Choice of Law in Contract Matters — A Question of Policy*, 37 MOD. L. REV. 399, 401, 408-09 (1974). For an English case applying a choice of law limiting statute, see *Coast Lines Ltd. v. Hudig & Veder Chartering N.V.*, [1972] 1 All E.R. 451. It is imperative that one realizes the differing reasons for restrictions and the dissimilar traditions associated with Western states and the developing countries. Western nations generally accept the tenet that the free market place is inherently efficient thus, rules are more lax. In contrast, developing countries tend to trust positive state intervention in the development process in order to assure quality standards, international collaboration and strengthened bargaining positions. See Dessemontet, *supra* note 5, at 19.

*(EDITOR'S NOTE: the following postscript to the Latin American Commercial Law Symposium which appeared in Vol. II:2 of the *Review* accompanies the final article of that Symposium written by Professor William S. Barnes. It was authored by Professor Dale Beck Furnish, who was the Chairperson of the Annual Meeting of the Comparative Law Section of the Association of American Law Schools on January 4 and 5, 1979 held in Chicago. The articles in the Latin American Commercial Law Symposium were outgrowths of papers presented at the meeting.)

The academic life is supposed to be one of thoughtful reflection. It should provide for the relatively few lawyers who live in the luxury of time to think all around a problem and to carry it to its ultimate implications. The same luxury is denied to the practicing bar, which is sworn to attend its clients' needs before its intellectual curiosity, and the courts, which must decide the cases thrust before them out of the crush of litigation and appeal. By comparison, the written product of jurists dedicated to a life of teaching and research should offer profound insight. All too often it is not. All too often scholarship produces only preliminary descriptions of random data rather than thoughtful and reflective contributions which enlighten us as to law's impact. The chances of encountering description rather than insight and enlightenment are correspondingly higher in the field of Comparative Law, where efforts by otherwise competent jurists may be hampered by the lack of a fundamental understanding of the systems that they attempt to analyze. The symposium was a happy exception. It suffers from none of these infirmities. Instead, it should be viewed as a late harvest of Latin American legal scholarship ripened in the contemplation of five United States jurists over the last decade and more.

We are all Sisyphus on our individual hills, and too much of our lives is spent in struggling to

roll the rock uphill. As Albert Camus noted, however, there are intervals when the rock has rolled back to the bottom and the single-minded striver has a short respite for reflection as he strides downhill to take up the task again. It appears that such an interval has occurred simultaneously for the five authors represented here.

In the 1960's many United States lawyers went to Latin America. The United States government was interested in Latin America and the Alliance for Progress was a vigorous new program. There was great interest in the question of law and development. Some lawyers went from the United States to Latin America for short periods of time and have long since lost interest. The five individuals who contributed to this symposium went for long periods of time, steeped themselves in the cultures of the legal systems they studied, and have not lost interest.

It is good that our authors persevered, although it was not easy. By the late 1960's the Alliance for Progress was a moribund program and the number of lawyers going to Latin America began to diminish rapidly. The idea of aid for development had not been successful and, while the question of the relationship of law to development remains of essential interest, law-and-development studies are not supported at anything approaching the level that so awakened interest before.

It is the strength and the weakness of truly thoughtful study that it cannot be hurried unduly. Therefore it is about a decade after the flood-crest of interest has passed that we find the most perceptive analyses emerging. As gold, the most precious metal, sinks to the bottom of a stream and remains while lesser elements are swept along, so the lesser elements in the body of learning by United States jurists regarding Latin American law have swept through with the main surge of interest. For those who were patient enough to maintain their interest, the return is that much richer.

It is comforting to contemplate the knowledge demonstrated in these pages as events turn the United States toward Latin America again. Economic events will be the primary focus for the renewed interest. It is ironic that programs funded by the United States and its institutions at a time when its international trade position seemed so strong may have application as its position in the international economy erodes. Inflation was a problem that Latin America had, but the United States did not, when Keith Rosenn began studying the ways in which the law responded to the problem over ten years ago. The United States' private corporations enjoyed particular hegemony as foreign investors in Latin America and determined the extent of technology transfer when William Barnes began studying the problem of multinational corporations and the controls host countries might place on them. Today the United States must concern itself with controlling inflation and the growing influence of foreign investors as well as problems of technology transfer in its own economy, while its corporations face increased competition for investments in Latin America. The true irony is that the legal system of the United States, which often was carried to Latin America as a model of development for Latin Americans, may now draw upon the lessons its jurists learned in Latin America to help solve some of its own pressing economic issues.

The world has changed in the flows of its international trade in the last ten years. The United States could once regard its foreign trade as largely insignificant to its economy, but nothing is further from the truth today. It is not by chance that the United States has restructured its law and institutions of foreign commerce within the last five years. In 1979, the United States was a chronic deficit trader. It has a critical and still-growing dependence on foreign commodities and manufactured goods. A prime trading partner is Latin America. It is ironic that the programs which reached dramatically outward 15 years ago, protesting that they wished not to inflict paternalism but to foster equal participation in seeking development, may now benefit the closer-to-equal trade relationships forced upon their sponsor by current events. Many arrangements will be made for joint ventures. Michael Gordon has studied these agreements not only in Latin America but also in other parts of the world. Likewise Robert Means has studied corporations in the commercial history of Colombia and now of Mexico. Thus both authors deal with corporate structures and their impact on commercial events, with lessons for the United States and its dealings with Latin America.

The article that concludes the Latin American Commercial Law Symposium by Professor William Barnes has been expanded somewhat from its original focus on technology transfer laws in Latin America. In doing so, Professor Barnes has demonstrated his broad knowledge of the area of international commercial law. His brief analysis of international and national efforts to regulate technology transfer reveals certain similarities in legal developments that demonstrates the value of comparative legal studies.

Boris Kozolchik, who has a first law degree from the University of Havana, a second law degree from the University of Miami and a doctorate in law at the University of Michigan under the tutelage of Hessel Yntema, is a scholar of both common and civil law systems. Professor Kozolchik has traced the credit structure in Latin America, has been involved in a comprehensive effort at economic development through the harmonization of law in the Central American common market, and has recently examined the concept of fairness as central to the function of any system of law in any society. Professor Kozolchik's path is representative of the process that all of the contributors have gone through to a greater or lesser extent: initial interest, painstaking preparation and study, carefully reduced to written scholarship of major proportions, and finally, in those pages, reflection and perspective.