LEGAL NATURE AND CONTRACTUAL CONDITIONS IN KNOW-HOW TRANSACTIONS*

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I. INTRODUCTION

The contractual transmission of know-how is currently one of the most important means of transferring technology, particularly for developing countries. The definition and legal nature of know-how, as well as the validity of agreements and conditions for its transfer, present a number of complex substantive issues. Those issues have received a wide range of treatment under different systems of law and in different countries. Not surprisingly, considerable uncertainty exists as to the degree of protection, if any, recognized for know-how and of the effects of agreements for its transfer. This article reviews current ideas on know-how in light of particular interests and needs of developing countries. Due to the lack of a comprehensive legal approach to the matter in such countries, the analysis does not exhaust itself in *de lege lata* considerations, but attempts to provide criteria for possible

legislative action, as well as guidelines for improving the negotiation of agreements for the transfer of know-how.

At the outset, the importance of transfer of know-how in developed and developing countries and certain characteristics of such a transfer are described. This discussion is useful for the legal analysis undertaken later. Definitions ascribed to know-how under different national laws and the principal theories on the legal nature of know-how are then discussed. With information as to the legal nature, classification, and validity of agreements for the communication of know-how as background, the effects and treatment of certain terms and conditions involving secret know-how are analyzed. Conclusions are presented in a final section. Throughout the article, special attention is given to background information, legislation, and doctrine existing in Latin America, which, as a region, is one of the major importers of technology in the developing world.

II. IMPORTANCE OF THE TRANSFER OF KNOW-HOW

There is a substantial lack of statistics regarding the dimension of international trade in know-how. However, its share in such trade is likely to be important, as is its role as a part of the technological assets of modern enterprises. Preliminary information presented below suggests that know-how is a major component of transfer of technology, particularly to developing countries.

A. *Importance of Know-how Transfers for Developed Countries*

The importance of know-how in transfer of technology within the European Economic Community (EEC) has been recognized by the EEC Commission, with particular reference to know-how that is ancillary to licensed patents. The preamble to the Commission's 1976 proposal for a block exemption regulation for patent licenses stated:

> It is consistent to extend this regulation to patent licensing agreements containing ancillary provisions concerning the assignment of the right to use of secret manufacturing processes or knowledge relating to the use or the application of industrial technology, as in practice, licensing agreements are hardly ever concluded without such ancillary provisions.[1]

[1] Commission of the European Communities, Proposal for a Commission Regulation on

The wording was altered in the 1979 version of the proposal,[2] although the motivation for the change is not clear. On one hand, the new text explicitly refers to "know-how." Conversely, the last clause is weakened by its indication that "in practice patent licensing agreements with such ancillary provisions are very frequent."[3]

On the basis of 3,500 agreements reported to the Commission in accordance with Regulation No. 17[4] during 1962 to 1970, a Commission survey established that five percent of such agreements involved know-how only, and sixty-two percent included know-how in combination with patents or trademarks or both.[5] A subsequent study on licensing, conducted by a group of European industrialists,[6] suggested that the relative share of agreements including know-how was higher than that indicated by the Commission figures. This study, based on analyses of 4,302 licenses granted by eight large European companies, determined that more than ten percent of such agreements involved know-how alone, and that more than half included know-how associated with patents, trademarks, or both.[7]

With regard to United States transfer of know-how abroad, it was estimated in 1977 that the receipts credited to the United States amounted to one billion dollars annually.[8] Despite the lack of precise and conclusive evidence in the United States and other developed countries, it is clear that trade in know-how is very large and is likely to comprise an important portion of receipts in technology transfers from industrialized countries.[9]

B. *Evidence in Developing Countries*

Available information originating in certain Latin American

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the Application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing Agreements (1976), EUR. COMM. DOC. No. IV/1 34/76-E, *reprinted in* B. CAWTHRA, PATENT LICENSING IN EUROPE 136 (1978).

[2] 22 O.J. EUR. COMM. (No. C 58) 12 (1979).

[3] *Id.* at 13.

[4] 5 J. O. COMM. EUR. 204 (1962).

[5] Paper presented by W. Schlieder, Director-General for Competition of the European Communities Commission, at the Seventh Annual Meeting of the Licensing Executives Society (October 19-22, 1971), *reprinted in part in* B. CAWTHRA, *supra* note 1, at 132-33.

[6] In 1972, the Industrial Property Committee of the Council of Industrial Federations of Europe, consisting of representatives from fourteen European countries, set up a group to study licensing matters. B. CAWTHRA, *supra* note 1, at 88.

[7] *Id.* at 103-34.

[8] Know-how Licensing and the Anti-trust Laws Revisited, paper presented by D. MacDonald at the Annual Conference of the Licensing Executives Society, London (June 1-3, 1977). *See also* L. EKSTROM, LICENSING IN DOMESTIC AND FOREIGN OPERATIONS (3d ed. 1964).

[9] *See* B. CAWTHRA, *supra* note 1, at 130-69.

countries confirms the growing importance of know-how as a component of international transfer of technology. For example, in Argentina, in 1972, agreements including both "confidential knowledge" and industrial property rights accounted for seventy percent of the payments originating in agreements registered by the national authority. Although contracts including only industrial property rights were of relatively little importance, fifty percent of total payments by national technology recipients (excluding foreign subsidiaries) were based on the transfer of "confidential knowledge" as the sole object of the contract.[10]

Imported technology in Brazil is characterized by its nonproprietary nature. Only one percent of total payments approved by the Instituto Nacional de Propriedade Industrial (INPI) between 1972 and June 1975 was represented by the license of industrial property rights. The remainder, defined by INPI as "technical assistance," included the furnishing of production processes, formulae, technical data, product specifications, models, molds, and matrices.[11] The Brazilian example is illustrative of the trend toward the relative decline of industrial property as a component of technology transfer. Although from 1957 to 1961 industrial property represented more than forty-four percent of total payments remitted, the percentage has dropped drastically since then, amounting to only four and one-half percent in 1972-1974. At the same time, the inclusion of "technical assistance" grew from fifty-five percent to more than ninety-five percent.[12]

In Colombia, twenty-two of 720 agreements considered by the Comité de Regalías during 1967-1977 contained a license of patents only; 219 agreements implemented the provision of "technical assistance."[13] A combination of industrial property rights and "technical assistance" accounted for more than forty-eight percent of such agreements. When contracts in force in 1977 are considered, percentage distribution varies significantly; no agreements related exclusively with patent rights had been maintained in force, while the percentage of contracts combining industrial

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[10] INSTITUTO NACIONAL DE TECNOLOGIÁ INDUSTRIAL DE ARGENTINA, ASPECTOS ECONÓMICOS DE LA IMPORTACÍON DE TECHNOLOGIÁ EN LA ARGENTINA EN 1972 at 31 (1974).

[11] S. FUNG & J. CASSIOLATO, THE INTERNATIONAL TRANSFER OF TECHNOLOGY TO BRAZIL THROUGH AGREEMENTS: CHARACTERISTICS OF THE GOVERNMENT CONTROL SYSTEM AND THE COMMERCIAL TRANSACTION 65 (1976).

[12] A. FIGUEIRA BARBOSA, PROPRIEDADE E QUASI-PROPRIEDADE NO COMERCO DE TECNOLOGIA table 37 (n.d.).

[13] This expression seems to include the transmission of know-how.

property and "technical assistance" rose to more than sixty-one percent.[14]

In Ecuador, data for 1978 indicate that almost eleven percent of registered agreements consisted exclusively of know-how and/or technical assistance, while eighty-seven percent corresponded to these elements in association with patents and trademarks. The remainder was one agreement including patents and trademarks.[15] In Peru, more than seventy percent of agreements registered in 1975 included (as the sole supply or in association with other elements) the communication of "technical information." This percentage is similar to the proportion of agreements including patents (69.6%) and trademarks (71%).[16]

In sum, the data presented above suggest that (1) a major part of transfer of technology agreements entered into by Latin American enterprises in the countries considered, include, solely or as one of their elements, the transfer of know-how under various modalities; (2) the practice of "packaging" a number of technological items seems to prevail in present contracting patterns, notwithstanding the application of governmental measures for the control of transfer of technology;[17] and (3) trends identified in some Latin American countries (primarily Brazil) indicate that industrial property has a declining role in technology transfer, at the expense of the transmission of unpatented technologies through various forms. In connection with this last conclusion, it is worthwhile to note that in many Latin American countries there is very slow growth in the annual number of patent applications (*e.g.* Bolivia and Ecuador), while in others (*e.g.* Argentina, Colombia, Peru, and Mexico) there are clear signs of a decline in absolute terms thereof during the last decade. Brazil is one of the few Latin American nations where patent applications increased during the period for which information is available.[18]

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[14] SECRETARÍA TÉCNICA DEL COMITÉ DE REGALIÁS DE COLOMBIA, RECUENTO DE LAS LABORES DEL COMITÉ DE REGALIÁS DE COLOMBIA 1967-1977 at 15 (1977).

[15] Instituto para la Integracion de América Latina (INTAL), Perfil de la Demanda de Tecnologiá en el Ecuador (1979) (unpublished manuscript).

[16] *See* INSTITUTO DE INVESTIGACIÓN TECNOLÓGICA INDUSTRIAL Y DE NORMAS TÉCNICAS (ITINTEC), EFECTO DEL PROCESO DE IMPORTACÍON DE TECNOLOGÍA 21 (1974).

[17] *See* text accompanying footnote 21 *infra*.

[18] Patent applications by nonresidents in Brazil increased from 5,493 in 1972 to 7,585 in the year 1974. During the same period applications decreased by 502 in Argentina, by 290 in Colombia, and by 464 in Venezuela. WORLD INTELLECTUAL PROPERTY ORGANIZATION, PROPRIETE INDUSTRIELLE (1976).

III. CHARACTERISTICS OF AGREEMENTS ON KNOW-HOW IN DEVELOPING COUNTRIES

A. *Relative importance of know-how vis-a-vis patented technology*

The previous section demonstrates that in Latin America know-how and other unpatented technologies are more important, as a component of transfer of technology agreements, than patented techniques. Available information suggests that the relative importance of unpatented technologies in that area is higher than in the case of developed countries. It would also be possible to find significant differences in this respect according to the industrial sector concerned. For instance, agreements related to the pharmaceutical sector are likely to be more intensive in industrial property rights than are agreements in textiles.

The higher significance of know-how and other unpatented technologies *vis-a-vis* patents in developing countries as compared to their significance in industrialized countries, is due to a multiplicity of factual and institutional circumstances. Among the former, it is possible to mention the technological capacity of the potential recipient. Enterprises in developing countries frequently lack the technical skills and infrastructure needed to introduce new processes and products. Technology transfer in this context often involves a set of supplies and services, including technical information (process description, formulae, instructions, *etc.*), training at supplying parties' plants, technical assistance, quality control methods, and so on. In the case of "turn key" projects, in particular, the place of patented technology, if any, is minimized by the weight of other components.

Among the institutional factors, the trend to limit or eliminate patentability in certain economic fields should be noted. This trend has been particularly clear in Latin America, principally with regard to pharmaceuticals, food, and certain strategic materials.[19] At the same time, many Latin American countries have designed special policies or imposed restrictions on licenses of foreign trademarks.[20]

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[19] In connection with current trends on patentability in pharmaceuticals, see White, *La Industria Farmacéutica Internacional: La Legislación Comparada sobre Patentes y el Caso Argentino*, REVISTA DEL DERECHO INDUSTRIAL (1979).

[20] *See* Correa, *Main Issues in the Regulation of Licence Arrangements on Foreign Trademarks: The Latin American Experience*, 7 WORLD DEV. 705 (1979).

B. *Know-how as a part of a global package*

Figures presented above demonstrate that "packaging" practices are applied widely in technology transfer to Latin America. Accordingly, various governments have proposed policies aimed specifically at promoting the unbundling of technology transactions. However, with the possible exception of Brazil, where parties must conclude separate agreements according to contractual categories defined by existing regulations, such policies have not been applied systematically.[21] Given the limited role of patent licenses, the inclusion of know-how as a part of global packages should not be attributed primarily to the accessory nature of know-how with regard to patented inventions, but rather to the predominant modalities of negotiation of technology transfer in developing countries. The need to unpackage technology transfers is generally founded on three main objectives: (1) to determine the price charged for each item of the transaction; (2) to allow the maximum possible participation of local sources of goods and technology; and (3) to facilitate the absorption of transferred technologies.

As a result of the low technological capacity of the recipient, "know-how" usually is comprised of technical skills (*tours de main*) and experience, instructions for process application, and all other information necessary for putting into operation the technology transferred. Its transmission often includes, in addition to the provision of written information, personal services of the supplier's technicians, as well as instruction of the recipient's personnel at the supplier's plant.

Notwithstanding the complex nature, characteristics, and forms of transmission of items referred to, it is common, in practice, that the acquiring party be bound with respect to the "proprietary nature" or "confidential character" of information transferred. Such clauses are generally drafted in very broad terms, encompassing all non-patented knowledge. Although the legitimacy of confidentiality clauses cannot be questioned, in principle, when they apply to actual secret information,[22] the same does not apply to other knowledge and experiences that do not constitute trade secrets or *secret industriel.*

Therefore, when negotiating transfer of technology agreements

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[21] *See* C. CORREA, REGÍMENES DE CONTROL DE LA TRANSFERENCIA DE TECNOLOGÍA EN AMÉRICA LATINA 47 (1979).

[22] *See* text accompanying footnote 118 *infra.*

including "know-how," the acquiring party should require the supplying party to identify the specific pieces of information that are to be considered subject to an obligation of confidentiality, as distinguished from information that is public knowledge. A clear distinction will allow a more precise evaluation of price, as well as facilitate the determination of the legal treatment and contractual conditions applicable to each category of information.

IV. DEFINITION OF KNOW-HOW

The definition of "know-how" is a most controversial issue. In the absence of a legal concept, authors, international organizations, and other entities have proposed very different theories of identification. For some, know-how should be synonymous with "trade secret." Others hold that secrecy is not the decisive element. Alternatively, some scholars include commercial information related to the operation of an enterprise, while others limit the concept of know-how to technical knowledge that is applied in industry. Further divergence arises on the issues of whether "know-how" involves personal technical skills (*tours de main*) and technical experience, or consists exclusively of technical adaptations and adjustments. Some authors are reluctant to formulate a definition.[23]

Certainly, the preceding does not exhaust the field of existing conceptual differences on the definition of know-how. While a definition is difficult even within the context of a single national law,[24] the task is further complicated when there is an attempt to provide a *universal* definition of know-how. As warned by Gómez Segade:

> One should not attempt to define know-how in a valid universal sense, but its definition and limits should be left to the national legislatures. A uniform definition of know-how could prejudice those countries which are fundamentally recipients of know-how (underdeveloped nations) to the benefit of the wealthier countries which are those who habitually export the know-how.[25]

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[23] This is the position of J. GÓMEZ SEGADE, EL SECRETO INDUSTRIAL (KNOW-HOW): CONCEPTO Y PROTECCION 132 (1974). Consider the position adopted by the International Association for the Protection on Industrial Property (AIPPI), *in* ANNUARIES DE L'ASSOCIATION INTERNATIONALE POUR LA PROTECTION DE LA PROPRIETE INDUSTRIELLE 620 (1970).

[24] With respect to United States law, see F. DESSEMONTET, THE LEGAL PROTECTION OF KNOW-HOW IN THE UNITED STATES (2d ed. 1976).

[25] J. GÓMEZ SEGADE, *supra* note 23, at 132.

Indeed, the expression "know-how" as such has received limited acceptance in the legislatures of developed or developing countries. Examples of it use can be found in fiscal regulations, such as in Revenue Procedure 69-19 of the United States Internal Revenue Service[26] as well as in Colombian legislation.[27] However, the term has been employed in judicial decisions of some countries, particularly in the United States and the United Kingdom, where it has been used *expressis verbis* in certain decisions.[28]

A. *Know-how under United States law*

United States authors and jurisprudes unanimously agree on the assimilation of "know-how" and "trade secrets," that is, a set of secret techniques and information, including those of a commercial nature, used in an enterprise.[29] In accordance with the analytical definition provided by the *Restatement of the Law of Torts*, "a trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."[30] In addition, the *Restatement* lists certain factors to be considered in determining the existence of a trade secret. These are the following:

i) the extent to which the information is known outside the business to which it refers;
ii) the extent to which it is known by employees and others involved in the business;
iii) the extent of measures taken by the owner to guard the secrecy of the information;
iv) the value of the information to the owner and his competitors;
v) the amount of effort or money expended by him in developing the information; and

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[26] Rev. Proc. 69-19, 1969-2 C.B. 301 (providing procedures to determine whether an agreement to furnish "know-how" in exchange for stock is a transfer of property under I.R.C. § 351).

[27] Colombian Decree No. 2123 (1975).

[28] *See* F. DESSEMONTET, *supra* note 24, at 19-48. For a review of United States judicial decisions regarding know-how, see A. TURNER, THE LAW OF TRADE SECRETS 32-37 (1962). For a review of French and German judicial decisions regarding know-how, see J. GOMEZ SEGADE, *supra* note 23, at 135.

[29] For qualifications applicable to this definition, see F. DESSEMONTET, *supra* note 24, at 29-33.

[30] RESTATEMENT OF TORTS § 757, Comment b (1939). Section 757 was deleted from the second edition of the *Restatement*. The editors believed that the influence of tort law on trade practices had decreased, replaced by new unfair trade regulations. 4 RESTATEMENT (SECOND) OF TORTS 1 (1979).

vi) the ease of difficulty with which the information could properly be acquired or duplicated by others.[31]

Although the definition previously mentioned is restrictive with regard to the objects that are susceptible of being considered as "trade secrets," it extends to information of a commercial character. By contrast, statutes adopted by many States between 1964 and 1969, which were based upon an earlier New Jersey law,[32] excluded commercial secrets from their protection. The New Jersey statute provided:

> The term secret means the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula or improvement which is secret and of value; and a trade secret shall be presumed to be secret when the owner thereof takes measures to prevent it from becoming available to persons other than those selected by the owner to have access thereto for limited purposes.[33]

B. *Know-how under French law*

In the first French judicial decision in which the term "know-how" was used, the Court of Appeals of Douai defined it as non-patentable "techniques of application and process of minor importance."[34] In another decision, the same court described know-how as "a package of secret technical information" concerning the application of a process, and stated that such information must involve "a certain quality of novelty and originality."[35] Although various French commentators consider novelty and secrecy as essential characteristics of know-how,[36] others admit its existence without such requisites.[37] According to Magnin, know-how is, in general terms, "a means of manufacture."[38]

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[31] RESTATEMENT OF TORTS § 757, Comment b (1939).

[32] New Jersey Stat. Ann. § 2A:119-5.2 (West 1969). This statute was repealed in 1978. New Jersey Stat. Ann. § 2C: 98-2 (West Sup. 1980).

[33] *Id.* § 2(a): 119-5.2(c) (West 1969).

[34] Judgment of March 16, 1967, Cour d'appel, Douai, [1967], *cited in* F. MAGNIN, KNOW-HOW ET PROPRIÈTÉ INDUSTRIELLE 29 (1973).

[35] Judgment of May 2, 1969, Cour d'appel, Douai, [1969], *cited in* F. MAGNIN, *supra* note 34, at 30.

[36] P. Durand, *Le Know-how*, [1967] J.C.P. I No. 2078.

[37] P. Mathély, Summary Report, AIPPI (1972).

[38] F. MAGNIN, *supra* note 34, at 94.

C. *Know-how under United Kingdom law*

According to Turner,[39] the words "know-how" are used to describe means which are not so definite as to be called a process. Nonetheless, they frequently apply to complicated and definite processes. In a more restrictive sense, "know-how is sometimes used in England . . . to mean the acquired skill and accumulated experience of a technician which are inseparable from him and are in fact his technical value to an employer."[40] A similar interpretation was followed by the Master of Rolls in *Stevenson, Jordan, and Harrison, Ltd. v. MacDonald and Evans.*[41]

D. *Know-how under European Economic Commuinity law*

The EC Commission's Communication of December 24, 1962 referred to know-how as "knowledge acquired in the development of an invention" and to the "inventions unprotected by the law which improve a technique."[42] More recently, the proposal for a block exemption regulation for patent licenses, as revised and published in 1979, was intended to cover "ancillary provisions concerning the assignment of the right of use of secret manufacturing processes or know-how related to the use or application of industrial technology."[43]

The concept emerging from this quotation is noteworthy in three respects. First, the know-how described therein is ancillary to licensed patents. Second, it is of a secret nature. Third, it comprises process or knowledge related to *industrial* technology, *i.e.*, it excludes commercial information as well as that related to economic activities other than industry.

E. *Know-how in Latin America*

The consideration of know-how is new in Latin America. Since the degree of local industrial innovation is limited and concentrated in the few relatively industrialized countries in the region, it is not surprising to observe that the treatment of such an issue has focused on those aspects concerning the transfer of know-how rather than on the question of its definition and protection. There are, however, significant exceptions.

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[39] A. TURNER, *supra* note 28, at 17.

[40] *Id.*

[41] [1951] 68 Reports of Patent Cases 190.

[42] 5 J.O. COMM. EUR. 2922-23 (1962).

[43] 22 O.J. EUR. COMM. (No. C 58) 13 (1979).

On one hand, a 1971 Peruvian decree[44] established a set of rules aimed at protecting unpatented technological knowledge. The decree applies if the knowledge is secret, the holder has taken necessary measures for preserving its secret character, and the knowledge is actually novel. Articles 87 and 88 of the decree provide:

> All technological knowledge integrated by manufacturing and general production processes, and the knowledge relevant to the utilization and application of industrial techniques, resulting from knowledge, experience, or intellectual ability, is susceptible to protection as Industrial Property when it constitutes a secret, be it of the author or of the concern. Not to be protected as Industrial Property are manual abilities or personal aptitudes, be they of one or several workers. The State will protect the owner (title-holder) of the technological process against its illicit use, disclosure, communication, or expropriation, as long as the necessary measures have been taken to preserve its secret character and the processes themselves are actually novel.[45]

On the other hand, a 1975 Colombian decree has attempted a definition of "know-how"—for fiscal purposes—as follows:

> Know-how is to be understood as the secret experience concerning the manner of doing something, accumulated (compiled) in a state of art or technology and susceptible of application in the same technological branch in an efficient manner.[46]

Among the elements contained in this concept, it is worthwhile to stress that it (1) only refers to accumulated "experience"; (2) is not limited to any particular economic sector; and (3) includes an "efficient" application as an element of the definition. This last condition certainly constitutes an original feature, but it is logically inadequate to include the mode of application as a factor qualifying the object which is to be defined.

Finally, authors that have considered the problem of definition seem to exclude secrecy as a determinative characteristic of know-how. According to Aracama Zorraquín, "know-how, as such, consists of practical knowledge of how to realize, in a commercially competitive manner, certain industrial processes."[47] Le

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[44] Peruvian Supreme Decree No. 007-71-1C (1971).

[45] *Id.* at arts. 87 & 88.

[46] Colombian Decree No. 2123 (1975).

[47] E. Aracama Zorraquin, El Know-how Técnico. Tentativa de Sistemática Jurídica (1969)

Pera also rejects the equation identification of know-how and trade secret. He argues that in commercial practice what is transferred under the name of know-how is not only secret knowledge, but also other information, the acquisition of which represents an advantage for the recipient in addition to the saving of money and time.[48]

F. *Know-how under Yugoslav law*

Recent Yugoslav law formulates the definition of know-how in very broad terms. It includes secret and non-secret knowledge applicable to industrial and other production, as well as to programming, maintenance of commodities, and market research.[49] Article 22 of the recent law reads as follows:

> Within the meaning of the present law, know-how shall cover the entire range of modern technical and technological know-how and experience and skills, including those which pertain to specifications of raw materials, standards of manufacture and processing, process techniques and the secrets of one's own procedures, quality control and other data which may be applied in industrial and other production. Know-how also consists in information and instructions as to programming, manufacture, use and maintenance of products, and may also include the methodology of market research.[50]

G. *Elements for a definition of know-how*

The preceding analysis suggests the difficulties posed by any attempt to formulate a universal definition of know-how. As noted previously, the analysis of know-how issues in developing countries is influenced strongly by their dependence upon foreign technologies and by the characteristics of technology transfer to such countries. The examination of know-how should not ignore such peculiarities, but rather should take into account the

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(unpublished thesis), *quoted in* Plate & Boglino, *Know-how*, 12 REVISTA DEL DERECHO COMERCIAL Y DE LAS OBLIGACIONES 70-71 (1980).

[48] S. LE PERA, CUESTIONES DE DERECHO COMERCIAL MODERNO (1974). However, in an Argentine judicial decision, a court outlined the secret character of know-how, in stating that know-how consists of "secretos industriales, habilidades o modos de hacer que integran el patrimonio de la empresa." CAMARA NACIONAL CIVIL, LA LEY 771 (1966).

[49] Yugoslavian Law on long-term Cooperation in Production, Commercial-Technical Cooperation and the Awarding and Acquiring of Technology Between Organizations of Associated Labor and Foreign Persons (Law on Transfer of Technology), *reprinted in* 18 INT'L LEGAL MAT'LS 249 (1979).

[50] *Id.* Quoting YUGOSLOVENSKA STVARNOST 17 (1979).

particular conditions where the use and transfer of know-how take place. In this sense and at this stage, it is vital for developing countries to formulate an adequate set of principles and rules for regulating the transfer and subsequent use of unpatented technologies that have been generated abroad. This approach should not lead, however, to the neglect of other issues related to the "protection" of know-how as an asset of the enterprise that has discovered or developed it.

Bearing in mind these considerations, know-how can be described as the method of manufacture or the technical knowledge relating to the use and application of industrial technologies.[51] The main elements of this definition are discussed below.

1. *Knowledge related to industrial application*

Know-how comprises knowledge susceptible of industrial application and excludes techniques of a nonindustrial character.[52] Gómez Segade has indicated that the inclusion of nonindustrial information in the concept of know-how is contrary to the interests of developing countries in that these countries may be forced to pay for it *and* technical knowledge. Gómez Segade advances the following three arguments in support of the exclusion of nonindustrial or commercial information:

> First, the use of the term 'commercial knowledge' signifies a departure from the scheme of 'know-how' which originated with the final object of designating *solely* technical knowledge and *precisely* that which was necessary to gain a better exploitation of patent use. Second, the inclusion of commerical knowledge within the concept of know-how dilutes the protection of the only know-how with authentic value, which is that of technical-industrial data. Third, it is important to underscore that contracts of supply (contracts to give information) or licenses for know-how in the strictest sense have as objects only *those* technological bits of knowledge. Those are the only ones which truly interest the purchasers because they are valid as to all applications since applied technology is universal. On the other hand, commerical data or organizational skills are not universally valid—they depend on economic circumstances, idiosyncracies, and sociological differences which vary noticeably from one

[51] This description is not necessarily the correct one, but is appropriate for purposes of this study.

[52] For a suggestion of similar limitations on the concept of know-how, see F. DESSEMONTET, *supra* note 24, at 49-50. See also J. GOMEZ SEGADE, *supra* note 23, at 144-48; F. MAGNIN, *supra* note 34, at 93.

region to another and from one country to another. Thus, for example, a publishing scheme may prove efficient in the United States and yet could result in inefficiency to an African or Indonesian consumer.[53]

2. *Secret and non-secret information*

The definition includes both secret and non-secret information. A majority of authors consider secrecy an essential requisite of know-how. However, it is necessary to distinguish the elements of know-how *from those required for conferring upon it a certain kind of protection.* Although secrecy is certainly a condition for the validity of confidentiality obligations or the application of unfair competition law, it is not necessary for the classification of certain knowledge as know-how.

In many instances, recipient enterprises are interested in paying for the transfer of non-secret knowledge, which may be beyond the capability of available personnel. For example, the gathering of such non-secret knowledge might indicate the start of an important investment program. In this situation, however, the nature of obligations undertaken by the recipient should differ radically from obligations applicable when the reason for the contract is the disclosure of secret information.[54]

3. *Other elements*

The concept proposed herein is not restrictive as to the type of knowledge that may be deemed to be know-how, whether empirically accumulated or systematically developed. It is indifferent as to whether the information constitutes "the entire manufacturing process" or separable pieces thereof.[55] Know-how is conceived of as being capable of having autonomous existence, and not necessarily as merely an accessory to patented inventions.

H. *Use of the term know-how in technology transfer agreements*

The preceding definition, whatever its merits may be, enlarges the long list of formulations already proposed on the matter. In the absence of legislative definitions, none of these ad hoc formulations are likely to be helpful in clarifying contractual relations. The ambiguity of the term "know-how" in commercial practice is

[53] J. GOMEZ SEGADE, *supra* note 23 at 147.
[54] *See* Part VII § A *infra.*
[55] F. MAGNIN, *supra* note 34, at 114.

as great as it is in academic and legislative fields. Only by rare chance will parties negotiating a transfer of technology agreement spontaneously agree on the meaning attributed to the term.

Hence, it is strongly suggested that in drafting such agreements the use of the term "know-how" be avoided, replacing it with clear descriptions of: 1) the type of information to be transferred according to its content and function (process instructions; formulae, designs, *etc.*); and 2) the vehicle to be used for its communications (written documents, personnel assistance, *etc.*).

V. LEGAL NATURE OF KNOW-HOW

A. *Know-how as property*

Clauses indicating that the technology to be disclosed "is and shall continue to be the property of the supplying party" are frequently found in technology transfer agreements. A proposal to this effect was presented by developed countries (Group B) in the negotiation of an International Code of Conduct on Transfer of Technology.[56] A corollary of this thesis is the treatment of contracts as mere "leasing" agreements whereby the supplying party authorizes the use of but retains the rights in the technology. After the period specified in the agreement, the leasee may no longer exercise any rights over the "leased" technology.[57]

A majority of American commentators adopts the theory of the existence of property rights in know-how, although a minority rejects such an opinion.[58] This position must be analyzed in light of United States law. As stated by Dessemontet:

> "Property" in Anglo-American law is to be clearly distinguished from property in civil law. On the one hand, common law judges are free to recognize new types of property—in equity, no *numerus clausus* limits their discretion, either as to the subject of the right or as to its contents, that is to say, the powers and privileges that are bestowed upon the owner. On the other hand, the term "property" appears much more imprecise than in continental law. Broadly speaking, it can designate any asset of some value, that is to say, a right *in rem* as well as any legally

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[56] Draft International Code of Conduct on the Transfer of Technology, art. 5.4(ii), U.N.Doc. TD/CODE TOT/24 (1980), *reprinted in* 19 INT'L LEGAL MAT'LS 773, 787 (1980). Socialist countries also supported this view. The Draft proclaims "respect for the confidentiality and proprietary nature of . . . any trade secret, secret know-how, and all other confidential information . . . ." *Id.* art. 5.4(ii).

[57] Wise & Seyler, *Secrets and Know-how Under Siege*, LES NOVRELLES 1 (Mar. 1978).

[58] F. DESSEMONTET, *supra* note 24, at 323-24.

> enforceable claim and interest. Thus, on occasions, the expression "property" may extend to rights *in personam*. The narrower use of the word remains, however, limited to rights enforceable against an indefinite number of third parties, such as the rights and interests a man has in land and chattels to the exclusion of others. Nevertheless, since the rights of the owner in relation to third parties are at the core of the controversies which surround the protection of know-how, the existence both of a broad and narrow meaning of the word 'property' clearly leads to a certain amount of confusion, evident in comparative studies.[59]

The preceding quotation illustrates the limited applicability of the conception under examination. Furthermore, there are no definite decisions stating that trade secrets (know-how) are property. *Du Pont Powder Company v. Masland*,[60] a landmark decision of the United States Supreme Court, caused considerable uncertainty.[61] The Court stated:

> The word property as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not, the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore, the starting point for the present matter is not the property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them.[62]

Such a notion is grounded on principles that are incompatible with the definite classification of property rights found in civil law countries. For instance, in France, the legislation has evolved toward the supression of any idea of property over an invention.[63] According to Roubier, only a few authors have attempted to treat trade secrets as property. Offenses concerning the violation of trade secrets have rarely been alluded to as a true theft.[64] In sum, it is possible to conclude that whatever the merit of this theory

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[59] *Id.* at 327-28 (citations deleted).
[60] 244 U.S. 100 (1917).
[61] F. DESSEMONTET, *supra* note 24, at 325.
[62] 244 U.S. at 102 (1917).
[63] F. MAGNIN, *supra* note 34, at 243.
[64] P. ROUBIER, LE DROIT DE LA PROPRIÈTÉ INDUSTRIELLE 371 (1954).

within the United States,[65] it should not be extended to different systems of law or to proposed international regulations.

B. *Know-how and intangibles (immaterial güterrecht)*

Based on Kholer's theory of intangibles, certain authors[66] have held that know-how is a legally protected entity. Along the same lines, Gómez Segade states that the lack of an exclusive right does not prevent the classification of know-how as an intangible.[67]

However, many advocates of the intangibles doctrine reject its application to unpatented technologies and inventions. Ascarelli, in particular, indicates that

> in the case of inventions, the process of creating an intangible good is brought to a close only by patenting. . . . Those . . . who also want to find an object of absolute right in the invention, in fact confuse two distinguishable problems: the subjective right of the inventor to obtain a patent (that naturally is always the case) and the existence of an intangible good, apart from a patent. The latter must indeed be denied. Therefore, the inventor who decides in advance to keep secret his own invention cannot acquire an absolute right to an intangible good which does not yet exist and thus he cannot invoke this positive protection of the law since he is not subject to its controlling limits (*i.e.*, limits of taxation, duration, and implementation). Rather he places trust in the possibility of protecting the secret and in the recovery of the damage incurred against those who might violate it. This in fact happens for the great majority of such devices, although technical, as they cannot be the object of the patent (*i.e.*, an absolute right of patent cannot be conferred in any event) since they lack the necessary legal prerequisites.[68]

A similar opinion has been expressed by Voltaggio Lucchessi, for whom the definition of an intangible is conditioned upon the synthesis of a determined factual situation (*fattispecie*) and the formal element established by positive law.[69]

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[65] Antitrust specialists seem to be particularly reluctant to accept the notion that know-how constitutes property. The U.S. Internal Revenue Service does not recognize know-how as property for certain tax purposes. Rev. Proc. 69-19, 1969-2 C.B. 301.

[66] See, *e.g.*, G. Sena, I DIRITTI SULLE INVENZIONI E SUI MODELLI INDUSTRIALLI (1976); J. GOMEZ SEGADE, *supra* note 23.

[67] J. GOMEZ SEGADE, *supra* note 23, at 83.

[68] T. ASCARELLI, TEORIA DELLA CONCORRENZA E DEI BENI IMMATERIAL 448-50 (1957).

[69] F. VOLTAGGIO LUCCHESSI, I BENI IMMATERIALI 5 (1962); *See also* Laquis, *Revisión del Convenio de París en el Marco latinoamericano, La Propriedad Industrial y el Abuso del Derecho: Problemas de la Transferencia de Technología (Know-how) a los Países/en Desar-*

C. *Know-how as a monopoly of fact*

Certain obstacles encountered by the theory of the proprietary nature of know-how under a civil law system are illustrated by the following authors. Magnin concludes that it is impossible to state with certainty that one can have property rights in an invention, and consequently, in the inventive idea made concrete through the application of know-how.[70] Furthermore, in conjunction with Page, Magnin adds that the appropriations which appear gradually as the technical creation proceeds toward the stage of industrial use are but appropriations of fact.[71]

The treatment of know-how as a mere monopoly of fact, deprived of specific legal protection, characterizes the position of a majority of Latin American authors who have analysed the matter.[72] A basic starting point for this concept is that positive law has not instituted a subjective right over know-how. In the absence of such legal recognition, know-how is a mere factual situation eventually subject to the contractual conditions laid down by the parties (in order to preserve its secret character or to implement its transfer), and, under certain circumstances, to the indirect protection conferred by unfair competition law. As stated by Laquis, "unpatented technical knowledge constitutes an objective fact, however devoid of legal status as long as it is not recognized by the law, and it is hence unopposible to third parties."[73]

It is interesting to note that most of the International Association for the Protection of Industrial Property (AIPPI) national groups have agreed that know-how cannot be considered an exclusive right. Mathély states "in fact, know-how, by its very nature, cannot be treated as an exclusive property."[74] Mathély supports his conclusion with the following:

> It has been pointed out that know-how is made up of

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rollo, La Declaración de Méjico, 9 REVISTA DEL DERECHO COMERCIAL Y DE LAS OBLIGACIONES 488 (1976).

[70] F. MAGNIN, *supra* note 34, at 246.

[71] *Id.*

[72] *See* P. DI GUGLIELMO, LA INVENCION PATENTABLE (1968); *see also* R. ETCHEVERRY, MANUAL DE DERECHO COMERCIAL MODERNO 433 (1977); S. LA PERA, *supra* note 48; F. MORENO, CARTILLA SOBRE ADQUISICIÓN DE TECHNOLOGÍA (1977); Correa, *La Legislación Argentina Sobre Transferencia de Tecnologia desde el Exterior*, 7 JURIDICA 331 (1975); Laquis, *supra* note 69. *But see* Aracama Zorraquin, *supra* note 47; and Plate & Boglino, *supra* note 47.

[73] Laquis, *supra* note 69, at 491.

[74] Mathély, Summary Report (AIPPI) (1972).

> heterogeneous elements: it can include innovations, but it can also include known elements, which have simply been assembled, selected and implemented. For these known elements, an exclusive right cannot be justified.
>
> Furthermore, one can also enter into possession of know-how of a third party without thereby misappropriating it, by putting it together legitimately by personal efforts, similar to those made by the first proprietor.
>
> Besides, and as the New Zealand's report remarks so accurately, *the extension of the exclusive right to know-how would risk being detrimental to the patent system.* This would constitute a possible danger which it would be as well to avoid.[75]

These arguments certainly complement those expressed by the Latin American authors referred to above. They indicate that even in situations where existing law may allow the structuring of a property right over know-how, such recognition would be incompatible with the nature of know-how. From the view of developing countries, the acceptance of the proprietary thesis would consitute a grave mistake, which could only operate to reinforce the monopolistic control over technologies transferred from foreign sources.

In sum, because the present situation in civil law countries (mainly France, Italy, and nations in Latin America) seems to be represented adequately by the theory of know-how as a monopoly of fact, it would not be advisable to alter the situation through legislation. Obviously, this does not exclude the indirect protection of secret know-how afforded by contractual obligations or unfair competition rules. It is precisely in the determination of the premises and conditions for such enforcement where there still exists a vast field for positive legislative action.

D. *Other conceptions of the legal nature of know-how*

It is outside the scope of this study to give a full description and analysis of all the various legal definitions of know-how. It is worthwhile to note, however, the existence of a trend toward recognizing a personal right in know-how, which might be justified by a sort of "private life" of the enterprise. For some authors, the institution of such rights should be accompanied by the creation of a system of voluntary registration of know-how in order to facilitate

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[75] *Id.* (emphasis added).

the proof of the content and date of possession of know-how in cases of misappropriation.[76]

E. *Implications for technology transfer agreements*

The resolution of the legal character of know-how has meaningful implications. The notion of the existence of property rights implies that the recipient may be subject to a number of restrictions, such as the prohibition against the continuing use of know-how after the expiration of the agreement, and the obligation of returning to the supplier all technical documentation furnished during the agreement.

Some commentators in developing countries have tried to counteract these results by arguing that technology transfer agreements are in fact "sales" of technology whereby the recipient "acquires" it.[77] This approach, however, by questioning the effects, fails to reach the real issue: the existence of rights in know-how. In this sense, Magnin criticizes the use of the terms "sale" or "lease": "The owner of know-how is vested with not a single right in the intangible elements of know-how, which for this reason cannot be the subject of a sales contract or lease."[78] It is evident that as far as know-how is not categorized by law, consequences such as those described above cannot be deemed to be a natural effect of technology transfer contracts. In this context, restrictions on the use of know-how after the expiration of the agreement lack any legal support.

These contrasting solutions point out the crucial importance that *the determination of the law applicable to the agreement* will have on any decision about the validity of conditions concerning the transfer and subsequent use of know-how. To the extent that a contract is subject, for instance, to United States law (and eventually to the jurisdiction of its courts), the recipient party in a civil law country may be faced with legal solutions that are contrary to the basic principles of its own national law, and detrimental to an otherwise legitimate use of the transferred know-how. It is

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[76] F. MAGNIN, *supra* note 34, at 247.

[77] *See* J. ALVAREZ SOBERANIS, LA REGULACIÓN DE LAS INVENCIONES Y LAS MARCAS Y DE LA TRANSFERENCIA TECHNOLÓGICA 316 (1979); Salazar López, *Criterios del Comité de Regalías de Colombia Sobre Transferencia de Technología*, 4 REVISTA DEL DERECHO INDUSTRIAL (1980). Similarly, in the negotiation of an International Code of Conduct on Transfer of Technology, the "Group of 77" has marked its preference for the terminology "acquisition" of technology and "acquiring" party.

[78] F. MAGNIN, *supra* note 34, at 290.

necessary to stress the need for know-how recipients to undertake a careful analysis of the implications that a choice of law may have on the conditions concerning the contractual communication of know-how.

VI. AGREEMENTS FOR THE COMMUNICATION OF KNOW-HOW

A. *Legal nature*

It is a common practice to define agreements for the transfer of know-how as "license" agreements. This practice is incorrect regarding the character of such contracts because the possessor of know-how has no monopoly of right or exclusivity in its use, and therefore, unlike patented technology, he is unable to prevent its utilization by third parties. The grant of a license is premised on the existence of a *jus prohibendi* that does not exist here.[79] On the other hand, the notion of "assignment" or "sale" of know-how presupposes the possibility of transferring rights in know-how, which are not recognized by law.

In substance, know-how transfer agreements regulate the *communication* of know-how from the supplier to the recipient. When the know-how consists of secret knowledge and experience, the purpose of the agreement for which the recipient has paid consideration is the *disclosure* of such information. When the agreement refers to the transfer of non-secret know-how,[80] it provides the recipient access, in a systematic manner, to knowledge and experience, which is otherwise dispersed. The foundation for the contract is the obligation of the supplier to harmonize and assemble the information for transmission to the recipient.[81] Different opinions exist as to whether this obligation of communication is to be defined as an "obligation of doing" (*obligation de faire*) or as an "obligation of giving" (*obligation de donner*) a determined thing. These differences are intimately linked with the underlying notion of the legal nature of know-how. If the contract of know-how constitutes "la concession d un bien mobilier," the sale of a personal good, it would, as suggested by Demin,[82] necessarily involve obligations concerning the "delivery" of such good. However,

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[79] *See* Correa, *supra* note 72, at 333.

[80] *See* text accompanying footnote 93 *infra*.

[81] Mousseron has compared the contracts of know-how to "educational contracts" wherein the teacher communicates knowledge which he does not own. J. MOUSSERON, ASPECTS JURIDIQUES DU KNOW-HOW 14 (n.d.), *cited in* F. MAGNIN, *supra* note 34, at 290.

[82] P. DEMIN, LE CONTRAT DE KNOW-HOW 20 (1968).

under the concept of know-how as a monopoly of fact, the execution of the agreement implies obligations on the supplier to transfer effectively the knowledge and experience agreed upon, by employing all appropriate means at his disposal (written materials, personal assistance, *etc.*)

B. *Classification of Know-how Agreements*

Once it is established that agreements for the transfer of know-how consist primarily of an *obligation de faire* on the part of the supplier, it is necessary to elucidate whether such obligation can be characterized as an obligation of means only or as an obligation that involves the fulfillment of certain results.

As this stage, it is necessary to recall that agreements for the transfer of know-how have not been regulated comprehensively. In some countries (*e.g.*, Brazil), existing laws and regulations provide for certain "guarantees" that technology transfer agreements should contain. In other legislation, there are also isolated provisions regarding certain aspects of contracts involving know-how, mainly the question of its use after the expiration of the agreement. The most comprehensive approach for establishing a framework applicable to know-how agreements (as well as to other types of technology transfer transactions) is likely to be Chapter V (Obligations, Responsibilities, and Guarantees) of the proposed Code of Conduct on Transfer of Technology, which is still under negotiation at the United Nations Conference on Trade and Development.[83]

As a result of the lack of regulation on these matters, the question posed above cannot be resolved adequately under current law. If general practice is to be taken into account, agreements for the transfer of know-how might be considered as implying obligations involving the results expected from the application of know-how. Magnin states that "ignoring those rare know-how agreements in which the supplier agrees only to transmit various documents to the other party, with no further obligations as to their application, know-how agreements represent a form also of service contract or joint venture."[84] The duty of the supplier not only to provide the necessary information and data, but also to ensure its proper application, is a desirable feature of such contracts.

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[83] U.N. Doc. TD/CODE TOT/24 (1980), *reprinted in* 19 INT'L LEGAL MAT'LS 773 (1980).

[84] F. MAGNIN, *supra* note 34, at 294.

However, many authors have maintained that the duty of the supplier should be deemed to be fulfilled entirely upon providing the information, and that this feature usually distinguishes know-how agreements from other agreements, particularly "technical assistance" agreements.[85] Indeed, the distinction between contracts on know-how and on technical assistance is not easily made. As previously noted, in certain Latin American countries the expression "technical assistance" is broader, including different forms of transfer of know-how. For some authors, a main criterion of distinction is that in the former, technology is of a secret character, while non-secret in the latter.[86]

It is evident that the resolution of this question also depends upon the underlying notion of know-how, its legal nature, and the type of agreement used in its transfer. In conjunction with the concept that is presented here, the provision of technical assistance may be a possible means for transferring know-how through the personal assistance of the supplier's technicians.

It is possible to define a "technical assistance agreement" as an autonomous means of technology transfer that is characterized by 1) a transfer occurring through the collaboration of supplier's personnel (including services, advice, training, *etc.*); 2) the transfer of non-secret technology; and 3) remuneration charged in accordance with the duration of the agreement and other relevant services performed.

C. *Validity of agreements on know-how*

1. *Patentable inventions*

The possibility of conferring the use, as secret know-how, of patentable inventions that have not been patented has given rise to controversy. In *Lear v. Adkins*,[87] a United States Supreme Court decision, the dissent attacked the legality of an agreement for the communication of patentable inventions kept secret by their possessor. An Italian author has opined similarly, that

> whereas the object of a know-how contract is not the transfer of the expectation of a right to patent but rather the ability secretly to exploit the invention, with the concomitant obligation for

[85] *See* P. DEMIN, *supra* note 82; Alvarez Soberanis, *Actos Jurídicos de Inscripción Obligatoria en el Registro Nacional de Transferencia de Tecnología*, JURIDICA 44 (1974); Farina, *Contratos de Transferencia de Tecnología*, JURISPRUDENCIA ARGENTINA 4 (1972).

[86] J. GOMEZ SEGADE, *supra* note 23, at 154.

[87] 395 U.S. 653 (1968).

> the grantee not to reveal the invention and consequently, by implication, not to seek a patent, we are therefore out of the realm of a contractual freedom that could legitimate and justify such a claim.[88]

However, the invalidation of such agreements is likely to facilitate further monopolization of technology.[89] Know-how agreements do not infringe upon the patent system, and, even though in a restricted manner, they ensure the disclosure of inventions to third parties through legal channels.

2. *Unpatentable inventions*

Some authorities have questioned the validity of agreements for the transfer of legally unpatentable inventions (*e.g.*, pharmaceuticals and food).[90] The contrary view favors the legality of such agreements because they grant protection to unpatentable know-how (and to the agreements for its transfer), which encourages inventions.[91]

The validity of agreements for the use of pharmaceutical formulae, which are not patentable in Argentina, was recognized by an Argentine court of appeal on the ground that the contract had been freely agreed upon by the parties.[92] Without prejudice to the application, where appropriate, of specific legislation (mainly the law on transfer of foreign technology) this solution seems to be compatible with the interest of national industry in incorporating technologies for the local manufacture of drugs.

3. *Non-secret know-how*

As a rule, when technologies are transferred to developing countries they have already been used in developed markets. In most cases, they are likely to have lost their secret character, in the originating and in other industrialized countries. In some cases, technologies transferred have already become known in the country to which they are exported. In other cases, however,

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[88] Capizzano, *Contrato di Know-how e Invenzione non Brevettata*, 1 REVISTA DE DIRITTO INDUSTRIALE 343 (1974), *cited in* Bianchi, *Reflexiones Preliminares Sobre los Contratos de Know-how*, 1 REVISTA DEL DERECHO INDUSTRIALE 511 (1979).

[89] *Id.* at 517.

[90] *See* GRECO & VERCELLONE, LE INVENZIONI E ISUI MODELLI INDUSTRIALI 318 (1968); Capizzano, *supra* note 88.

[91] *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1973); Bianchi, *supra* note 88.

[92] Gallino v. Lab. Otto S.A. (1976), *cited in* 10 REVISTA DEL DERECHO COMERCIAL Y DE LAS OBLIGACIONES 861 (1978).

given the relatively low technological capacity existing in developing countries, it is likely that technologies that have been partially or totally diffused in developed countries continue to be publicly unknown in the country of importation. Secrecy is, of course, a very relative concept both with regard to the number of persons who may actually know of it or have access to it, as well as with respect to its territorial scope.[93] The complexity of issues involved in these two different situations requires deeper consideration.

a) *Know-how that is known/available in the receiving country*

Certain Latin American statutes include provisions that prohibit the importation of technology available in the country. Argentine law 21617 provided that the competent body could refuse to authorize agreements:

> a) when the technology upon transfer were provedly obsolete;
> b) when there will be in the public domain and freely accessible in the country technology of the same specifications, nature, and quality as that which is the object of the transfer. It is understood that there will exist in the public domain that which is not protected by secret means or by private privileges of industrial property. It is also understood that there will be freely accessible throughout the country that technology so that anyone may obtain access to it upon reasonable conditions.[94]

A similar policy seems to be applied in Mexico and Colombia. Mexican law on transfer of technology stipulates the rejection of agreements involving "technology freely available in the country,"[95] while Colombian Decree 1234 (1972) indicates the need to evaluate "the possibility of elaborating on the product within similar conditions, yet without burdening the product with royalties, through the use of ordinary processes susceptible of applying themselves toward that end, and confroming to the advances of modern technology and to the national industrial development."[96]

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[93] *See* F. DESSEMONTET, *supra* note 24, at 107-91; J. GOMEZ SEGADE, *supra* note 23. Discussion of this issue is outside the scope of this study. For the purposes of this study, the "secret" character of know-how is to be judged according to its availability within a determined branch of industry.

[94] Argentine Law No. 21617, art. 10(a)(b) (1977).

[95] Mexican law on the transfer of technology, art. 7(i).

[96] Colombian Decree No. 1234 of July 18, 1972, *reprinted in* INSTITUTO PARA LA INTEGRACION DE AMÉRICA LATINA, REGIMEN DE LA TRANSFERENCIA DE TECNOLOGÍA EN LAS PAÍSES DE AMÉRICA LATINA (1977).

The application of these provisions has encountered obstacles, primarily the lack of adequate sources of technological information to undertake the appraisal of transferred technologies, and the general shortage of personnel and financial resources of government bodies. In addition, the notions of technologies "available" or "obtainable" involve complicated conceptual aspects, and have implications for other areas of public policy.[97]

United States law provides stricter and clearer treatment of agreements on non-secret know-how. Under United States law, the *secret* character of know-how is an essential condition of the transfer agreement's legality. The Supreme Court in *Lear, Inc. v. Adkins*,[98] declared that contracts covering know-how that has become publicly available are not legally enforceable. In other words,

> United States courts will enforce know-how license agreements against the licensee only so long as a portion of the know-how transferred to the licensee retains its status as secret and valuable information, that is, the know-how license is not enforced if the knowledge forming the licensee's consideration becomes part of the public domain.[99]

A possible exception to this principle might be agreements which provide for the transfer of know-how through supplier's technicians.[100]

In United States and Latin American law, it is irrelevant whether the recipient of non-secret know-how is unable to acquire it without considerable effort and time, or whether he has obtained an advantage by virtue of the contract. French courts have, however, arrived at a different solution by recognizing the validity of such agreements. La Cour de Cassation has decided

> that in revealing to an industrial establishment process or techniques not known to that party, and which that party would not have been able to discover by himself without long research and costly attempts, the supplier has furnished to that party an appreciable advantage for which he is therefore authorized to receive payments.[101]

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[97] Correa, *supra* note 21, at 151.

[98] 395 U.S. 653 (1968).

[99] M. Finnegan, The Effect of United States and EEC Antitrust Law on International Licensing and Licensing into Developing Countries, U.N. Doc. ID/NG/4 (1972).

[100] *See* F. DESSEMONTET, *supra* note 24, at 158.

[101] F. MAGNIN, *supra* note 34, at 325.

The multiple implications of the issue under consideration render it difficult to propose solutions adapted to the particular circumstances and needs of developing countries. One basic principle is that anyone has the right to use knowledge which is not under a monopoly of right (which only can be conferred by the industrial property system), provided that it is not illegally obtained (under unfair competition law or otherwise). Publicly available knowledge may be freely utilized without limitation.

At a practical and a policy level, questions may arise as to whether the enforcement of agreements of non-secret know-how, whereby the recipient obtains an advantage (*e.g.*, money or time savings), is likely to facilitate or hinder the rapid diffusion of technology needed in developing countries. Furthermore, it is uncertain whether, given existing technical capacities, such enforcement will promote or restrict competition and development, and whether the overall benefits of such a policy justify its costs.

The response to these questions may depend upon the international or domestic character of the transaction. In the former case, the prohibition of agreements of previously known technologies may foster the use of local sources of technology, and improve the balance of payments by avoiding unnecessary remittances abroad. The "technical assistance agreements" may furnish an acceptable framework under which the remuneration for technology is linked to the performance of services by the supplier. Under these agreements, conditions restricting the use of technology or imposing payments related to production or sales would be unacceptable.

b) *Know-how that has lost its secret character in the country of the supplier but which is not publicly available in the receiving country*

As mentioned above, given the time lag existing between the introduction of innovations in developed countries and their transfer to developing countries, it is likely that a great part of transferred know-how has lost its secret character in developed countries at the time of transfer. Some authorities and case law in developed countries have examined this issue.[102] It is believed that "[t]he status of know-how as a trade secret should not suffer even if it is commonly known in some parts of the world as long as the

[102] *See* B. CAWTHRA, *supra* note 1, at 143; F. DESSEMONTET, *supra* note 24, at 157, 192-210; W. FUGATE, FOREIGN COMMERCE AND ANTI-TRUST LAWS 192 (1958); J. GOMEZ SEGADE, *supra* note 23, at 200.

grant of the know-how is made in a foreign country when such knowledge is available."[103] It is unnecessary to emphasize the implications of this position for developing countries.

It is interesting to note that this position has been indirectly incorporated into the Group B Draft on an International Code of Conduct on Transfer of Technology. In the text addressing export restrictions, the draft proposes restrictions on technology exports to countries "where relevant know-how has retained its confidential character."[104] This proposal should not be approved, particularly in light of the legal and economic situations of developing countries. Unlike the principle established by most of the world's patent laws with regard to the universal effects of the publication of an invention in any country, this doctrine strictly limits the effects of know-how disclosure to the country in which it takes place. As a result, know-how would enjoy a larger and longer protection than that generally permitted by patentable inventions. Furthermore, because know-how is not registered, as patents are, and because there is no definite time limit for its protection (as far as it is secret), know-how would be protected in a country for an indefinite period, even if it has become publicly known elswhere.

Extracontractual protection of know-how is to be determined by the applicable national law. It cannot be derived from or based upon any universal principle. Thus, the determination of violations under unfair competition law depends upon the concept of secrecy, disclosure, misappropriation, and related notions defined by national laws. Moreover, such violations could only be sanctioned if the unlawful conduct takes place or produces effects in a country where the know-how is still secret. The mere introduction of a product manufactured by application of the know-how does not constitute unlawful conduct, as contended by Group B.

Apart from the question of extracontractual protection of know-how, it is necessary to determine the legality of agreements for the transfer of know-how into countries where it is not available. It is also necessary to admit the legality of such agreements in principle. This conclusion stems from the requirement that developing countries receive only those technologies that are not "available" or "obtainable" in the recipient country, as provided for by Latin American legislation cited previously.[105] Additional

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[103] B. CAWTHRA, *supra* note 1, at 143.

[104] Draft International Code of Conduct on the Transfer of Technology, art. 4(B)(10), U.N.Doc. TD/CODE TOT/24 (1980), *reprinted in* 19 INT'L LEGAL MAT'LS 773, 783 (1980).

[105] *See* notes 94, 95, & 96 *supra*.

limitations may be appropriate as dictated by the individual circumstances surrounding each know-how agreement.

VII. TERMS AND CONDITIONS FOR THE COMMUNICATION OF SECRET KNOW-HOW

This section discusses some aspects of contractual relations for the transfer of secret know-how and the issues involved when such know-how becomes known during the term specified for the agreement. This discussion is included in order to suggest possible *de lege ferenda* solutions to the issues involved therein, and to furnish guidelines for the negotiation and drafting of an appropriate agreement. Before entering into the analysis of specific terms and conditions, however, it is necessary to make a brief comment on the position of potential recipients in developing countries, and on possible ways to increase their bargaining capacity. The legal treatment and contractual obligations applicable to the transfer of know-how differ radically, depending upon the secret character or lack thereof of the transferred know-how. It is crucial for the recipient to discriminate between information which is actually confidential and that which is not.

Secrecy is a relative concept, the definition of which involves major difficulties. Also, the potential recipient generally lacks appropriate information about available technologies. He is not in a position to elucidate which parts of the offered technology are publicly know. As mentioned above, such determination should be an ingredient of the unpackaging process. Finally, the potential supplier will usually present its technology as unique and confidential and will certainly not favor any inquiry by the recipient which questions the actual status of the technology.

In spite of these difficulities, the potential recipient should clarify, from the very beginning, the nature of the technology to be obtained and segregate the pieces of information that are confidential. In particular, he should investigate the extent of the information's secret character and the classification which the supplier has given to information.

A. *Disclosure as consideration ("causa") of the agreement*

As previously noted, the disclosure of secret knowledge is the basic consideration of a transfer agreement on confidential know-how.[106] In comparing know-how and patent licenses, Milgrim states

[106] *See* Part VI § A *supra*.

that "the license reward for a trade secret tends to be a function of consideration for disclosure; for patent, consideration for use."[107]

The existence of secrecy should be considered as an essential condition for the conclusion of a valid agreement, as well as for the maintenance of the validity during the specified term of duration. Therefore, the agreement is void if it was concluded under the assumption of the existence of secret know-how, which is thereafter proved to be known; or an agreement valid at its origin may become invalid if know-how loses its secret character before the time stipulated for its termination. Payments made thereafter should be compensated.

United States law, particularly since *Lear v. Adkins*,[108] has enforced these principles. Regarding the principal obligation of the recipient, that is, to make payments agreed upon, Dessemontet observes that:

> [T]he question was not clearly resolved before 1969. The majority of authors considered that the agreement by which a person undertakes to pay a royalty or a lump sum for the communication of non-confidential information is null and void, in the absence of some consideration promised by the licensor. Cases usually support this conclusion. Since *Lear v. Adkins*, however, there is no longer any room for doubt, since the majority of the Supreme Court justices prohibited any agreement involving the communication of non-secret information, and allowed the reclaiming of unwarranted royalties.[109]

Magnin also concedes that, under French law,

> the disappearance of the know-how's secret character and its integration into the state of technology at no fault of the recipient may lead him to view the transfer agreement as suddenly lacking consideration and through application of article 1131 of the French Civil Code the duty to pay royalties will be discharged. The know-how contract becomes invalid due to the disappearance of one of the essential conditions of the validity of agreements as enumerated in article 1108 of the French Civil Code.[110]

However, this author mentions the possibility of including clauses

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[107] Milgrim, *Sears to Lear to Painton: of Whales and Other Matters*, 46 N.Y.U. L. REV. 30 (1971).

[108] 385 U.S. 653 (1968).

[109] F. DESSEMONTET, *supra* note 24, at 187-88 (citations omitted).

[110] F. MAGNIN, *supra* note 34, at 322.

obliging the recipient to make payments even after the know-how has lost its secret character as an application of the general principle that "the terms of valid agreements control the rights of the parties."[111]

Observance of the agreement's terms, notwithstanding the subsequent general availability of know-how, is also endorsed by Milgrim and other authorities, citing a leading United States case, *Warner Lambert Pharmaceutical Co. Inc. v. John J. Reynolds Co. Inc.*, in which the district court held that although the licensee did bargain originally for a secret formula (which it received), it does not follow that it bargained for continued secrecy. There was no failure of consideration, for the licensor made no implied representation that the secret would remain so, and the licensee took it subject to the risk that it may fall into the public domain.

Positive regulation of this matter is needed to ensure that whenever secrecy constitutes the consideration of the agreement, continued secrecy is a condition for the continued validity of the agreement. It is not fair, particularly in the case of developing countries, to consider the lack or subsequent loss of secrecy as a "risk" that the recipient should assume. The recipient will not be in a position to evaluate such risk and will rely on representations made by the supplier. This solution is in accord with specific requirements of antitrust legislation and with general principles of law. An important precedent regarding know-how ancillary to licensed patents has been established by the EEC Commission in its 1979 draft proposal for a block exemption regulation for patent license and ancillary know-how agreements.[112] Article 3.4 (d) of the proposal declares that a violation of article 85 (1) of the Treaty of Rome occurs if

> the obligation on the part of the licensee to pay royalties . . . after manufacturing processes or other know-how communicated under the license have entered into the public domain, unless entry into the public domain is attributable to some default on the part of the licensee, or of an undertaking that has economic connections with him, without prejudice to any right of the licensor to receive appropriately reduced royalties where the licensing agreement continues in respect of patents or parts of patents that remain in force or of manufacturing processes or other know-how that have not entered into the public domain.[113]

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[111] *Id.*

[112] 22 O.J. EUR. COMM. (No. C 58) 12 (1979).

[113] *Id.* at 16.

When drafting an agreement on secret know-how, issues discussed previously should be taken into account. The agreement should contain: 1) a clear statement reflecting that the disclosure of secret knowledge is the consideration sought by the recipient (this can be included in a "preamble" to the contract. For instance, "in consideration for the disclosure of secret know-how by the supplier, the recipient will . . . ."); 2) a representation by the supplier regarding the character he attributes to the know-how to be transferred[114] (for example, the supplier represents that on the date of signing the agreement, to the best of his knowledge, secret technical information to be disclosed under the agreement is not publicly known or available to third parties in the industrial-sector concerned); and 3) specific clauses contemplating the eventual termination of the contract and other effects following the integration of the know-how into public knowledge. A possible stipulation could read as follows:

> In case the technical information transferred under this agreement loses its secret character, independently of the recipient, this agreement will be terminated and the recipient will have the right to continue in the use of transferred technical information without any further payments or other obligations regarding such use.
> The further use of patents/trademarks licensed herein will be the object of a new revised agreement to be agreed upon between the parties.[115]

Finally, it is necessary to regulate the effects, and particularly the total or partial restitution of payments made, in case the know-how transferred is not secret at the time the agreement is concluded. In this situation, factors such as the good or bad faith of the supplier and costs incurred by him by viture of the transfer should be taken into account.

B. *Confidentiality obligations*

1. *Legal character*

In principle, the recipient's duty not to disclose the secret know-how to third parties must be expressly provided for in the

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[114] The existence of a "guarantee" for this purpose is suggested in F. MAGNIN, *supra* note 34, at 326. However, he recommends potential suppliers, in order to avoid eventual claims by the recipient, "ne jamais présenter le know-how comme inconnu de la concurrence, quel que puisse etre le degré presumé de son secret." *Id.*

[115] A similar proposal is made by F. MAGNIN, *supra* note 34, at 406.

contract. There is no reason to presume, in the absence of an explicit stipulation or legal provision, that an obligation of confidentiality exists.

However, the existence of implied obligations of secrecy is found in Anglo-American law and other authorities.[116] The most recent Argentine law on transfer of technology followed this approach by establishing that "the recipient shall keep technical secrets specified as such in the agreement" as an "implied clause" to be observed by the recipient regardless of whether it is expressed in the contract.[117] There is no sound support for this reasoning. Especially when developing countries are involved, the recipient should not be bound implicitly to refrain from revealing the secret know-how if it has become publicly known. This is so because the developing country is not in a position to appraise itself of circumstances not disclosed by the supplier.

2. *Scope*

Confidentiality obligations should attach only to such items of knowledge that the supplier has specified as "secret." General clauses stating that all information to be transferred is subject to such an obligation must be avoided. Such provisions should not be a means for the supplier to exercise undue influence and control over the recipient's production and purchasing operations. As commented by Singh and Finnegan,

> [a] confidentiality provision restricting disclosure of information to third parties without the licensor's permission can, if strictly interpreted, considerably circumscribe and confine the licensee's choice in the procurement of intermediate products, parts and components. Such a provision can and has been used to channel the licensee's purchasing operations in certain directions, often back to the licensor which is not necessarily in the interest of the licensee or the recipient country, because of the implications of transfer pricing, foreign exchange costs, and the like.[118]

Consequently, when drafting an agreement for the communication of know-how, it is advisable to insert a clause limiting the extent of the obligation of confidentiality by stating:

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[116] *See* G. CABANELLAS, CONTRATOS DE LICENCIA Y DE TRANSFERENCIA DE TECHNOLOGÍA EN EL DERECHO PRIVADO 341 (1980); A. TURNER, *supra* note 28, at 237, 273; G. SENA, I DIRITTI SULLE INVENZIONI E SUI MODELLI INDUSTRIALI (1976), *cited in* Bianchi, *supra* note 88, at 524.

[117] Argentine law on transfer of technology, No. 21617, art. 8(d) (1977).

[118] R. Singh & M. Finnegan, Confidentiality Issues in Technology Transfer Agreements with Developing Countries, U.N. Doc. RTN/9, 9 (1978).

> Without prejudice to the obligation of confidentiality stipulated in Paragraph ____, the recipient will have the right to disclose to third parties the secret technical information received under this agreement, to the extent that such disclosure is necessary for the purposes of subcontracting, procurement of materials, parts and components or any purpose related to the manufacture and sale of products covered by the agreement.

A more delicate and difficult problem concerns the possibility for the recipient to transfer the know-how to third parties, acting as a "subtransferor." The key issue in this regard is whether the obligation not to disclose refers only to conduct that may result in the general diffusion of the technology or whether it also refers to limited disclosure of secret know-how to a third party, even under appropriate safeguards of confidentiality. Confidentiality obligations seem to have been interpreted generally in the latter more restricted sense. This has been the interpretation of the EEC Commission in *Burroughs Corp. v. Delplanque*[119] and *Burroughs Corp. v. Geha Werke*.[120] The Commission indicated that

> the prohibition imposed on Delplanque, concerning the giving of sublicenses except to its wholly-controlled subsidiaries, given that the holder of a patent is the only one able to permit the utilization of his right in the invention and that the secrecy of know-how can only be guaranteed if the owner of the know-how may determine to whom the secret shall be communicated, does not constitute a restriction on competition.[121]

Accordingly, article 2(3) of the Commission's draft proposal on a block exemption regulation for patent licenses recognizes the lawfulness of "the obligation to refrain from granting sublicenses or assigning the license to a third party."[122]

Although the above interpretation finds justification in the supplier's interest in retaining the secrecy of know-how, there are situations where the recognition of an exception to the confidentiality clause may be important. The recipient's transfer of the know-how to other enterprises within the receiving country may be desirable in developing countries that wish to enhance the

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[119] Burroughs AG v. Delplanque, Decision of the Commission, 15 J.O. COMM. EUR. (No. L 13) 50 (1972), *reprinted in* 11 COMM. MKT. L. R. (R.P. Supp.) D67 (1972).

[120] Burroughs AG v. Geha-Werke, Decision of the Commission, 15 J. O. COMM. EUR. (No. L 13) 53 (1972), *reprinted in* 11 COMM. MKT. L.R. (R.P. Supp.) D72 (1972).

[121] Burroughs AG v. Delplanque, Decision of the Commission, 15 J. O. COMM. EUR. (No. L 13) 52 (1972), *reprinted in* 11 COMM. MKT L. R. (R.P. Supp.) D71 (1972).

[122] 22 O.J. EUR. COMM (No. C 58) 15 (1979).

horizontal transfer of technology in order to reduce payments in foreign currencies, to promote the transfer of already adopted or "nationalized" technologies, and to foster the establishment of technological capabilities in the country concerned. Such a transfer is likely to be particularly relevant in cases where the recipient is a public enterprise ultimately interested in sharing the received know-how with other enterprises of the same nature.

Nonetheless, it is not advisable to require that all contracts contain a clause allowing the recipient to re-transfer the know-how to other enterprises. Requests for the re-transfer of know-how probably will be infrequent. Furthermore, a request for an exception of this nature is likely to result in a price increase or other unfavorable contract conditions.

Wherever the negotiation of a clause allowing the transfer of know-how to a third party is desirable and justified, it is necessary to determine whether the supplier will have the right to participate in the new transaction or in payments emerging therefrom. One possibility would be to recognize such a right, for in its absence, the supplier will tend to ask for a higher initial overall price, which could cover any further re-transfer executed by the recipient. If this alternative is excluded, the contract might simply state that the recipient will have the right to transfer part or all of the secret technical information received from the supplier to other parties in the receiving country. Such parties will be subject to confidentiality obligations equivalent to those provided for in the agreement.

Finally, a further limitation on the scope of confidentiality obligations should be specified with regard to certain pieces of information which were known by the recipient at the time of their transfer, or which were subsequently obtained from sources other than the supplier. A possible formulation for this reservation could be:

> The recipient will keep confidential all technical information transferred by the supplier and specifically indicated by him as being of a secret character. This provision shall not apply to:
> 1) technical information which is in possession of the recipient at the time of its transfer under this agreement; and
> 2) technical information independently obtained by the recipient from sources other than the supplier.

3. *Duration*

The question of the duration of confidentiality obligations

presents controversial opinions and varying practices. Technology suppliers generally tend to ask for an indefinite duration, at least as long as the technology retains its secret character. This also seems to be the prevailing policy in developed countries.[123] In many developing countries (and Spain), however, there is a trend to limit the duration of such obligations to a specified period, which, in certain cases, does not exceed the lifetime of the agreement or a reasonable term after its expiration.[124]

In Mexico, for example, the National Registry's policy apparently has been to limit the obligation of secrecy to a maximum of ten years. However, this policy has been successfully challenged in the courts by affected parties, which have obtained the enforcement of indefinite confidentiality obligations.[125] In Brazil, legislation stipulates that an agreement for the transfer of technology cannot contain a clause which "impedes the free utilization of technology after an adjudged reasonable lapse of time from the last transmission of information."[126] Similarly, the Group of 77 draft for an International Code on Conduct of Transfer of Technology states that the agreements shall be subject to

> respect for the confidentiality . . . of any trade secrets, secret know-how and all other confidential information received from the other party in connection with the transfer of technology, provided that this obligation shall not extend beyond an adequate lapse of time after the transmission of each item of secret information. . . .[127]

Usually, technology recipients that have paid for the disclosure of a secret knowledge in order to attain a competitive advantage in their own markets are just as interested in retaining the secrecy of transferred technologies as the supplier. However, from the perspective of a recipient developing country, there is likely to be an interest in disseminating information and experience as widely as possible in order to expand the technological capacity and the alternatives of industries in the country. The

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[123] *See* Wise & Seyler, *supra* note 57, at 2.

[124] A notable exception to this trend is Argentine law 21617, which provides that confidentiality obligations "may exceed the duration of the agreement." *Id.* art. 8(d) (1977).

[125] *See* Alvarez Soberanis, *supra* note 85, at 582, wherein the author criticizes the interpretation of the courts.

[126] Normative Act No. 15 art. 4.5.2(d)(vi) of Sept. 11, 1975 (Brazil); INSTITUTO PARA LA INTEGRACION DE AMERICA LATINA, RÉGIMEN DE LA TRANSFERENCIA DE TECNOLOGIA EN LOS PAÍSES DE AMÉRICA LATINA (1977).

[127] Draft International Code of Conduct on the Transfer of Technology, art. 5.4(ii), U.N.Doc. TD/CODE TOT/24 (1980), *reprinted in* 19 INT'L LEGAL MAT'LS 773, 787 (1980).

problem and its resolution consists in reaching an adequate balance between these conflicting interests.

A good first step would be the elimination of indefinite duration confidentiality obligations. This may be accomplished by requiring a specific term stipulated in the agreement. The parties, and eventually the intervening competent body of the receiving country, should evaluate the progress in the industrial sector and the likely term of usefulness of the transferred know-how. A beneficial second step would be to admit that such an obligation should last for the lifetime of the agreement, or for a reasonable period thereafter in cases justified by the nature, novelty, and value of the technology concerned.

C. *Use of the technology after the expiration of the agreement*

A restriction on the use of know-how after the expiration of the agreement is one of the most frequent and detrimental practices in technology transfer transactions. It has been identified in 34.1% of a sample of agreements registered in Mexico,[128] in 63.1% of contracts reviewed in Ecuador,[129] and in 31.4% of agreements considered by the Comité de Regalías of Colombia.[130] This restriction ranks among the five most frequent restrictive practices indentified in such countries[131] and has been prohibited or otherwise controlled under various statutes in Latin America[132] and Spain.[133] In India, the government also does not approve of any provision providing restrictions on use after the expiration of the agreement. Wherever patents continue to be valid after expiration, the agreement is generally allowed to be extended on renegotiated terms.[134]

Under United States law, in conformity with the thesis on the proprietary nature of know-how, clauses prohibiting the use of trade secrets after the contract terminates are valid and enforceable. There is authority which states that, even absent such a clause, the recipient must cease using the trade secrets after that

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[128] SISTEMA ECONÓMICO LATINO-AMERICANO (SELA), RESTRICTIVE BUSINESS PRACTICES IN THE IMPORTATION OF TECHNOLOGY IN LATIN AMERICA (1978).

[129] *Id.*

[130] *Id.*

[131] *Id.*

[132] *See* Correa, *supra* note 72, at 349. Under the law on transfer of technology enacted in Argentina in 1977 (No. 21617), however, restrictions on use after expiration apparently are deemed to be valid. *See* G. CABANELLAS, *supra* note 116, at 356.

[133] *See* G. CABANELLAS, *supra* note 116, at 356.

[134] *See* R. Singh & M. Finnegan, *supra* note 118, at 5.

date.[135] Such an implied obligation also seems to be valid in some European countries, such as West Germany, Belgium, Denmark, and Switzerland.[136]

The EC Commission has taken a position that represents a compromise between the two approaches presented above. In Kabelmetal-Luchaire (1975), the Commission held that (the licensee's) "undertaking to pay royalties after the contract expires for secret technology . . . did not violate Article 85(1), since this obligation did not prevent the licensee from using the know-how after the contract has expired, even if it has to pay royalties to do so."[137] Further, in the draft proposal for a block exemption regulation for patent license agreements, the Commission has viewed a post-contractual non-use clause as an article 85(1) violation. In the 1979 version of the draft, article 3(10) excludes from exemption

> a clause prohibiting the licensee from using, after the expiry of the agreement, secret manufacturing processes or other secret know-how communicated by the licensor; this is without prejudice to any right of the licensor to require payments for the use of such processes or know-how for an appropriate period, even after the expiry of the agreement but subject to paragraph 4(d) of this article.[138]

It is interesting to note that, in previous drafts, the Commission stated that further payments could extend "for a period of not more than three years from the expiry of the agreement."[139] This time limit has disappeared from the last draft.

It is possible to conclude that there is a clear and positive trend in some developing countries and in the EEC toward the prohibition of post-termination non-use clauses. They are undoubtedly invalid in light of the notion that know-how is not a property right, and that agreements on know-how do not transmit any right to it, but consist of the disclosure of knowledge subject to a monopoly of fact.

Therefore, without prejudice to the necessary regulatory action in this area, potential technology recipients and competent national authorities should refuse any limitation on post-termination use and, further, should require inclusion in the agreement text of

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[135] *See* Wise & Seyler, *supra* note 57, at 4.

[136] *Id.*

[137] *Id.* at 1.

[138] 22 O.J. EUR. COMM. (No. C 58) 16 (1979).

[139] EUR. COMM. DOC. No. IV/262/77-E (1977).

specific clauses recognizing the right of the recipient to continue in the use of know-how after the contract's expiration. A possible formulation would be:

> Nothing in this agreement will be interpreted as preventing the recipient to continue in the use of technical information received from the supplier, after the expiration of the agreement as provided for in . . . .

The extent of the recipient's right to continue using transferred information after the expiration of the agreement must be qualified in several respects. First of all, the right clearly refers to unpatented technology, and does not encompass knowledge under patent protection. Second, the analysis on this matter generally proceeds on the implicit assumption—which is also pertinent here—that the "expiration of the agreement" is the date that the parties have agreed upon for the usual termination of their reciprocal obligations. It would be necessary to examine further the effects of other anticipated forms of termination of the agreement, either by mutual decision of the parties, by unilateral revocation based on the other party's default, or by *force majeure*. In this regard, it is important to consider, as a basis of the analysis, that the continued use of the transferred know-how is to be deemed the *normal effect* of agreements for the communication of know-how.

A third qualification is that the freedom to use the know-how is not incompatible with the existence of confidentiality obligations, which may exceed, for a reasonable and definite period, the lifetime of the agreement. Finally, the right to re-transfer know-how to third parties should be recognized. If a confidentiality obligation exists beyond the date of expiration, the transfer should take place under similar conditions of secrecy.

D. *Field of use restrictions*

It may be useful to consider the enforceability of field of use restrictions in the particular context of know-how agreements. Under American law, according to Cawthra,

> the owner of the know-how, like the owner of the patent, has the exclusive right to the use of his recent technology. He may exercise that right in such time, place and manner as he may choose. So long as the know-how remains secret, the owner may license its use to others and place restrictions on the method, place or time of such use without fear of violating the anti-trust laws. He

> may not, however, place such restrictions on products made from the know-how. This is because the grant of the know-how, like the grant of a patent license, is a partial release of his monopoly position rather than the imposition of an additional restraint upon trade and commerce in the products made by the use of know-how.[140]

This position has received considerable criticism from the view of the antitrust sector. The general tendency of antitrust authorities in the United States is to treat know-how more strictly than patents.[141] As expressed by the *Antitrust Guide for International Operations*: "Because know-how licensing lacks the protections and legislative mandate of the patent system, however, know-how licenses will in general be subject to antitrust standards which, if anything, are stricter than those applied to patent licenses."[142] Moreover, Justice Department officials have taken the position that field of use restrictions on manufacturing licensees will "be challenged when they appear to be used to allocate or divide markets"[143] (for instance, an agreement between two dominant electrical firms whereby one licenses the other in the field of motors over one horsepower and reserves to itself the field of motors under one horsepower[144]).

Further, the EEC Commission has taken a view against the validity of field of use restrictions (in light of article 85(1) of the Treaty of Rome)[145] with regard to the communication of know-how. Article 3(11) of the draft proposal (1979 version) for a block exemption regulation considers, in effect, that article 85(1) may be infringed by

> a restriction on the licensee against using secret manufacturing processes or other secret know-how communicated by the licensor except for specified purposes; without prejudice to any right of the licensor to require payments at an appropriately higher rate for any use by the licensee not covered by the agreement and not protected by patents of the licensor.[146]

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[140] B. CAWTHRA, *supra* note 1, at 145.

[141] *Id.* at 140.

[142] DIVISION OF ANTITRUST, U.S. DEPT OF JUSTICE, ANTITRUST GUIDE FOR INTERNATIONAL OPERATIONS 33-34 (1977).

[143] Address of R. Stern and R. McLaren, *reprinted in* Control of Restrictive Practices in Transfer of Technology, U.N. Doc. TD/AC.1/17, 93, n.86 (1978).

[144] *Id.*

[145] Treaty Establishing the European Economic Community, March 25, 1957, Belgium-Federal Republic of Germany—France—Italy—Luxembourg—Netherlands, 298 U.N.T.S. 11.

[146] 22 O.J. EUR. COMM. (No. C 58) 16 (1979).

It is worthwhile to note that the concept of "at an appropriately higher rate" has been substituted for the notion "corresponding increase in royalties" used in the 1976 preliminary draft of the Commission.[147] Although the latter formulation established that the supplier is entitled to payments for a use not specified in the agreement, it did not require that such payment be "higher" than that originally provided. This change can only be interpreted as a concession to those who have criticized the solution proposed by the Commission.

In accordance with the nature of agreements on know-how as analyzed in this study, field of use restrictions in know-how transactions are not justified. The supplier has no legitimate right to prevent the recipient from using the received know-how in fields that may be outside the field encompassed in the initial agreement.

The preceding consideration does not mean that contractual conditions agreed upon on the basis of a certain use of know-how should necessarily apply, without any change, to situations where the recipient gives the know-how new uses not provided for in the agreement. No change or adaptation in contractual terms will be required when, for instance, the obligation of the supplier was fulfilled entirely with the mere communication of know-how, against payment by the recipient of a lump-sum. But whenever the supplier has granted guarantees with respect to the use of know-how for certain purposes and the price has been fixed accordingly on the basis of royalties on production or sales, it will be necessary to determine to what extent the terms agreed upon can be enlarged for the new application of know-how. If a royalty payment is to be recognized on production related to a new use, the royalty rate should be, at least, no higher than the rate originally established. There is no convincing reason for the EEC proposition that royalties should be higher than before.[148]

VIII. CONCLUSIONS

Available data on developed countries indicate that trade in know-how constitutes a major component of transfer of technology transactions. Likewise, data on Latin American countries suggest that the relative significance of know-how in transfer of technology to such countries is greater than in developed countries, and, moreover, that it is growing over time.

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[147] *Id.*
[148] *Id.*

One of the primary characteristics of agreements involving know-how in developing countries seems to be its transfer as a part of a global package. It is likely that a significant part of technologies transferred to developing countries has become publicly known. Potential parties should take into consideration the different nature and character of technical information involved when unpackaging technology transfer transactions. This precaution will ensure adequate differentiation of the legal treatment applicable to each category of information.

The definition of know-how is a most complex and controversial issue. On the one hand, the expression "know-how" has had limited acceptance in legislatures and among jurisprudes. On the other hand, there is substantial disagreement among commentators with regard to the content and character of know-how, particularly whether it involves only secret knowledge, excluding that already divulged. Whether it should be limited to industrial information or include knowledge of a nonindustrial nature is uncertain as well.

The formulation of a concept of know-how suitable to the conditions prevailing in developing countries must consider the limited local innovation and dependence upon foreign technologies. For the purposes of this study, know-how is defined as the method of manufacture of the technical knowledge relating to the use and application of industrial technology. This definition is broad as to the types of techniques covered, whether secret or not, but excludes information of a non-industrial or commercial nature. Without demeaning the merits of this or other definitions, the extreme ambiguity of the expression examined makes it advisable to avoid its use in contractual relations.

An analysis of the legal nature of know-how is essential to comprehend the issues and to identify the implications of various theories on the legal treatment of agreements for its transfer. The proprietary nature thesis of know-how is supported by the majority of United States authorities. However, this concept must be interpreted in the specific context of American common law, where courts can recognize new forms of property. The concept of "property" is understood in a far more flexible and elastic manner in the United States than under continental law. An important corollary of this concept is that agreements for the transfer of know-how constitute a mere "lease" of the proprietor's rights and that the recipient is not entitled to continue using received know-how after the agreement's expiration. Notwithstanding the specificity

of principles of law and the premises upon which this thesis is grounded, there is an attempt to obtain international recognition through its acceptance in the International Code of Conduct on Transfer of Technology. However, such a position is incompatible with the property principle of *numerus clausus*, which governs in countries with codified civil law. Such a theory is also clearly inadequate in light of developing countries' conditions and needs.

Alternately, the theory of "immaterial goods" cannot justify the existence of a specific legal protection for know-how to the extent that such a protection has not been instituted by law. The present legal status of know-how in civil law countries (France, Italy, and many in Latin America) can be described adequately through the concept of a *monopoly of fact*, according to which know-how is deprived of specific legal recognition, without prejudice to the indirect protection on secret knowledge that may be granted under unfair competition law and lawful contractual obligations.

Agreements for the transfer of know-how cannot be described as "license" agreements because the supplier lacks an exclusive right over it. In substance, such agreements are characterized by the communication of knowledge. The disclosure of information is the *raison d'être* of the agreement and of the recipient's consideration. Agreements for the communication of know-how can be viewed as essentially consisting of the supplier's obligation to perform all actions needed for the effective transfer and implementation of technical information.

In principle, agreements on patentable (but not patented) inventions, as well as inventions on which the patentability has been excluded by law, should be deemed valid and enforceable. However, with regard to agreements on public know-how, it is necessary to distinguish on the basis of the extent of divulgence of know-how: if the information is generally available, the validity of a transfer agreement is doubtful and contestable, except when formalized as a "technical assistance agreement" whereby the supplier is remunerated on the basis of services effectively supplied. If the technical information to be transferred represents access to a new technology in the receiving country, the legislature of this country should not exclude, in principle, the validity of agreements involving such transfer without prejudice to the determination of appropriate limitations to confidentiality and other obligations.

In accordance with the analysis undertaken in this study, it is possible to suggest certain proposals *de lege ferenda* and guidelines for the negotation and drafting of agreements for the com-

munciation of know-how. *Inter alia*, these agreements should:

a) clearly state that the disclosure of secret know-how is deemed the basis for the recipient's obligations;
b) include a statement by the supplier on the secret nature of know-how to be transferred;
c) stipulate the effect of disclosure of the know-how on the validity of the agreement, including termination where the know-how has lost its secret character through no act of the recipient;
d) specify the items of information to be deemed confidential;
e) determine the scope of expressly specified confidentiality obligations with regard to 1) the disclosure of know-how for purposes of subcontracting, procurement, *etc.*; 2) the disclosure to third parties (re-transfer) under similar obligations of confidentiality; and 3) the exclusion from such obligations of knowledge in possession of or independently obtained by the recipient;
f) determine the duration of confidentiality obligations, which should not extend, in principle, beyond the lifetime of the agreement or a reasonable period thereafter;
g) explicitly state the right of the recipient to continue in the use of transferred know-how, after the expiration of the agreement;
h) authorize the use of know-how by the recipient in any possible field of application, without prejudice to corresponding payment obligations emerging from uses not specifically agreed upon; and
i) include provisions on applicable law, taking into account the effects that the application of different national laws may have on the qualification of know-how and on the conditions for its use.

If these and similar guidelines are applied in agreements relating to the communication of know-how, the position of developing countries and of individuals and firms within them will be substantially enhanced.