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United Nations Conference on an
International Code of Conduct
on the Transfer of Technology

# DRAFT INTERNATIONAL CODE OF CONDUCT ON THE TRANSFER OF TECHNOLOGY

Report and notes by experts on the outstanding issues

Compiled by the UNCTAD secretariat

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CONTENTS

PREFACE

Since 1978, six sessions of the United Nations Conference on an International Code of Conduct on the Transfer of Technology have been held under the auspices of UNCTAD with the aim of negotiating and adopting universally acceptable norms and standards on the transfer of technology. The sixth session of the Conference was held in Geneva from 13 May to 5 June 1985. Following that session, the General Assembly of the United Nations invited the Secretary-General of UNCTAD and the President of the Conference to hold consultations with interested Governments with a view to identifying appropriate solutions to the issues outstanding in the draft code of conduct. */ Most of the issues still outstanding in the draft code are to be found in chapters 4 (restrictive practices) and 9 (applicable law and settlement of disputes).

The present document is a collection of recent material relating to the negotiations on the code of conduct on the transfer of technology. It includes a report by experts invited, in their personal capacity, to express their views on the issues outstanding in the negotiations on the code and the papers prepared by the same experts on the issues outstanding in chapters 4 and 9 of the draft code.

The views expressed in this document are those of the authors and do not necessarily reflect the views of the UNCTAD secretariat.

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*/ The text of the draft code of conduct is reproduced in document TD/CODE TOT/47.

## Part one

## REPORT BY EXPERTS ADDRESSED TO THE SECRETARY-GENERAL OF UNCTAD */

### Introduction

1. General Assembly resolution 41/166 of 5 December 1986 requested the Secretary-General of UNCTAD to submit a report to the General Assembly at its forty-second session on progress made in consultations with Governments on the issues outstanding in the draft International Code of Conduct on the Transfer of Technology, aimed at finding solutions to those issues. In order to assist in the preparation of the said report to the General Assembly, the Secretary-General of UNCTAD invited a number of experts to Geneva to provide advice on the nature and consequences of the present difficulties in the negotiations, and to suggest appropriate solutions to the issues outstanding, as well as possible means of concluding the negotiations. The experts, who were invited in their personal capacity, were Mr. Luiz Olavo Baptista (Brazil), Mr. Carlos Correa (Argentina), Mr. Joel Davidow (United States of America), Mr. François Dessemontet (Switzerland), Mr. Ike Minta (Ghana) and Mr. Stanislav Soltysinski (Poland). In order to provide a basis for the discussions, papers on different aspects of the Code, mainly chapters 4 and 9, were prepared by the experts. Mr. Soltysinski was not able to attend the meeting, but his paper was taken into consideration in the discussions. Mr. A. Thrush, International Chamber of Commerce, contributed his comments. The experts met from 24 to 28 August 1987. The main issues discussed were the chapeau of chapter 4 of the Code, dealing with restrictive practices in transfer of technology transactions, and paragraph 9.1, dealing with choice of law.

2. The observations and conclusions of the experts are set out below.

### I. The origins and evolution of the Code negotiations

3. During the late 1950s and 1960s, the transfer of technology to developing countries increased substantially. While appreciating the beneficial effects of this transfer of technology, the national authorities of some developing countries perceived that certain practices associated with transfer of technology transactions were abusive or contrary to national development needs. It appeared to them that these unacceptable practices arose either because of the imbalance in the respective bargaining powers of the licensees and licensors in these transactions or because of the absence of sufficient regulation. In order to remedy this situation, they adopted national legislation regulating technology transfer transactions and proscribing

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*/ The present report to the Secretary-General of UNCTAD was prepared by consultants invited, in their personal capacity, to express their views on the issues outstanding in the negotiations on an international code of conduct on the transfer of technology. The report was originally circulated to Governments, after consultations with regional groups' co-ordinators and China, under the symbol UNCTAD/TT/Misc.74 of 8 September 1987.

certain restrictive practices connected with such transactions. At the multilateral level, developing countries promoted initiatives for the adoption of an international code of conduct on the transfer of technology. These developments took place during a period of relatively high tension between host Governments and suppliers of foreign investment and technology.

4. The main impetus to the negotiations on the draft Code was provided by the General Assembly in 1974 in its Programme of Action for the Establishment of a New International Economic Order (resolution 3202(S-VI)), which refers to the adoption of an international code of conduct on the transfer of technology responsive to the needs of developing countries. Thus, the Code was seen from the start as primarily aimed at dealing with an aspect of North-South economic relations; but it was soon decided that its character and application should be universal. During the period 1976-1980, a large number of meetings took place, first an Intergovernmental Group of Experts, and after 1978, the United Nations Conference on the Code, and significant progress was achieved in the Code negotiations, resulting in agreement on a number of important issues. From 1980 onwards, however, progress in the negotiations has considerably slowed, and no agreements were reached on the outstanding issues at the sixth session of the Conference in 1985. Since then, consultations have taken place to consider various options for completing the work.

## II. The changing environment of international transfer of technology

5. The experts believe that further negotiations on the Code would have to take into account important changes that have occurred since the inception of the negotiations.

6. During the 1980s, a number of significant changes have taken place in developing countries regarding foreign investment and transfer of technology regulations. Burdensome foreign debt, a sluggish economic development, and the low rate of investments have, among other factors, propelled a shift in emphasis from control-oriented to encouragement-oriented foreign investment policies. A number of countries have substantially modified or eliminated fade-out obligations, relaxed limits on profit remittances, opened foreign participation in previously closed sectors, and adopted other measures aiming at liberalizing their regulations. Policy changes are particularly marked in some Latin American countries, as well as in planned-economy countries in Asia and Africa. In the area of transfer of technology regulations, the application of existing regulations has been considerably relaxed in some developing countries, consistent with the new mood prevailing in such countries with regard to foreign investment.

7. On the other side, important developments have taken place in developed countries in connection with intellectual property and anti-trust laws. The emergence of new technologies, the critical role played by technology in world competition, and the drastic shortening of technologies' life-cycle, have fostered changes in the conception and extent of rights conferred under intellectual property. Three main trends can be discerned. First, there is an increased willingness to broaden the scope of intellectual property protection to new phenomena, like software, biotechnological products and integrated circuits' layouts. The existing legal framework seems in some important respects inadequate to cope with the new challenges. Second, in order to solve the difficulties and gaps of the existing legal system, an increased attempt is made to reinforce the rights conferred thereunder,

including the adoption of anti-counterfeiting measures. Third, these new intellectual property problems have created pressures for international solution. For example, consideration of intellectual property issues has been included for discussion in the framework of GATT. It should also be noted that the nature, cost and rapid obsolescence of new technologies requires in many cases their quick application and recovery of research and development investments. This situation gives rise to other modalities of commercialization in which protection of secrecy and contractual obligations have more practical importance.

8. As regards anti-trust law, changes in interpretation and enforcement have occurred in many developed countries. The perceived need to enhance the international competitiveness of national firms and encourage research and development and innovation has led to a more permissive approach to joint research arrangements and licensing restrictions.

III. Role and relevance of the Code

9. The relevance of the Code in a continuously changing global environment was also considered from the point of view both of Governments and of parties to transfer of technology transactions. Despite the tension between the preference for a free market for technology transfers, for minimum regulation, and for protection of technology suppliers, as opposed to the emphasis on regulation and control, there was thought to exist at present sufficient common ground to warrant the creation of a global framework of norms and standards for transfer of technology.

10. These norms and standards seek not only to influence the behaviour of technology suppliers, but also to establish universally acceptable standards by which the treatment of technology suppliers may be judged, as well as a common framework for the transfer or licensing of industrial property rights. In the context of an interdependent world economy, such a common framework would greatly enhance the stability and predictability needed for the free flow of technology among nations. Since national regulations might grow even more diverse in the absence of international standards, technology suppliers would not necessarily face a world of minimum regulation if the Code were not to be adopted. Therefore, the very creation of a common frame of reference for national regulatory régimes would in itself constitute a positive development even from the point of view of technology suppliers.

11. With an agreed Code, the flow of technology transfers to developing countries would be encouraged to the extent that the regulatory standards are not only harmonized, but also reasonable. In this respect, as pointed out above, there is an increasing tendency on the part of the developing countries themselves towards liberalization of their national regulatory régimes in order to encourage increased investment flows in pursuance of their development objectives. Such encouragement of technology flows is clearly compatible with the commercial objectives of technology suppliers, as well as with the foreign economic policy objectives of developed countries.

12. An effort to balance the various interests is already reflected in the draft Code. For example, chapter 3 of the draft Code sets standards for Governments, e.g. fair treatment, protection of industrial property, etc., while chapters 4 and 5 set standards for parties. Within chapters 4 and 5,

the negotiated text describes both what is not justified and what is justified in contractual arrangements. However, this balanced approach will not have its full beneficial effect until the Code is concluded and finally adopted.

## IV. Chapter 4 of the draft Code: Restrictive licensing practices

13. From the beginning, a centerpiece of the proposed Code has been a list of restrictive licensing practices to be avoided. Most of the practices listed in certain early drafts of the Code came from the regulations of some developing countries. However, these regulations used as one reference point anti-trust rules and decisions of developed market-economy countries.

14. Although it was possible to reach nearly full agreement on a common list of practices, it was more difficult to formulate a title for the chapter and a "chapeau", or introductory section, which would set forth an analytic framework for determining when certain practices would be acceptable rather than objectionable.

15. The developing countries, based on their own experience, viewed transfer of technology regulation as a continuing policy related directly to the control of foreign investment. The purpose of such regulations was not so much to preserve competition as to balance bargaining strength, encourage national development and further export goals. The regulations were applied to some extent to parent/subsidiary transactions and were generally not applied to purely domestic transactions. Many of the developing countries did not have anti-trust legislation or had seldom enforced it in the licensing context.

16. The developed market-economy countries, with a few exceptions, had generally not regulated transfer of technology by means of special legislation. However, most of these nations did have an anti-trust law; and in certain of them there was a well developed jurisprudence regarding anti-trust and licensing. This jurisprudence presumed licensing to be a useful, legitimate activity which will inherently be restrictive to some degree. Under this system, a license restriction would be offensive only when the limitation of competition goes beyond the need of the licensor to protect and exploit its intellectual property rights and would significantly lessen competition in a relevant market.

17. During the negotiations, it developed that the chapeau might need to deal with as many as four distinct topics: (1) a general standard for defining what restrictions are unacceptable; (2) a list of relevant factors to be considered in judging reasonableness; (3) a statement concerning the applicability of chapter 4 to restrictions among subsidiaries and a parent, and (4) a statement clarifying the relation between the chapter 4 rules and national laws or regulations which were different.

18. The basic standard is to state what kind of practices chapter 4 condemns. It seems agreed that chapter 4 is addressed to licensees as well as to licensors. In any event, there is little doubt that the chapeau must include some phrase to the effect that "parties to international transfer of technology transactions should refrain from the following practices ...".

19. The second half of the basic rule clause in most drafts usually deals with the idea of injury or restriction. There are numerous concepts of what interest may be adversely affected, e.g. (a) competition; (b) technological or economic development; (c) the transfer of technology itself. Most discussion has centered on the first two alternatives.

20. The experts were of the view that at the present stage of negotiations, and in the light of the international situation and varying legal approaches at the national level, it was not feasible to provide for a development test with no competitive analysis as the universal standard applicable to all nations, including those which follow an approach based on competition.

21. It was recognized that both the competition test and the development test presumed that a licensee freed from unjustified restraints on its competitive freedom would perform more effectively in international trade or national markets, or in research and development. Both tests would condemn a number of the same practices in equivalent situations. The experts believed that the acceptance of a chapter based on a competition test, even if it condemned fewer practices in itself, would in some cases supplement and complement national law and remedies and would not derogate from national discretion to employ a development test and thereby to deal with other practices not primarily raising competitive concerns. It was therefore concluded that since the Code by its terms (see section 2.2(ix)) does not supersede national law, a standard based on the concept of an undue restraint of competition could provide a basis for agreement. Also, the standard should make clear that an anticompetitive practice would be of significance for the purposes of the Code when such a practice would be likely to adversely affect trade or development.

22. It was concluded that a competition test would render this chapter logically inapplicable to transactions among firms under common control, whose rational management almost always restrains rivalry within the group. It was recognized, however, that chapter 5 would be applicable to such transactions, and national laws using a development test would continue to regulate such relationships.

23. The development of the negotiation has led to the conclusion that if restrictions in technology licenses are to be judged according to a rule of reason or in regard to whether they are justifiable, there should be some indication of the factors to be considered in making such an evaluation. Previous formulations have referred to the need to consider all relevant circumstances and have sometimes referred to the interest of the recipient country or the effect on its development. The experts believed that the list of factors should refer to the legitimate interests of the parties, the scope and duration of the rights involved, and the need to encourage the transfer of technology, as well as the probable effects on trade and development.

## V. Chapter 9 of the draft Code: Applicable law and dispute settlement

24. The original text proposed by the developing countries provided that technology transfer arrangements be governed with regard to their validity, performance and interpretation by the laws of the technology-receiving country. This country should exercise legal jurisdiction over the settlement of disputes pertaining to those arrangements. Arbitration would be permitted

only if the laws applicable to the technology transfer agreements do not exclude recourse to arbitration. On the contrary, developed market-economy countries stressed party autonomy and arbitrability of disputes relating to transfer of technology agreements.

25. After lengthy negotiations, the present draft on chapter 9 as proposed by the President of the Conference in its sixth session reconciles the interests of developing and developed countries. It allows for recourse to arbitration whenever the relevant laws of the parties concerned admit arbitration of a dispute (9.3). It recommends the use of internationally accepted rules of arbitration such as UNCITRAL rules (9.4). The States are encouraged to recognize and enforce arbitral awards (9.5). Imperative rules on jurisdiction are no longer mentioned in the draft Code.

26. This positive approach to the arbitrability of disputes is paralleled by recognition of party autonomy in the choice of the law applicable to the agreements on transfer of technology. The principle which is laid down by para. 9.1 as proposed in all drafts currently under consideration is that the parties may, by common consent, choose the law applicable to their contractual relations. The experts agreed that under many legal systems, party autonomy cannot be deemed to be absolute, so that it is proper for the Code to state that a choice of law by the parties will not limit the application of rules of national legal systems which cannot be derogated from by contract (text submitted by the President of the Conference during its sixth session). It did not appear to be necessary to specify that the national legal systems that could limit party autonomy must have a substantial connection with parties or with the transaction, since this is obvious. Mention of the forum did not appear to be crucial because it is implicit in the text.

27. The experts concluded that para. 9.1 as proposed by the President during the sixth session */ is a statement that adequately reflects prevailing conceptions on the matter and would help to create a legal climate conducive to the transfer of technology.

## VI. Conclusion

28. The experts believed that important changes are occurring in the transfer of technology and in attitudes towards regulation of transfer of technology. These changes justified a certain shift of emphasis in the negotiation of a code of conduct, but did not alter the desirability of achieving a code.

29. It was the view of the experts that the adoption by all groups of the approaches discussed above regarding chapters 4 and 9 of the Code may lead to the successful conclusion of the negotiations on the Code.

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*/ "Parties to transfer of technology transactions may, by common consent, choose the law applicable to their contractual relations, it being understood that such choice of law will not limit the application of relevant rules of national legal systems which cannot be derogated from by contact."

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## Part two

## NOTES BY EXPERTS ON THE OUTSTANDING ISSUES IN THE DRAFT INTERNATIONAL CODE OF CONDUCT ON THE TRANSFER OF TECHNOLOGY

### A. Chapter 4 of the draft international code of conduct on the transfer of technology: Alternatives for negotiation

by Carlos M. Correa

1. The purpose of this paper is to consider briefly the negotiating options available in connection with chapter 4 of the draft international code of conduct on the transfer of technology (hereinafter referred to as "the draft code"). The difficulties encountered in reaching a text acceptable to all groups are largely responsible for the failure to successfully conclude the process of negotiations which began more than 10 years ago.

2. The present situation concerning chapter 4 might be summarized as follows:

(a) All groups have clearly indicated the importance that they attach to the final drafting of this chapter. The possible alternative of adopting a code without it does not seem likely to find sufficient support in the international community, 1/ and in particular in the Group of 77. In fact, the conclusion of an international instrument on technology transfer without a special reference to the issue of restrictive practices would clearly fall short of expectations, given the efforts already made. It would, in addition, prevent such an instrument from having any substantial impact on the modalities under which such transactions take place in the North-South context. Finally, the absence of that chapter might be interpreted to mean that other instruments, in particular the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, are directly applicable in the context of this code of conduct;

(b) The difficulties that prevent any progress in the negotiation of chapter 4 are sufficiently identified. They relate mainly to three elements contained in the introductory paragraph of the chapter (chapeau): (i) the characterization of the practices to be avoided and the circumstances under which they should be avoided; (ii) the criteria determining whether a practice is restrictive or not for the purpose of the Code; and (iii) the applicability of chapter 4 provisions to transfer of technology transactions between related parties (affiliated parties/parties under common control). 2/ Out of these three elements, the last two are to a great extent dependent upon the first one, that is, how the practices are conceptualized. The conflicting views existing on this matter are one of the critical points for any further discussion on chapter 4. Two positions are at stake. The "competition approach" taken by Group B considers that practices listed are to be regarded as restrictive business practices and are to be prohibited or controlled on the grounds that they restrict competition. According to the "development approach", on the other side, practices listed in chapter 4 should be avoided where they either restrain trade or adversely affect the international flow of technology, particularly as either type of behaviour might hinder the economic and technological development of acquiring countries;

(c) As a result of intensive discussions and negotiations, many compromise proposals designed to solve the existing diverging views have been prepared and submitted for the consideration of the United Nations Conference on the Code at its various sessions. A number of those attempts constitute a good expression of skill, understanding of the underlying problems and imagination. Among them, the text under consideration at the end of the sixth session of the Conference 3/ would appear as quite a balanced and promising proposal. One of the Groups has already indicated, however, that at present it cannot adhere to it;

(d) The international context in which the draft Code negotiations are currently taking place is quite different from that prevailing at their inception. Most developing countries are subject to the heavy burdens imposed by foreign debts and constrained by sluggish economic growth or stagnation. During the 1970s, the oil crisis and the economic and technological performance of several developing countries provided a basis on which to discuss the conditions for a "new international economic order" (one component of which would be a code of conduct on technology transfer). The developing countries' capacity to effectively obtain such conditions today have been substantially eroded. It would be completely unrealistic to assume that there is any possibility for those countries to get concessions from the developed world in the course of multilateral negotiations such as those relating to the draft Code;

(e) Finally, and in connection also with point (d) above, it should be noted that matters relating to foreign direct investments and transnational corporations are currently undergoing a process of substantial liberalization in developing countries. The most striking example is perhaps that of the Andean Group countries, as a result of the recent revision of Decision 24. In Africa and Asia, likewise, a general relaxation of policies and legislation regarding transnational corporations can be found, the aim being to promote foreign investments and the acquisition of foreign technology. While those changes are more marked in connection with investment policies, they have also in practice affected policies concerning specifically the transfer of technology. 4/ On the other hand, a liberalizing trend is also observable in some developed countries as regards the enforcement of anti-trust principles, in particular with regard to the scope and criteria of application of the "rule of reason".

3. The possible alternatives for dealing with chapter 4 may be analysed in the light of the above five considerations. Leaving aside the hypothesis of completely excluding the chapter, two options exist: either a compromise can be obtained through drafting, or one of the approaches ("competition"/ "development") prevails.

4. It does not seem realistic to think that by way of skilful rewording it is possible to attain a consensus on matters pending in chapter 4 in the near future. As mentioned before, there is no reason to think that developed countries are prepared to make concessions on a concept that contradicts their own national policies and the strengthening of which is actively sought at the international level. The "universal character" of the Code - in fact sustained by the Group of 77 - does not facilitate flexibility in the developed countries' position. Given that the Code rules would apply to any North-North relationship, it does not seem logical to expect any willingness

on the part of those countries - particularly in the present international context - to partially accept a concept (the "development approach") that has no legal grounds in those countries. The rewording of the chapeau and other clauses, therefore, does not seem to offer a real way out to conclude the negotiations.

5. Furthermore, the relative weakness of developing countries in the international scenario makes it impossible to find a final solution based on the admission of the development test. In the confrontation of the two approaches, there is no real chance for developing countries to impose their own criteria. Moreover, if the Code negotiations are interrupted, it is likely that the issue of technology transfer will emerge in other forums, for example in GATT. This may imply the practical abandonment of the principles and provisions which have already been agreed upon under the draft Code negotiations and which are consistent with the developing countries' main expressed concerns and expectations. Given the different starting points, if new negotiations on the issue had to be initiated now, it would be extremely difficult to obtain better terms, and it is even possible that the progress made during the last 10 years of negotiations would be lost.

6. The analysis of the approaches at stake gives rise to two additional considerations. First, the "competition" approach has a history, national legal precedents, extensive jurisprudence, and even international recognition in UNCTAD and other forums. The concept underlying the "development approach", for its part, is generally determined by national authorities entrusted with the application of transfer of technology regulations in developing countries. The precise content and limits of the concept are, in fact, difficult to define in general terms, since they are strongly dependent on the development philosophy of each country. It cannot exhibit, either, a background comparable to the "competition" approach. Second, notwithstanding the differences in approaches, a more detailed analysis of particular restrictive clauses may indicate that there exists common ground which is covered under both of them. While, in effect, the adoption of either of the approaches would evidently imply different degrees of coverage of restrictive practices - more limited in the case of the "competition" criteria - a number of situations may be deemed as substantially dealt with under either of them.

Conclusions

7. There is no real room to continue a drafting effort aimed at reconciling the diverging positions on chapter 4. The situation of developing countries in the present international situation, the universality of the Code and the openness of the concept underlying the "development test" permit one to assume that developing countries have no chance of obtaining the approval of their position.

8. However, due consideration should be given to the fact that the two discussed texts should not be viewed as mutually exclusive alternatives. A number of the typical restrictive clauses are covered under both approaches (though, obviously, in a more limited way under the "competition" approach). The acceptance by all countries of this latter approach will ensure, at least, the recognition of the illegality of some of the practices that hinder developing countries' technology transfer transactions. In addition, if - as proposed during the sixth session - a clear and general reservation as to

national law is included, other practices may be declared condemnable in accordance with that law. It is time, therefore, to consider whether it would not be convenient for developing countries to speed up the adoption of the Code in its present draft text, even if the "development" test is not reflected therein. Such an action might transform some failure into partial success by providing a basis for the evolutionary development of international law on technology transfer, including a set of typical restrictive practices. Furthermore, the content of other chapters of the draft Code (particularly on national legislation and rights and obligations of parties), which to a great extent reflect developing countries' views, might well justify the relative loss to be suffered in chapter 4.

9. In sum, a final decision on chapter 4 cannot be taken in isolation from the current international situation and from the consideration of the Code in its totality. If it is not possible to obtain now all the expected results, the progress made so far deserves to be preserved. This would not imply, of course, that in the future, if the prevailing conditions allow it, new steps could not be taken to build up an international legal order more suited to development objectives and the needs of developing countries.

## B. Solutions for remaining issues in chapter 4 chapeau

by Joel Davidow

### Introduction

10. Ever since the conception of an international code of conduct on the transfer of technology, a centrepiece of the desired document has been a list of restrictive licensing practices to be condemned and avoided. Most of the practices listed in early drafts of the code (particularly Group of 77 drafts) came from the administrative regulations of Mexico and Brazil. However, those regulations were influenced by anti-trust decisions and guidelines in the United States and the EEC.

11. In the early phases of the transfer of technology Code negotiation, it was possible to reach partial agreement on a common list of practices. It was more difficult to formulate a title for the chapter and a "chapeau", or introductory section, which would set forth an analytic framework for determining when certain practices would be acceptable rather than objectionable.

12. The basic dispute was between the Group of 77 and Group B. The developing countries, based on their own experience, viewed transfer of technology regulation as a continuing policy related directly to the control of foreign investment. The purpose of such regulations was not so much to preserve competition as to balance bargaining strength, encourage local development and further export goals. The regulations were applied as often to parent/subsidiary transactions as to any others and were generally not applied to purely local transactions. Most of the Group of 77 did not have an anti-trust law or had seldom enforced it in the licensing context.

13. The Group B nations, with the exceptions of Japan and Spain, had generally not regulated transfers of technology as part of foreign investment. Many of the Group B nations had no special rules for regulating

inward foreign investment at all. Most of the Group B nations did have an anti-trust law. In certain important Western nations such as the United States and the EEC countries, there was a well developed jurisprudence regarding anti-trust and licensing. A central premise was that licensing is a useful, legitimate activity which inherently must be restrictive to some degree, with a guiding principle being that a restriction offends the public interest only when the limitation of competition goes beyond the legitimate need of the licensor to protect its intellectual property rights.

14. During the negotiations, as influenced by the successful negotiations for a code of conduct for restrictive business practices, it developed that the transfer of technology code section on restrictive licensing practices should have a chapeau covering four distinct topics:

(a) A general standard for defining what restrictions are unacceptable;

(b) A list of relevant factors to be considered;

(c) A statement concerning the applicability of chapter 4 to restrictions imposed on subsidiaries by a parent, or agreed to among affiliated firms; and

(d) A statement clarifying the relation between the chapter 4 rules and national laws or regulations which are tougher or more permissive.

15. For purposes of simplicity of discussion, this paper will discuss the chapeau problem in terms of the four separate paragraphs, and will suggest specific draft language for each. It should be noted that the author is not personally wedded to the four paragraph form and believes that a useful and agreeable chapeau could very well be conceived which has as few as one or two paragraphs.

1. The basic standard

16. The purpose of this paragraph is to state what kind of practices the transfer of technology code, or at least chapter 4 of the code, is concerned with. The second purpose is to suggest a standard for judging any practice.

17. It seems agreed that chapter 4 is addressed to parties, rather than to Governments. It also seems agreed that it is addressed to licensees as well as to licensors, even though it is sometimes presumed that restrictive conditions are imposed by the licensor or licensee. In any event, there is little doubt that the chapeau must begin with some phrase to the effect that, "parties to international transfer of technology transactions should refrain from the following practices ...". Even here, there are some issues: the Group of 77 has sometimes preferred "shall" to "should" on the grounds that the transfer of technology code should sound compulsory rather than voluntary, but this issue does not seem crucial at this time. Group B nations would like the rules to apply equally to domestic transactions of a similar type. However, this concern will probably be resolved in a preambular clause relating to the applicability of the whole transfer of technology code.

18. The second half of the basic rule clause usually begins with the word "when" and then deals with the idea of injury or restriction, e.g. when the

practice injures, restricts or adversely affects [something]. There are numerous concepts of what interest may be adversely affected, namely (a) competition; (b) the licensee; (c) the technological, export or economic development of the licensee's country; or (d) the transfer of technology itself. My conception is that since the chapter incorporates anti-trust rules (which in turn influenced the transfer of technology regulations of Mexico and other developing countries), the first standard must deal with competition. Then, to justify international concern, there must be an effect of the anticompetitive restraint on international trade or development. A fine point arises here concerning whether to refer to international trade or development or to the trade or development of the licensee's country. In a cross license or patent pool situation, all parties are licensees as well as licensors. Moreover, a restriction prohibiting, for instance, the licensee from exporting a component to a third country may injure the trade or development of that third country.

19. The present compromise formulation refers to restrictions which "adversely affect the transfer of technology". With all due respect to the good intentions of the authors and supporters of this phrase, it makes no sense and furthers the interest of no group. Contractual conditions may encumber the transfer of technology, but they do not adversely affect it. Such conditions are objectionable, if at all, because they adversely affect international trade in the goods resulting from the technology. The technology gets transferred, perhaps very well, regardless of export or tying or price restrictions on the licensee. Exclusive dealing, or restrictions on research, may adversely affect the development of local technology, but they do not adversely affect the transfer of the licensed technology. Accordingly, my suggested formulation concentrates on whether the restrictions unjustifiably restrain the competitive freedom of the licensee and whether such restriction is likely to significantly restrain international trade or development. As I have noted, the reference to "international" rather than licensee nation trade or development is an effort to raise the question as to whether the restriction is good or bad for the world economy as a whole, since an export restriction on one country might well be justified as necessary to protect a smaller country or a weak licensor, etc. Accordingly, I suggest a formulation such as:

> 4.1 In furtherance of the objectives and principles of this code, the following practices should be avoided when under the circumstances of an individual case they are unduly restrictive of competition, adversely affecting international trade or the economic or technological development of the countries affected by the restriction.

2. <u>The factors to be considered</u>

20. The development of the negotiation has led to the conclusion that if restrictions in technology licenses are to be judged according to a rule of reason or in regard to whether they are justifiable, there should be some indication of the factors that are to be considered and weighed in making such an evaluation. Previous formulations have referred to the need to consider all relevant circumstances and have sometimes referred to the interest of the recipient country or the effect on its development. I believe that it is crucial that the list of factors refer specially to the legitimate interest of the parties and the need to encourage the transfer of technology. In most

technology transfer disputes, one is weighing the licensor's perceived need to impose a certain restriction to protect certain commercial interests of its own or to ensure the profitability of the transaction, as against the desire of the licensee for greater commercial freedom and the interest of the recipient Government in export promotion, use of local labour and resources, etc. The preamble to a chapter cannot in itself tell you how each such balancing should come out, but it certainly should state clearly what factors must be weighed on each side of the balancing test. Accordingly, I suggest a formulation such as:

> 4.2 Evaluation of whether a practice is justified in an individual case should take into account all relevant circumstances, the legitimate interests of all parties and of the host Government, and the overall purpose of the transaction, particularly encouragement of the transfer of technology.

3. The related firm issue

21. The question of rules governing parent-subsidiary relations was a major problem in formulating the set of principles and rules on restrictive business practices (RBPs), and it has threatened to derail the transfer of technology code. The subject has troubled and confused judges in Western countries and has baffled delegates with its complexities.

22. The fundamental problem is that applying RBP rules to the relations of independent, potentially competitive firms does not conflict with a régime of open investment, but that condemning various types of restrictions placed by a company on a foreign company it owns amounts to regulation of investment, in which case there are no well-developed standards except national interest - a standard too particularized to provide neutral criteria for international conduct.

23. There seems to me to be only two clear and rational solutions. The first, for which I provide a suggested text, is simply to adopt the competition text and partial exclusions contained in the RBP code text. The second is to agree to move the issue of parent restrictions on subsidiaries to the transnational corporations code, which does deal with investment issues, while limiting the transfer of technology code to relations among unaffiliated licensees and licensors. Accordingly, I suggest a formulation such as:

> 4.3 While the provisions of this chapter apply to international transfer of technology transactions involving any party, practices between related parties, particularly those under common control, should not be considered unduly restrictive of competition unless adversely affecting competition with unaffiliated enterprises or involving anticompetitive abuse of a dominant position of market power.

4. The stricter national law issue

24. A further solution to the parent subsidiary issue in the transfer of technology code has involved articulation of the concept that the code does not justify breach of local laws which are stricter. Of course it does not, but the text is somewhat unsatisfactory. Firstly, the text makes no reference to how Governments should act in light of the code (presuming they have accepted it).

25. The code text, for instance, condemns tying but allows it when connected to a warranty. A national law which condemned all tying would be stricter than the code. Clearly, a nation that accepted the code would be acknowledging that its law should conform to the principles of the code at least where the code rule was express, rather than implied or unstated. Of course, so long as the code is voluntary, all nations retain the right to have deviant legislation. The principle that transnational corporations should obey unrepealed national law - even law which "should" be altered to meet international norms - is obvious and is stated in the RBP rules. There is no harm in restating it, but a balanced text should give priority to the desirability of harmonizing national law with the code.

26. The text I propose is intended to achieve that goal. It reads as follows:

> 4.4 While nations adhering to this code should seek to conform their laws or regulations concerning technology transfer restrictions to the principles of this chapter, nothing in this chapter should be construed as authorizing or encouraging violations of applicable national or regional law which is stricter than the rules set forth in this chapter.

## C. Notes on the draft code on transfer of technology

by Luiz Olavo Baptista

27. These notes will deal with aspects of the draft international code of conduct on the transfer of technology, especially chapters 4 and 9. The nature and consequences of the current difficulties and the possibilities of finding adequate solutions will also be examined. An attempt has been made to face the problem by reflecting on its main aspects: motivations, effects, aspirations; no review of legal studies or the progress of negotiations will be made, nor is paper meant to reflect final solutions.

### 1. The nature of current difficulties

28. The code represents a developing country's initiative and is included in the general framework of the effort to reshape and codify international law and the wish to change the terms of international relations. In this sense it represents, mutatis mutandis, part of the same effort made during the first decades of this century to set limits on the individualism and liberalism that inspired the "Code Napoléon" and similar codes in other countries. It actually reflects an Aristotelian Thomist concept of the nature of justice, shown under three aspects: retributive, distributive and social. It was meant to restore or introduce social concerns into international economic relations. And it is exactly there, in the inclusion of the social dimension in the practice of legal relations, that the source of all difficulties is to be found, be it in the preparation of this code or in other rules and standards of international law.

29. In effect, the traditional notion of the State - with limited functions - is opposed to that of the modern State, in its socialist or social versions, in the same way as free will is opposed to the requirements of social interest. It is evident that the supporters of opposite positions are backed by peculiar economic conditions which reinforce or justify their respective intellectual attitudes.

30. Such conflict pervades the discussion of the contents of the code. The consequences of technology acquisitions are serious and the transfer process, as it takes place now, is a constant source of conflict, whether local and between private companies, or between the latter and States, or among the latter. That is why there appeared world-wide policies or legislation aimed at screening or regulating technology transfer operations and the underlying contracts. Nevertheless, it is not only the developing countries that are involved in intervening in the technology transfer process. Others do it too, albeit with different objectives, even of a political nature, through prohibitions on exports, rules to prevent abuses of a dominant position, and so on.

31. On the other hand, recourse to industrial property rules and anti-trust laws is proving to be increasingly inadequate. Everything therefore leads to the belief that the adoption of the code, even in the stepped down form of implementation proposed, should be an answer to many problems now existing, corresponding chiefly to the seemingly convergent will of all the members of different regional groups to promote the flow of technology.

32. However, the reasons behind this will are different and create difficulties in establishing the final text. It seems clear, though, that there is a general will to reach an agreement and that the negotiation intended to achieve it is of a mixed type, distributive-integrative, with alternation and predominance of one or another aspect, depending on the point under discussion.

33. It is precisely in chapters 4 and 9 that the distributive aspect appears more emphatically, creating greater difficulties. In the other chapters, a broad consensus has been obtained, even though with the sacrifice of conciseness and accuracy of wording. Redundancies, repetitions and variations around the same theme impart a kind of baroque style to stretches of the code. However, perhaps therein lies the formula for a solution.

34. The conflicting view concerning restrictive practices results in the adoption of varying legal positions, sometimes formalistic and sometimes functional, as an answer to the need to assert economically and politically different standpoints. Thus, the treatment to be given to subsidiaries and affiliated companies in general is seen in this chapter in a formalistic way by certain States, but these same States look at other topics in a functional way, and this is a critical point.

35. The concept of technology transfer in the draft code involves two aspects: that of the operation in itself, which seems to have been settled, and that of its internationality. Here the transit through frontiers is apparently the point of convergence, but the differences lie in the reach of such transit: would the code apply to entities under foreign control (subsidiaries and branches) in their operations inside a State? It seems obvious that it is impossible to separate the solution given to such a question from the one to be given to the duties of the States with regard to such controlled entities and with regard to a realistic view of the problem. If, formally, a subsidiary appears as a corporate entity (for reasons of operating facility), from the functional viewpoint it is but a unit in the overall system making up the controlling company. The adoption of a formalistic position would tend to open the door to all kinds of indirect

deals, including frauds, and to reactions against such actions at the level of municipal law. Would the States which stand up for considering subsidiaries as local entities of the host country, on formal grounds, be ready to renounce their protection of such entities which, from a functional viewpoint, are actually their own subjects? The proposal by the Secretary-General of UNCTAD and the President of the Conference in August 1983 addresses this problem, giving a logical answer.

36. In the restrictive business practices provisions, we find this problem posed in other terms in the so-called "intra-enterprise transaction", linked to that of the extent of the prohibition. The extent of the prohibition lies not in the formal legal treatment given, but rather in the functional effects of the practices, whether or not such effects are to be taken into account.

37. If the countries of Group B did not have any internal differences to reconcile (as is the case with other regional groups), the solution would be easier. In effect, the notion of "abuse of dominant position" is the one inspiring the application of articles 85 and 86 of the Treaty of Rome, whilst the notion of anti-competitive practices, seasoned by the rule of reason, is dominant in the United States. They differ in their enforcement by the competent courts. It is obvious that the concept applied by the European courts is closer to the one proposed by the developing countries, even though the political motivations are different.

38. On the other hand, the internal differences within the Group of 77 reflect a certain lack of realism in the idea of the appraisal or screening of technologies, which in the practice of many countries may not go beyond good intentions and the written text. This is important because there is a trend today to abandon at least partially the traditional mechanisms of industrial property in favour of others which are more suitable to new technologies that become obsolete much faster; it is in the newest fields of computer science and biotechnology that this is revealed more clearly. The new mechanisms are very close to monopolistic policies.

39. Another problem has more remote effects. If alternately formalistic and functional criteria were adopted, as happens for instance in chapters 1 (especially 1.4) and 4, there would be difficulties in enforcing the code as a whole. Perhaps the most serious consequence for enforcing the code would be the lack of conceptual and logic unity. The force of any legal (or programmatic) rule lies in its internal consistency. It may be possible for political or ideological manifestations to be inconsistent or incoherent, but not for legal rules.

40. In chapter 9, the same picture is repeated. On the one hand there is an aspiration to the enforcement of public policy rules and on the other hand the wish to ensure the free will of the parties as to the applicable law, maybe with the sole limitation that such applicable law should maintain a substantial relationship with the business and the parties.

41. It seems clear, however, that the countries of Group B would not agree to eliminating the possibility of imposing restrictions originating in national security on certain transfer of technology transactions. But, what is national security if not an aspect of public policy, and what is the aspiration to development if not a facet of national security? The difficulty

then lies not in the acknowledgement of the logical identity between the two concepts but in the wish of one party to deny the other that which it is granted or claims for itself.

42. Again, it is conflicting economic interests and the remains of a non-integrationist view of the world economy, and the refusal of the idea of interdependence in international relations, that create difficulties. In short, it is the contrast between interdependence and the interests of nationalism, which will be superseded only when the balance of advantages is mutually perceived.

2. Consequences of the difficulties and prospects

43. If the positions heretofore adopted persist, one can imagine that either the code negotiations will come to a deadlock or they will result in an instrument that will have little effect. Such low effectiveness would be reflected in its legal nature - a resolution of the General Assembly - or in its contents. An alternative would be to adopt one of the versions of the code regionally and, as more adhesions are successively obtained, to widen its sphere of enforcement, so as to make it mandatory in practice. Such is the attempt made in a limited way by the Andean Group in the area of technology and investment. Of course, this is but an imperfect and unsatisfactory solution.

44. Another way would be to proceed with the discussions and to examine the conflicting points with comparative studies, showing that from the standpoint of the States there are basically no rational motives to disagree and identifying for parties (not States) the advantages counterbalancing the apparent disadvantages of the code. The truth is that contractual freedom of will exists but in a limited way in international relations and tends to disappear in critical areas of national policy. It is therefore better that it be limited by rational and flexible rules of conduct.

45. An example of this are the anti-trust rules, which are only operative and effective in the countries generating and exporting technologies. The counterpart of the acknowledgement of such a reality and the acceptance of universal rules controlling the abuse of a dominant position would be the greater stability and the legal certainty resulting from the existence, on the international level, of a single legal system regulating the deals involving transfer of technology, nowadays treated in a fragmentary and sometimes contradictory way.

46. Such an approach is valid with regard to the rules in both chapter 4 and chapter 9, where the reverse of the coin would be the world-wide proliferation of sometimes unrealistic provisions, impeding trade in technology and consequently international commerce.

47. It would be important for the countries which largely generate technology to try to pay attention to the utility that the code will then have when the inadequacies of the traditional system of intellectual and industrial property become more obvious. In effect, the efforts being made for the protection of innovations in computer science, centered on recourse to the systems of patents or copyright, clearly show the inadequacy of such methods. Patents universally do not have to rest on a material element, as they protect ideas. Copyright protects the form but is not dependent on material substance.

48. The practical consequences are also complex: how, in the copyright system, can someone be prevented from copying a computer programme for his own use? The publishing industry itself has already felt the effects of copying machines, just as the entertainment industry sustains losses resulting from the use of means of magnetic reproduction (cassettes and video cassettes). Only the counterfeits, the copies for commercial use, can be subject to control, although those resorting to the courts face high costs. In the field of biotechnology, the lack of legal mechanisms has led to practices of secrecy and the creation of de facto monopolies, as is the case in the production of certain seeds.

49. The possible answer to such difficulties is clearly in contracts for the assignment or transfer of technology and the possibility of spreading voluntary control measures to achieve adequate law enforcement.

50. Another aspect favouring an agreement is the interdependence of technological advances. A maker of video cassette devices, for instance, is in need of the existence of tapes for the users of his machines and also parts for servicing his products. Evidently such needs, when linked to those of the market, will generate conflicts of interest if one of the suppliers in the chain acts in a monopolistic manner. Such conflicts are settled either by pressures or by recourse to "clones" of products, or by the "piracy" stimulated by those interested, with losses for those who developed the technology.

51. Another factor is the utility or the advantage of licensing technology, nowadays destined to a swift obsolescence, in order to recover the costs of its development.

52. It therefore appears that the axis of the interest for adopting the Code will pass progressively from the developing to the developed countries. Lastly, the systematic survey of the consensus obtained in several previous international instruments (resolutions of the General Assembly and treaties, such as the Law of the Sea Treaty) may also provide formulae already sanctioned.

## D. Outstanding issues in Chapters 4 and 9 of the draft code of conduct on the transfer of technology

by Stanislaw J. Soltysinski

### 1. Introduction

53. The lack of any meaningful progress at the sixth session of the United Nations Conference on an International Code of Conduct on the Transfer of Technology held in Geneva in May, 1985 underscores the lack of political will to achieve a compromise and overcome genuine differences between the economic policies of developed and developing countries. Indeed, major difficulties stem from the conflicting socio-economic approaches adopted by Governments in dealing with transnational transfer of technology. These differences make it virtually impossible to reach an agreement on a set of uniform rules that would require the Governments concerned to make substantial changes in their existing transfer of technology regulations and anti-trust laws. The requirement of observing an agreed set of rules would come into play (albeit with different consequences) with either a legally binding or a

voluntary code. A non-binding instrument, however, would entail a variety of enforcement alternatives, especially if supported by an international institutional machinery reviewing the implementation of the code. 5/

54. The developing countries may feel frustrated because they have finally agreed to negotiate a basically voluntary code to be adopted by a resolution of the General Assembly, thus postponing the issue of its binding character until a review conference is convened five years after the adoption of the code. Moreover, they have made a number of concessions, especially in chapters 4, 5 and 9. Despite these significant advances, the three groups are still far from agreement on the contents of chapters 4 and 9.

55. It is worth emphasizing that the two most significant areas of disagreement (restrictive practices and choice of law and choice of forum) concern issues that are subject to divergent mandatory rules in many developed and developing countries. It appears to me that at some stage of the ongoing negotiations, each of the three regional groups has tacitly assumed that it should not be required to alter its domestic or regional laws regulating transnational transfer of technology transactions, should the General Assembly adopt the code. One of the goals of this paper is to analyse the extent to which these assumptions allow for a genuine compromise benefiting all countries (especially developing ones) by being more responsive to their needs. It is worth underscoring that the chapters of the code upon which agreement has been reached cover issues that are rarely subject to mandatory domestic laws or international agreements - e.g. principles and objectives, national regulation of transfer of technology transactions, responsibilities and obligations of parties, special treatment for developing countries, and international collaboration.

56. This paper analyses the various positions of the regional groups on the outstanding issues in chapters 4 and 9 of the draft code. Finally, it attempts to propose some solutions.

## 2. The threshold problem: the nature of mutual responsibilities and practical consequences of concessions made in chapter 4

57. In my opinion, a meaningful compromise in chapter 4 cannot be achieved as long as the three regional groups fail to clarify their positions regarding the potential impact of the adoption of the code by the General Assembly upon the responsibilities of Governments and parties. The present understanding that the Conference should not prejudge the legal nature of the code has more shortcomings than advantages. It is clear, however, that even in the event of a successful outcome at a future diplomatic conference, the code will probably operate for a foreseeable future as a set of "soft" international rules. Mutual concessions made within the framework of the UNCTAD conferences raise a practical question for every participating Government, namely, what steps should States take in order to fulfil their responsibilities under a legal instrument adopted by the General Assembly? While even a non-binding code would require Governments to honour their responsibilities under the code, the problem arises as to what forms of "persuasion" should be adopted by Governments vis-a-vis enterprises and instrumentalities existing within their jurisdiction. In the absence of a preliminary agreement on the expected or required domestic enforcement of the code during its non-binding phase, Governments will have difficulty negotiating in good faith.

58. The developed countries, especially Group B, "have agreed to negotiate codes of conduct as part of a 'package' or 'trade off', in which promises of good corporate behaviour are provided in exchange for assurances that developing nations will provide broad lattitude for freedom of contract and the operation of market forces, encourage investment and treat foreign enterprises without discrimination." 6/ Assume, arguendo, that the Group of 77 would accept the controversial proposal concerning the so-called anti-trust immunity for a broad spectrum of intra-enterprise collaboration, as demanded by Group B. Would such a concession obligate the Governments of developing countries to modify their existing laws accordingly? It is worth noting that proposals concerning chapter 4 submitted by the Group of 77 - which, in principle, favours the binding legal nature of the code - are based upon the assumption that the provisions of that chapter "should not be construed as justifying other practices or conduct by parties which are unlawful under applicable national or regional legislation". 7/ Adoption of this text would nullify any compromise embodied in this chapter that offers a broader or narrower immunity to any class of reasonable restraints of competition. Under such a code, each country would remain free to preserve domestic laws that run contrary to the agreed solution. 8/ It would even permit countries to enact new legislation that is inconsistent with chapter 4.

59. Thus, the analysed proposals of the Group of 77 and of the Chairman of Working Group I seem to be inconsistent not only with a binding option of the code but also with an agreed provision in chapter 8, which reads: "States which have accepted the code of conduct on the transfer of technology should take appropriate steps at the national level to meet their commitment to the code" (Art. 8.1). 9/ An unrestricted interpretation of this provision, based upon the general principles of interpretation in good faith, suggests that States should take all appropriate steps at the national level - including legislative ones - to gradually meet their commitments under the code. A similar interpretation of "soft" international obligations prevails, for instance, under the Helsinki Agreement. Moreover, some States have begun incorporation of agreed provisions of the draft code into their domestic transfer of technology regulations. 10/ If, however, there is a growing consensus that Governments that accept the code are not bound to pursue legislative initiatives to adopt their domestic laws to the code, then this principle should be spelled out in the code. This would inevitably reduce the impact of the code, but may facilitate a compromise.

60. Likewise, if the future negotiations are designed to achieve a meaningful global compromise, the developing countries should explore desirable concessions in exchange for accepting a narrower or broader concept of "intra-enterprise immunity". As noted above, the provision that "nothing in chapter 4 should be construed to supersede applicable national or regional law" would be largely self-defeating in this context, because the anti-trust laws of many developed countries offer enterprises almost unchecked freedom of action abroad, unless the action entails perceptible adverse effects at home. Indeed, developed countries sometimes even encourage domestic corporations to form export cartels. 11/ Accordingly, the nature of the code's effects on States should be clarified, regardless of whether the agreement is to be voluntary or binding.

61. It is often maintained that the substantive provisions of the draft Code can be divided into two categories: those relating to governments and those

addressed directly to parties. 12/ However, it is doubtful, for instance, whether the provisions of chapter 4 are directed only at enterprises. First, in principle, States (and not private parties) are the primary subjects of international agreements. Second, the successful implementation of rules aimed at the elimination of restrictive practices is virtually impossible without the participation of local or regional enforcement agencies. Furthermore, the hitherto contemplated provisions of chapter 4 include both proposals concerning practices to be condemned and practices that are justifiable (immune). While the elimination of forbidden practices requires at least indirect government pressure against enterprises, the implementation of any rule providing for the granting of immunity (e.g. immunities or exemptions for intra-enterprise understandings) can be given effect only through the policies of competent enforcement agencies. Therefore, States willing to meet their commitments in good faith would have to take the appropriate steps within their jurisdiction and competence with respect to all responsibilities arising under the code. Indeed, even the implementation of the agreed provisions of chapter 4, which specify exonerating circumstances that limit their scope of application (e.g. provisions concerning exclusive dealings, restrictions on use of personnel, restrictions on adaptations, exclusive sales or tying arrangements), requires the participation of judicial or administrative organs. Leaving it to private parties alone, on the assumption that nothing in chapter 4 should be construed as requiring the replacement or modification of existing national or regional laws, is unlikely to bring more uniformity or establish new universally applicable standards in the maze of inconsistent municipal and regional anti-trust laws and transfer of technology regulations.

62. In order to give the negotiations on outstanding issues in chapter 4 even a minimum of practical significance, the participating groups should agree on measures to be adopted by States to gradually bring their domestic legislation and/or enforcement policies into harmony with the agreed rules.

63. This paper aims to clarify the basic choices available. An in-depth discussion of these issues is justified in light of the confusion that has arisen because of the unsettled issue of the legal nature of the code and due to some implicit assumptions that have not been clearly specified by the participating groups.

64. During informal consultations on an international code of conduct on the transfer of technology, all three groups should clarify their assumptions with respect to the nature and scope of implementing steps to be taken at the national level to meet their commitments under the code in the event of its adoption by a resolution of the General Assembly as a formally non-binding instrument. It is important to clarify whether States that have accepted such an instrument should undertake the appropriate implementing steps required under Article 8.1 (c) with respect to all chapters of the code, including chapter 4, or only with respect to those provisions that are addressed directly to Governments (e.g. chapters 3, 6, 7 and 8).

### 3. Competition v. development tests

65. The lack of a consensus on the main criterion to be followed in determining whether an agreed and defined restrictive practice should be avoided in an individual case reflects deep policy differences. Developing

and socialist countries are unwilling to accept the "competition approach". According to the Group of 77, the practices listed in chapter 4 should be prohibited if they adversely affect international trade in technology - particularly if they are detrimental to the economic or technological development of acquiring countries.

66. To avoid repetition, I concentrate on the results of the consultations on the draft code held in Geneva in 1987. According to my reading of the relevant documents, 13/ the last round of negotiatiaons has succeeded in narrowing the gap dividing the three regional groups, albeit at the expense of the code's clarity and practical significance.

67. I first analyse the main areas of an emerging consensus:

(a) All regional groups and China seem to agree that the chapeau should characterize condemned dealings as "restrictive practices" having "an adverse effect on the international transfer of technology".

(b) There seems to be a growing consensus that it would be impossible, at this stage, to lay down per se prohibitions.

(c) Finally, according to the secretariat, the inclusion in the chapeau of chapter 4 of a reference to the applicable national or regional law "appeared to be broadly acceptable to all delegations." 14/

68. The consensus with respect to the otherwise applicable law is of paramount importance. Although its ramifications are by no means clear, it implies that while the leading developing countries want chapter 4 to legitimize their own transfer of technology regulations - even if they are inconsistent with agreed standards - the developed countries are also ready to accept such a formulation because it could free them from either an implied obligation to enact the code rules in their national (regional) law or an obligation to take appropriate steps to persuade their authorities to apply the code criteria when deciding whether a specific practice is restrictive or not.

69. As already noted, however, further clarification of what is at stake in chapter 4 is necessary at this stage. If the divergent municipal and regional laws remain intact and the agreed provisions on restrictive practices are directed only at parties to technology transactions, then the most controverisal part of the chapeau under consideration (Art. 4.2) is simply redundant. It is unrealistic to expect that private parties would be able and willing to evaluate the fairness of their transactions in the light of vague and conflicting criteria embodied in various "compromise" proposals aimed at reconciling the "development" and "competition" tests.

70. One may inquire how the national and regional authorities should conform to or follow the vague code standards to be incorporated in the chapeau, without changing those divergent municipal (regional) laws that introduce criteria inconsistent with Article 4.2.

71. If the evolving compromise among all groups is based on the tacit assumption that chapter 4 does not obligate States to take measures to ensure that the general criteria embodied in the chapeau are followed by parties and

authorities, they should adopt either the proposal made by Group D or that made by China. A reference to the objectives and principles of the code, as well as to all relevant circumstances in the supplying and acquiring countries, would sufficiently characterize those practices to be avoided.

72. This seems to be a minimum approach, but it has the advantage of explicitness over the more ambitious solution proposed at the end of the sixth session. 15/ The latter purports to reconcile the competition and the development tests in Article 4.2 while legitimizing the divergent municipal laws embodying the conflicting policies that brought the three regional groups to search for a compromise solution. Furthermore, it is clear that the "development" and the "competition" tests are practically incompatible. Article 4.2 does not offer a solution to resolve the conflict between the two approaches in a specific case, or even between contrasting development policies of the acquiring and the supplying country. Indeed, while Article 4.2. seems to bring the conflicting approaches into harmony, Article 4.4 and many other provisions of the draft code explicitly or implicitly sanction the existing chaos and divergent municipal policies. 16/

73. For the reasons stated above, the secretariat should ask the members of the consultative group whether it is practical and feasible to elaborate upon general criteria to be followed by parties and authorities in determining whether a given practice is restrictive for the purpose of the draft code in the absence of an agreement concerning gradual harmonization of municipal (regional) laws and/or international enforcement mechanisms.

4. The applicability of chapter 4 provisions to transactions between related parties

74. A satisfactory solution of this thorny issue would require a "trade-off" between Group B and the Group of 77 in which mutual promises are secured by way of a binding convention. The undefined nature of the draft code makes the "host" and the "home" countries of multinationals reluctant to make concrete concessions. Thus, the resolution of the special treatment for parent-subsidiary relationships involves a real policy conflict that cannot be effectively resolved at this juncture for reasons stated in section 3, supra. I therefore limit my comments to an evaluation of the following proposed solutions:

(a) The adoption of chapter 4 on the basis of the latest compromise text discussed at the sixth session (Art. 4.3);

(b) The adoption of the recent proposal made by Group B; 17/

(c) The adoption of the formulation proposed by the Group of 77 in their working paper of 24 May 1985; 18/

(d) The proposal submitted by the German Democratic Republic on behalf of Group D and Mongolia (17 May 1985); 19/ and

(e) The adoption of the recent proposal made by China (17 May 1985). 20/

75. Frankly speaking, none of these proposals offers new criteria aimed at achieving a genuine compromise; they do not suggest any arrangement by which,

in return for mutual concessions, a controversy is terminated. For instance, the working paper submitted by the Group of 77 subjects practices between parties under common control directly to "the laws and development policies of the acquiring country." 21/ This proposition is less conciliatory than that agreed to by all of the groups in the Set of Multilaterally Agreed Equitable Principles and Rules for Restrictive Business Practices. 22/ Group B, on the other hand, proposes that the problem should be solved according to rules D.3 and D.4 of the Equitable Principles. This formulation, although consistent with an earlier agreement, does not contain any refinement of that concept, which has been controversial from the outset of the negotiations. This also underscores the inherent flaws of a last-minute compromise embodied in the footnote to rule D.4 of the Set of Rules for Restrictive Business Practices.

76. The solution contained in Article 4.3 of the last compromise text referred to above is merely a rhetorical compromise because it evaluates the legality of practices between related parties in light of "national laws and declared development policies". Also, Article 4.4 recognizes the supremacy of the applicable national and regional laws. It is difficult to discern any departure in the latter text from the original position taken by the Group of 77 except for the obvious fact that the relationships between related parties are of a special nature.

77. Under the approach proposed by Group D, as well as under the solution submitted by China, the conceptual difficulties are to some extent avoided. Furthermore, the cross-reference to the objectives and principles of the code and "adverse effects on the international transfer of technology" is not contested by the other groups. These formulations leave the most controversial problems open for future review conferences. Finally, they avoid the danger of a sham compromise that is inherent in those formulations that try to establish standards consisting of irreconcilable criteria (e.g. the development test and the competition tests).

78. The formulations proposed by Group D and China are examples of a minimum approach justified by the present deadlock, but a genuine compromise with respect to the treatment of practices between related parties would require all States to reach a preliminary agreement on measures to harmonize their policies and laws in accordance with such agreed principles. Although the code will be a voluntary instrument for the foreseeable future, it should nevertheless have a meaningful impact upon government policies and corporate conduct in controversial areas. 23/

5. Choice of law and settlement of disputes

79. The gist of the controversy in this chapter has been amply discussed in the literature. To avoid repetition, therefore, this analysis will focus on the main unresolved problem: the clash between the principle of contractual freedom (defended by the developed countries) and the principle of the supremacy of the law of the acquiring country (advanced by the developing countries).

80. First, however, it is worth noting that during the last Conference and subsequent consultations, the three groups have come closer to a modest agreement regarding the settlement of disputes. Thus, I fully share the view of the secretariat that, as of today, there seems to be "broad consensus on

the subject of arbitration and conciliation." 24/ The final approval of the provisions encouraging these two methods of dispute resolution would constitute a modest but concrete compromise.

81. The latest proposal on the relationship between freedom of contract and the relevance of the law of the receiving country 25/ does not satisfy the expectations of either the developing or the developed countries. The existing differences are aptly summarized by a member of the secretariat: for the Group of 77 it lacks the clear recognition of the prominent role of national laws and for Group B the principle of contractual freedom of the parties. 26/

82. In my opinion, the two competing principles are reconcilable, Unfortunately, the draft proposal under consideration constitutes yet another example of a sham compromise. In fact, it can be the subject of two contradictory interpretations. The Group of 77 may be afraid that the developed countries will interpret the proposed text as establishing the supremacy of the principle of contractual freedom, thus requiring them to minimize the scope of mandatory rules in their national laws. By contrast, the developed countries feel that the submitted rule can be interpreted as legitimizing even the most radical transfer of technology regulations - practically eliminating or drastically reducing the scope of contractual freedom.

83. A meaningful compromise should take these legitimate concerns into account. A compromise could be achieved by restricting both the concept of the freedom of choice of law and the States' competence to limit the parties' freedom by excessively expanding the reach of their ordre public rules. The proposed formulation should consist of three propositions. The first would declare that parties to transfer of technology transactions may, by common consent, choose the law applicable to their contractual relations, provided that the law chosen shall not prevent, in a given matter, the application by the forum of binding rules that cannot be circumvented by contract. The second provision would recommend that States refrain from subjecting "purely" transactional (obligatory) aspects of international transfer of technology transactions to their public policy rules. This provision would apply to both the acquiring and supplying countries. The third provision would encourage States to adopt conflict rules under which, in the absence of an effective choice of law by parties, the proper law for transfer of technology transactions should be the law of the receiving country.

84. The first proposition, patterned after the informal text submitted by Group D (24 May 1985) 27/ reiterates the principle of the freedom of choice of law, which is supported by all developed countries, China, and a number of developing countries. The advantage of this formulation over the other texts advancing the same principle is that it allows the constraints placed upon the concept of the freedom to choose the applicable law to extend beyond public policy rules. In some legal systems the latter term does not cover industrial property rules that regulate dispositions of patents, rights in industrial design, etc. These rules also cannot be circumvented by contract, and belong to the exclusive domain of lex loci protectionis. 28/

85. The constraints on party autonomy imposed by the lex loci protectionis of the receiving country and its public policy rules will be acceptable to the

developed countries only if the scope of the matters withdrawn from the free disposition of the parties for socio-political reasons (ordre public) does not cover the great bulk of "purely obligatory" commercial matters. The second proposed rule addresses this point. In light of the proliferation of public policy rules in many developing countries that interfere with purely transactional aspects of technology transactions (e.g. price, terms of performance, etc.), any compromise on a choice of law provision should address this fundamental issue. In short, the code should establish guidelines proscribing the nullification or drastic reduction of parties' freedom to choose the law governing transfer of technology transactions. Likewise, the idea of subjecting the essential elements of the "obligatory" part of such contracts to the binding rules (ordre public) of the supplying or the receiving country should also be discouraged.

86. The last proposition emphasizes the point that in most cases the law of the receiving country constitutes the centre of gravity in international technology transactions. The recommendation that States should implement the proposed conflict rule in their domestic laws is consistent with the most recent legislative developments in both developed and developing countries. Except for the German Democratic Republic and Hungary which had earlier adopted the Schnitzer solution, and except for Switzerland, 29/ other recent codifications in Europe and Latin America adopted the rule under which, in the absence of an effective choice of law by parties, their contractual relationship is governed by the personal law of the licensee. 30/

87. The arguments in favour of applying the law of the recipient country are based on both legal and policy considerations. As stressed by United States commentators, the law of the licensee should be applied and even preferred by the licensor since it is primarily the licensee's industrial property, anti-trust, and transfer of technology laws that must be complied with. "A clause choosing the law of the licensor's country is of very doubtful enforceability in the licensee's country, but it may well be enforced in litigation in the licensor's country. 31/

88. Furthermore, the country acquiring the technology is the natural centre of gravity of the contractual relationship. It is the acquiring country that will use the technology over an extended period of time and will bear a greater risk than the exporting country. Not only are its financial risks higher in cases of defective performance but, unlike the exporting country, the acquiring country is exposed to the hazards of the environmental and social impact of the technology.

89. For these and other reasons, the advocated compromise could be drawn along the following lines:

9.1 Parties to transfer of technology transactions may, by common consent, choose the law applicable to their contractual relations. This choice of law, however, should not prevent the application by the forum of binding rules that cannot be circumvented by contract.

9.2 States should refrain from applying their public policy rules to purely commercial aspects of international transfer of technology transactions. [A non-exclusive and explanatory list of such "purely" commercial matters could be agreed upon by the contracting parties, subject to revision during subsequent review conferences.]

9.3 States should implement legislation providing that in the absence of an effective choice of law provision, the contractual relationship of parties to transfer of technology transaction shall be governed by the personal law of the acquiring party, provided that the country of the situs of the recipient (the acquiring country) is also the centre of exploitation of the technology.

9.4 (Arbitration)

9.5 (Conciliation)

90. The secretariat should explore the question as to whether the regional groups are willing to negotiate the difficult problem of how to delineate the scope of application of the principle of choice of law and the principle of supremacy of the acquiring country's law. This will require an agreement on the gradual harmonization of municipal and regional laws and legislative policies.

91. If such a far-reaching compromise is impossible, then chapter 9 should deal mainly with arbitration and conciliation. It could also provide for establishing a voluntary procedure for arbitration and conciliation before an UNCTAD Committee of Experts on Technology Transactions.

## E. Transfer of technology agreements and conflict of laws

by François Dessemontet

### Introduction

92. The present observations will focus on two basic issues:

What is the scope of a choice-of-law agreed upon by the parties to a transfer of technology?

What is the general trend for solving conflict-of-laws questions which bear on transfer of technology agreements, as shown by some recent legislative developments in Continental Europe?

### 1. Scope of contractual provisions on choice-of-law

#### (a) The real scope of choice-of-law provisions depends upon the legal issues that are involved in a given dispute

93. First of all, it should be clear that such provisions do not directly bear on the rights and duties of third parties, such as employees, suppliers of raw materials, dealers, agents and even sub-licensees.

94. Even between the parties to the transfer of technology agreement, the party autonomy does not extend to all issues that may arise in a litigation. Matters of personal status such as capacity to contract or the authority to bind a corporation by the signature of a director fall outside the parties' free determination of the applicable law. It is of course difficult to assess in a general manner which questions are certainly outside the reach of the law governing the agreement as chosen by the parties or as determined by the applicable rules of conflict of laws.

95. A traditional approach in Western Europe is to distinguish between private law and public law. The public law of each country is deemed to protect the commonwealth, the public interests of the country - either the interests of the State as sovereign, or the interests of the population at large - health, economic welfare, environment, consumer protection, etc. Public law is mandatory by nature. No person engaging in business within a given jurisdiction can escape the local public laws. Registration procedures for transfer of technology agreements exist in about 40 countries to ensure that municipal public laws are respected.

96. This approach has been criticized of late. The trend in modern legal literature is to consider that a reference to foreign law also includes statutes of public character, with only the reservation of "ordre public".

97. Usually, however, disputes between parties to a transfer of technology agreement cannot be settled under these public laws, although a dispute may arise because of the consequences of the application of these public laws. For example, a drug which was produced by a recipient on the basis of a licensing agreement is withdrawn from the recipient's market for potential health hazards; the parties have no way to escape the ruling of the health authority through choice-of-law provisions. However, they can provide for the sharing of losses as between themselves. They can do this in so many words or they can decide which law shall govern their agreement. As this is a question of private interests between parties, it is a matter open to party autonomy. Then, ordre public doctrine may come into play; for instance, if the key for sharing these losses is grossly detrimental to one of the parties, it may be deemed to be contrary to the forum's law, because of duress, unconscionability or on other similar grounds. In case of arbitration, enforcement of the award may be rejected by local judicial authorities, if it would be contrary to their view on ordre public (art. V. 2 (b) of the New York Convention). In this respect, ordre public may be properly defined as the forum court's most basic notions of morality and justice. Further, new codifications sometimes allow the judge to give effect to the mandatory provisions of the law of a country other than the country the law of which is deemed to be mainly applicable, to the extent that these provisions do apply independently of choice-of-law questions in their country of origin ("lois de police") (see, for example, Art. 7.1 of the Rome Convention of 1980). That development is hotly contested and cannot be seen as firmly established in Continental Europe. For example, Art. 18 of the Swiss Statute on Private International Law, adopted in 1987, empowers the court to consider "a mandatory rule of another law ... if so warranted by interests of one of the parties which are clearly dominant and worthy of protection and if there is a close connection between the facts of a case and that law".

98. Accordingly, while it is useful to determine the scope of choice-of-law provisions by listing various areas of law that are not left to the party autonomy, as attempted below in (b), it should be kept in mind that the forum's ordre public always applies and that foreign mandatory provisions may at times be enforced by European courts, especially if private interests so command.

(b) A provision on choice of law does not apply to the following regulations

(i) Intellectual property

99. According to the so-called territoriality doctrine, intellectual property rights are subject to the municipal law of each country in which protection is sought. This is the case first of all for the formalities for filing inventions, trademarks, designs and models and copyrightable works, such as computer software. Some international conventions unify these formalities, for example the Patent Co-operation Treaty, the Munich Convention on the grant of European patents, the Madrid Arrangement and the Vienna Convention for the registration of trademarks, the Hague Treaty on designs and models, and the Budapest Treaty for micro-organisms. Further, the contents and the duration of the exclusive intellectual property rights depend on each local law (with some minima set out in Paris and Berne Conventions).

100. The territoriality doctrine may submit to a local law some elements which are of great importance to the parties to the transfer of technology agreement. For example, a third party may ask for judicial invalidation of the patents that are included in the agreement, either by way of a declaratory action or by raising an exception of patent nullity during a litigation for patent infringement.

101. The validity of the patent will be judged according to the law of the country which issued the patent. Most of the time, the forum for the litigation will be within that country's limits. Its law will then govern the substantial sides of the litigation and the procedural consequences of the litigation for the recipient of technology on such questions as his standing to sue or to defend the action, his duty to assist the patentee in the litigation, the definitiveness of the judgement entered against the patentee as against him - although the transfer of technology agreement may well contain some provisions in this regard.

102. On the other hand, the outcome of the patent litigation will entail some consequences for the contractual relationship between the technology supplier and the recipient: they will be governed by the law of their agreement. For instance, that law will determine if the agreement is to be so construed that the legal exclusivity which was conferred by the patents should be seen as a basic consideration of the contract, which would then be deemed to be terminated, or if the patent exclusivity is ancillary to the transfer of industrial know-how, with the consequence that the agreement would continue, possibly with a reduced rate for royalties. The law of the agreement will as well determine whether the supplier explicitly or implicitly warranted that he is the sole owner of the technology and that the patent is valid, or if there has been misrepresentation in this regard, for example because the supplier concealed before conclusion of the agreement the fact that a petition for invalidity of the patent had already been brought against him abroad.

103. Under some laws, patent licences do not import a warranty of the patent validity, whereas other laws may allow for the granting of damages to the recipient of techniques that turn out later not to be protected by a valid patent. Damages will be awarded against the supplier according to the law of the agreement, unless they are based in torts rather than on the contractual relationship between them.

104. The rightful title to the patent does not necessarily depend upon the granting country's law. If the inventor is an employee, as happens for at least 90 per cent of all patents that are granted in industrialized countries, then the law of the employer-employee contractual relationship will govern the title to the invention and the reward which is due to the employee. Usually, this is the law of the country in which the employee is mainly employed. Similarly, the law of the agreement will apply in the case of an invention resulting from research carried out under R & D agreements.

105. In my view, title to unpatented know-how is also vested with its owner under a certain law, while other countries recognize that right on the basis of comity between nations, as they do other equities. However, the measure of the protection then afforded to the know-how will depend on the forum's local law on trade secrets, unfair competition, or breach of fiduciary relationship, as the case may be.

(ii) Registration procedures and laws on transfer of technology

106. The registration procedures for transfer of technology agreements are compulsory in most countries that have introduced them. These procedures ensure that the parties to agreements respect the local laws in so far as they do not obtain an exceptional status due to the particular requirements of the transaction. Thus, the local laws of the receiving country often provide that any and all agreements that have not been filed with or approved by the competent authority will be deemed null and void. These registration procedures are anyhow respected by parties, since registration is necessary for the purpose of obtaining tax allowances, governmental or international subsidies, foreign currency authorizations, etc. The nullity of such a contract is not necessarily a mandatory rule for a forum other than the recipient's country.

(iii) Laws against restrictive business practices

107. Anti-trust regulations are per se mandatory. This does not differ from country to country. What may be different, however, is the extra-territorial scope of anti-trust legislation. Most countries do provide for some sort of exemptions to the extent that restrictive practices and cartels do not have any impact on the national market.

(c) Scope of the law applicable to the agreement

108. To sum up, the law applicable to the agreement will mainly govern the following issues: (i) interpretation of the agreement; (ii) performance of duties by each party; (iii) consequences of bad performance or no performance, for example damages; (iv) termination of the agreement, time bar; (v) nullity of contract and its consequences (impossibility); (vi) illegality, force majeure, etc.

2. Applicable law in the absence of choice of law

(a) Points of contact

109. A transfer of technology agreement should be governed by the law of the country with which the transfer of technology has the "most significant

relationship", or the "closest connection", or where it has its "centre of gravity", for example the country of performance, or the country of the recipient's main place of business, which is often the same as the country of performance (but not always, for example if the recipient is a transnational corporation that will work the technology in more than one country) or the country of the supplier's main place of business or the country of registration of the intellectual property rights that are conveyed or licensed under the agreement or, finally, the place of contracting, or the place of arbitration should a litigation arise.

110. At the outset, it is worth noting that European and North American jurisdictions may entertain a somewhat different notion of the test of the closest connection - which is undisputed as such. For European courts and legislatures, the closest connection tends to be determined once and for all for each and every category of contract, irrespective of the particular features of the agreement which is litigated. However, a statutory escape clause allows the judge to apply a law other than the law which is normally declared to be applicable if exceptional circumstances in casu so command. North American courts have not established a set of points of contact corresponding to various types of international transactions. They deduce the closest connection of the litigated agreement from all relevant points of contact, the respective weight of which in the matter under discussion determines the centre of gravity of the transaction. Accordingly, clear-cut rules of conflict for transfer of technology agreements can be found only in a few European codifications of recent years.

111. The three main points of contact for international transfer of technology agreements are the place of performance, the recipient's main place of business and the supplier's main place of business. The place of contracting may be relevant, because some recent codifications on conflicts of laws provide that the agreement is binding if either the requirements of form as set out by the law of the agreement or the requirements of form as set out by the law of the place of contracting are complied with (see, for example, Art. 121 of the Swiss Law on Private International Law). The place of arbitration may be relevant in those countries that do not recognize full party autonomy in selecting the law applicable to the settlement of a possible dispute. The fact that the arbitration takes place in a given country then gives a contact which may be deemed to suffice in order for the parties to choose the law of that country to govern their agreement. Further, the choice of a country as seat of the arbitration tribunal may be construed as an implied choice of law, under Swiss and United Kingdom precedents, for example.

(b) Place of performance of a transfer of technology agreement

112. The place of performance of an international contract may be understood as the place of performance of each obligation, which entails the dépeçage, (breaking down) of the contract. For instance, the obligation to deliver some technical training would be governed by the law of the country where the training takes place, while the remittance of the royalties would be subject to the law of the country where the royalties are to be paid. This "solution" of the conflict of law is wholly unacceptable. Yet there is some suggestion of dépeçage each time a transfer of technology is made through a licensing agreement that covers more than one country. The test of the place of performance may then refer to the law of more than one country. It has been

proposed that any contract covering two countries or more should be split into various parts subject to different applicable laws, whereas the common clauses intended to apply everywhere would be enforced according to all laws at the same time! In my view, any rule of conflict which leads to such unhealthy results should be disregarded.

113. The test of performance has been understood in France, for example, as referring to the performance of the characteristic obligation under the contract. Generally speaking, the characteristic obligation is easy to define. It is the activity that gives a transaction its name. So the vendor's obligation is characteristic for the sale, the agent's duties are characteristic for the agency, etc. There are some business operations that are more difficult to categorize, among which are franchising or licensing operations. So it is not surprising that some European legislatures and authors have entertained different opinions as to what constitutes the characteristic obligation under a contract on transfer of technology. In my view, the licensee's main obligation is to pay for the technology, while the licensor's main duty is effectively to transfer the technology; thus, there is little doubt that the licensor's obligation is the characteristic one.

114. Some European commentators have opined that the working of the technology is actually the characteristic obligation. Accordingly, every exclusive or sole licence which has been granted under the condition that the licensee will work the technology should be submitted to the law of the country where exploitation is to take place. It has been objected, however, that the obligation to work the technology is for the licensee a duty ancillary to his main duty of paying royalties, because most transfer of technology agreements provide for a remuneration of the licensor that is somehow linked to the output or the sales of the licensee.

(c) Place of business of one of the parties to the agreement

115. Whatever the "characteristic obligation" may be in this context, the true role of that characteristic obligation has changed sharply in the recent codifications of private international law. During the first part of the twentieth century, the place of performance of that obligation was thought to establish the closest connection between a contract and a country. Nevertheless, during the second half of the century, most European countries have changed over to the test of the place of business of the debtor of the characteristic obligation.

116. The idea is that the debtor is responsible for the correct performance of his obligation. In fact, the performance is guaranteed by his own organization and therefore geared to the standards usual in that place. De jure the debtor will be held liable for damages in case of ill-performance, and payment of damages will depend on his assets, which normally consist of factories, administrative buildings, bank accounts, securities, etc., mainly located in the country of the debtor's main place of business.

117. The considerable advantage of this solution is to simplify the determination of the applicable law. A tedious research as to the place of conclusion or as to the place(s) of performance is no longer necessary. Thus, the predictability of the outcome of litigation is enhanced. In itself, this is an important factor in preventing possible disputes.

118. In recent years, several codifications of private international law have recognized the test of the main place of business of the debtor of the characteristic obligations, for example the Rome Convention of 1980 (Art. 4), Swiss and Austrian legislation, etc.

119. As far as transfer of technology agreements are concerned, the most recent legal provisions refer to the law of the supplier of technology as the applicable law. This is expressly stated in the Hungarian Decree-Law of 1979 (25 d), in the Swiss Law of 1987 (Art. 119.1), and in the model contracts of CMEA countries. The same solution is implied by Article 4.2 of the Rome Convention.

120. The code of conduct on the transfer of technology could be devoid of any rule concerning applicable law if the code is not binding in character. In that case, legal rules on conflicts of law and international conventions already binding for the courts would take precedence over the code, unless some States enact it as internal law. In my view, however, it would appear wiser to harmonize the code with the latest developments in international private law. Freedom of the parties as to the choice of arbitration proceedings in a third country and freedom of the parties as to the choice of applicable law are the two basic tenets of a free North-South and South-South flow of technology. No specific limitation such as ordre public or lois de police needs to be spelled out in the code; since national traditions differ widely on those topics, any sort of rule would tend to be construed very differently from one country to the other. There is no need to mention any rule on the law applicable in the absence of agreement.

## F. UNCTAD Code of Conduct on the Transfer of Technology:

## Applicable law and settlement of disputes

by Ike Minta

### 1. Conceptual issues

121. It is important to start from a clear conception of what the Code provisions seek to achieve. From a normative or quasi-legislative point of view, any particular provision of the Code, or the Code as a whole, could take one of these three forms: (a) an expression of the prevailing legal position, whether derived from State practice (custom), or from general principles of law, on the specific issue(s) addressed; (b) a reform or change of prevailing legal practice; (c) a formulation or creation of new legal norms in areas where there is no identifiable or established legal position.

122. This schema is derived from general theory on the legal effects of United Nations resolutions, which applies as a conceptual framework to other international instruments or declarations. Jiménez de Aréchaga, for instance, states the following on this issue:

> "Thus in a General Assembly declaration rules of customary law may be recognized as pre-existing norms and declared to be so; an emerging rule of customary law in status nascendi may crystallize thanks to a unanimously adopted General Assembly declaration; a resolution by the

General Assembly which is clearly de lege ferenda may however provide the basis for a subsequent and concordant practice of States which will transform the resolution into a rule of customary international law." 32/

2. The economic and political background

123. It is also important to bear in mind the overall context in which transfer of technology transactions take place. In developing countries, in particular, most of these transactions occur as part of a broader foreign investment package, i.e. in the context of a wholly foreign-owned venture (in which case the "transfer" of technology occurs solely within the corporate group), or in the context of a joint enterprise with other foreign investors, local private investors or the host country itself, usually represented by a State-owned entity.

124. Transfer of technology in such hybrid forms is thus an integral part of a particular investment relationship and must be seen in the context of the objectives of that relationship.

125. On the other hand, there is the "pure form" of a transfer of technology which is not accompanied by any other investment relationship between the parties. This is essentially a "sale" of defined technological inputs, processes, know-how or services over a defined period of time for prescribed remuneration, often accompanied by provision for the training of local personnel and for continued use of proprietary technology. 33/

126. The Code formulations must thus be sufficiently comprehensive to embrace all of these and other possible manifestations of transfer of technology in a constantly changing global environment. Moreover, to the extent that transfer of technology transactions are also, essentially, foreign investment transactions, it cannot be denied that such transactions are subject to the laws and jurisdiction of the host country, or, from another point of view, the laws of the country with which the transaction (or the Parties) is most closely connected - which is usually the host country. These laws will also, necessarily, reflect the political philosophy and economic objectives (or the ordre public) of the host country concerned.

C. Relevance of provisions of the draft United Nations Code of Conduct on Transnational Corporations

127. In terms of basic principles, therefore, there is no doubt that transfer of technology transactions, the vast majority of which are integral parts of foreign investment transactions, are subject to the laws and jurisdiction of the host country. This is reflected in the following agreed provisions of the draft United Nations Code of Conduct on Transnational Corporations: 34/

> "An entity of a transnational corporation is subject to the laws, regulations and established administrative practices of the country in which it operates" (para. 7);

and also:

> "An entity of a transnational corporation is subject to the jurisdiction of the country in which it operates" (para. 55).

128. Besides, there is nothing revolutionary about these propositions, since they only represent pre-existing law, in conformity with alternative (a) in the theoretical schema described in paragraph 122 above. Indeed, Professor Derek Bowett of Cambridge University (United Kingdom) writes as follows on this issue:

> "In such [contractual] relationships it is axiomatic that the law of the contracting [host] State governs such contracts, for States like the United Kingdom and the United States would contract on no other basis. 35/

129. The above provisions of the draft United Nations Code of Conduct on Transnational Corporations are quoted here because they offer a common frame of reference for the discussions on applicable law and dispute settlement in the transfer of technology code. The primacy of national laws and regulations is also implicit in the agreed provisions in chapters 2 and 3 of the transfer of technology code.

4. The chapter 9 formulations

130. Each of the various chapter 9 formulations presented in the course of the negotiations indicates an attempt to reflect or reformulate basic legal principles on choice of law in a comprehensive general provision, rather than to change the existing law or to create an entirely new legal provision. 36/ This conforms with the first alternative in the theoretical scheme described above.

131. If this view is correct, such an attempt to synthesize the prevailing law from the different legal systems of the world, although difficult and complex in itself, should give rise to the least amount of difficulties at the negotiating level, provided that the formulations represent the law accurately. The problems arising from this exercise should then be purely those of drafting a representative statement of pre-existing law.

132. The other alternatives, i.e. (b) and (c), in the theoretical schema above, would give rise to even greater difficulties, for they would add a policy dimension to the drafting problems in terms of the large variety of policy choices that different countries may wish to make in a formulation which truly departs from the status quo.

133. Thus, if the objective is only to achieve a synthesis of the existing law, as seems to be the case, it is important to exclude these kinds of policy complications from the exercise of drafting representative formulations based on the existing law.

134. To go back to basic principles, then, the opening phrase of the first article in chapter 9, which is common to all the proposed formulations, should not give rise to any negotiating problems:

> "Parties to transfer of technology transactions may, by common consent, choose the law applicable to their contractual relations ..."

135. But it is also clear that such "party autonomy" is not and cannot be absolute, as some delegations seem to insist. Even in the developed

market-economy countries, where there has been a long historical debate on the issue, the most enthusiastic advocates of party autonomy and free choice of law recognize a few significant limitations. Thus one major study states:

> "Provided it does not infringe the public policy of the national court ... or violate the imperative laws of the place of performance the choice [of applicable law] must be respected. 37/

Similarly, Professor Bowett states:

> "All systems of law allow freedom of choice (autonomy of will) subject to any restraints of public policy and such choice should in principle be respected. 38/

136 Unless the proponents of absolute party autonomy in the transfer of technology code want to change the law in their own countries, which is doubted, the limitations which their own laws impose on such party autonomy, must also be recognized and expressed in the relevant code provision. Indeed, this would seem to follow necessarily on article 2.2(ix) of the transfer of technology code, which is already agreed upon. That provision reads:

> "Technology supplying parties when operating in an acquiring country should respect the sovereignty and the laws of that country, act with proper regard for that country's declared development policies and priorities and endeavour to contribute substantially to the development of the acquiring country. The freedom of parties to negotiate, conclude and perform agreements for the transfer of technology on mutually acceptable terms and conditions should be based on respect for the foregoing and other principles set forth in this Code." (Emphasis added.)

137. Moreover, such limitations should, in principle, apply irrespective of whether the contract in question involves the host Government itself or a State entity, or private parties only.

138. This then leads to the second portion of paragraph 1 in chapter 9, which reads as follows in the original formulation:

> "... such choice of law does not, however, limit the application of the relevant national laws nor of the rules of public policy (ordre public), of the parties to the transaction, which cannot be derogated from."

139. As demonstrated above, the principle embodied in this formulation, namely, that party autonomy is subject to certain limitations, may in fact be regarded as a "general principle of law recognized by civilized nations", in the meaning of Article 38(1) of the Statute of the International Court of Justice. The different versions of this latter part of Article 1, as shown in the "texts under consideration on the issues outstanding, 39/ (annexed to the Draft International Code of Conduct on the transfer of technology) would seem to represent different approaches of drafting, rather than substantive departures from the basic principle.

140. These drafting problems will be addressed presently, but it appears at this stage that the two basic points of contention on these issues, namely for

the Group of 77 the clear recognition of the prominent role of national laws and for Group B the principle of contractual freedom of the parties, 40/ can be resolved in the context of the foregoing discussion.

141. Since the primary application of national laws to foreign investment transactions, including transfer of technology transactions, which take place or are carried out within the national territory is a fundamental attribute of sovereignty which every country claims for itself, it follows that it cannot be denied to any country irrespective of its stage of development. This principle is arguably in the nature of a jus cogens, or a peremptory and inalienable principle of international law, which will apply whether or not it is clearly stated in the Code. 41/

142. Moreover, the primacy of national law has already been agreed upon in the draft United Nations Code of Conduct on Transnational Corporations, as noted above, as well as in chapters 2 and 3 of the transfer of technology code. Thus, instead of a categorical statement or reiteration of that principle, it may be a viable alternative to have a reference in the transfer of technology code which "bears in mind" or "recognizes" that principle, coupled with a recognition of necessary limitations on the absolute notion of party autonomy advanced by the Group B countries.

143. It appears, therefore, that both sides to this dispute can take a more flexible or conciliatory position without this amounting to a fundamental departure from prevailing legal practice.

144. To return to the drafting question, then, it appears that the purpose should be to draft a formulation which contains the element of free choice but also recognizes the prevailing rule in most (if not all) countries that such choice is subject to the public policy and imperative laws of the host country.

145. However, to avoid the implication that only the laws of the host country would be relevant in this regard and to meet the concerns of delegations which may have reservations on this point, an alternative formulation which replaces "host country" with "the country with which the parties or the transaction have a substantial connection" will most likely be acceptable to all delegations. This notion of "substantial connection", which actually originates in Anglo-American conflict of laws doctrine, is already contained in the various alternative formulations, either implicitly or in explicit terms, and is also, in effect, the prevailing conflict of laws rule in virtually all countries.

146. A major advantage of the "substantial connection" test is that it would allow application of host-country laws in most situations, while also allowing the possibility that the laws of a different country may be relevant if there is a substantial connection between the parties or the transaction on the one hand and the laws of that particular country, on the other.

147. Amongst the current alternative formulations for paragraph 1 of chapter 9, the one which most closely reflects the foregoing discussion is the "Informal text proposed by the Chinese delegation (20 May 1985)", which could be slightly modified as follows:

> "Parties to transfer of technology transactions may, by common consent, choose the law applicable to their contractual relations, it being

understood that such choice [of law] will not prevent the application of the relevant rules */ of any of the national legal systems having a substantial connection with parties or the transaction which cannot be derogated from by contract," OR: [cannot preclude the application of relevant rules */ of national legal systems with which the parties or the transaction have a substantial connection].

148. The opening phrase of the Group of 77 text, i.e., "If the national law of the acquiring country permits", would not seem to be necessary in the light of the foregoing discussion. Similarly, the proposed requirement that the choice of law should be "in a manner consistent with the objectives and principles of the Code" is probably superfluous, in view of the fact that the chapter 2 provisions, on "objectives and principles" govern all other provisions of the Code (see, e.g. section 2.2(ix)). These phrases could thus be dropped as a compromise for the acceptance by Group B countries of limitations on party autonomy - limitations which are in any case not unknown in those countries.

149. Further, the reference in the Group of 77 draft to "Public Policy (Ordre Public) of the countries of the parties concerned" may give rise to certain problems. First, while public policy is a recognized source of law, the vagueness of the term may give rise to endless debate, which may delay the negotiations further. In contrast, a reference to "relevant rules" is more precise and also broad enough to embrace public policy in its legal meaning. Secondly, it is important to minimize the possibility of extra-territorial application of the "public policy" of the technology-exporting State - a possibility which is enhanced by the reference to the public policy "of the countries of the parties concerned". While the public policy of the exporting State may govern the question as to whether the technology can be exported at all, it should not be carried so far as to govern the contractual relations of the parties in a different country once the technology is already exported. In any case, the "substantial connection" test would seem to be a more appropriate basis for the application of any particular laws or public policies and would preclude or at least minimize such extra-territorial application where there is no "substantial connection."

150. The following text proposed by the President of the Conference during the sixth session also meets most of the concerns examined above:

"Parties to transfer of technology transactions may, by common consent, choose the law applicable to their contractual relations, it being understood that such choice of law will not limit the application of relevant rules of national legal systems which cannot be derogated from by contract." OR: [will not be in derogation of the laws of the country with which the transaction is most closely connected.]

151. However, there are important considerations in favour of including the "substantial connection" test, as discussed above.

152. The other proposed formulations for chapter 9, i.e., articles 2 to 5, do not seem to have attracted any disputes, since there is only one set of formulations for these articles. These formulations are clearly self-evident and may only need a few textual modifications.

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*/ "Relevant rules" includes public policy or ordre public.

## Notes

1/ See UNCTAD, "Consultations on the draft international code of conduct on the transfer of technology" (TD/CODE TOT/50), 10 October 1986, para. 19.

2/ See UNCTAD, "Identification of appropriate solutions to the issues outstanding in the code of conduct", (UNCTAD/TT/Misc.71), 15 April 1987.

3/ See UNCTAD/TT/Misc.71, para. 15.

4/ On the Latin American case, see ECLA/CTC, "Las empresas transnacionales y la inversión extranjera directa en la crísis económica de América Latina", January 1986, p. 41.

5/ See J. Davidow and L. Chiles, "The U.S. and the Issue of the Binding or Voluntary Nature of International Codes of Conduct Regarding Restrictive Business Practices", The American Journal of International Law, vol. 72, 1978, p. 253 et.seq.

6/ Ibid., p.248.

7/ TD/CODE TOT/47, appendix A, p. 9.

8/ This conclusion seems to be inescapable in light of the most recent proposal made by the Chairman of Working Group I, which reads: "Nothing in this chapter should be construed to supersede applicable national or regional law" (UNCTAD/TT/Misc.71, para. 15). It is interesting to note that "the inclusion in the chapeau of chapter 4 of a reference to applicable national or regional law, as provided under para. 4.4 of this text, appeared to be broadly acceptable to all delegations, although differences still existed in the appreciation of its relationship to other provisions in the chapeau, and in particular to para. 4.3 dealing with the issue of related enterprises" (UNCTAD/TT/Misc.71, para. 18). See further section 4 of this paper.

9/ TD/CODE TOT.47/, p. 19.

10/ Two examples are Yugoslavia and Poland. See further, S. Soltysinski, "Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions", Recueil des Cours vol. 196, pp. 280-282 (1986).

11/ Thus, for instance, following the adoption of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices by the General Assembly in its resolution 35/63, the United States Congress passed the Export Trading Company Act, Title I of Public Law 97-290 (1982). While the Restricted Business Practices Principles and Rules condemn cartels - especially those which can produce adverse affects in developing countries - the Export Trading Company Act encourages cartel agreements among domestic exporters as long as they do not affect competition in the United States. See the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, sections D.3 and 4. The Set of Principles and Rules prohibits, inter alia, restrictions concerning where, or to whom, or in what form or quantities, goods supplied or other goods may be resold or exported.". (Section D.4 (f) (iii).)

12/ See P. Roffe, "Transfer of Technology: UNCTAD's Draft International Code of Conduct", The International Lawyer, vol. 19, p. 689 (1985). However, it is worth noting, that according to a proposal made by the Group of 77 and Group D at the close of the sixth session of the Conference (1985) "all countries should ensure that their enterprises...shall conform...in all respects to the provisions of this Code" (TD/CODE TT/47, appendix B). See also A. Yusuf, "L'elaboration d'un Code International de Conduite Pour le Transfert de Technologie: Bilan et Perspectives", Revue Generale de Droit International Public, 1984, pp. 821-811. In another context Roffe rightly emphasizes that "the draft Code envisages that the application and implementation of the Code are to be carried out at both the national and international levels" op.cit, p. 704.

13/ UNCTAD/TT/Misc.71, 15 April 1987, annex.

14/ Ibid., para. 18.

15/ Ibid, para. 15.

16/ See, for instance, Art. 2.2 (ix).

17/ TD/CODE TOT/47, appendix A, p. 9.

18/ "Practices between 'parties under common control' should be evaluated in the light of the consistency of the practices with the laws and development policies of the acquiring country." Ibid.

19/ "In transfer of technology transactions parties to these transactions should refrain from the following practices when these are contrary to the objectives and principles of the Code." Ibid, p. 8.

20/ The Chinese text refers to "the objectives and principles of this code" and "all other relevant circumstances in the supplying and acquiring countries." Ibid.

21/ TD/CODE TOT/47, p. 9, article 4.2.

22/ See "The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices" (TD/RBP/CONF/10/Rev.1), section D.4 and accompanying footnote.

23/ J. Davidow and L. Chiles, op cit., p. 6.

24/ Compare P. Roffe, op cit., p. 704; F. Dessemontet, "Transfer of Technology under UNCTAD and EEC Draft Codifications: A European View on Choice of Law in Licensing". Journal of International Law and Economics, vol. 12, p. 1 (1977).

25/ UNCTAD/TT/Misc.70, 14 April 1987, p. 8.

26/ Roffe, op cit., p. 704.

27/ TD/CODE TOT/47, Appendix A, p. 10.

28/ For instance, F. Beier distinguishes between matters governed by the law of the protecting country for reasons of public policy and "because of the territorial nature of industrial property rights." F. Beier, "Conflict of Law Problems of Trademark Agreements", International Review of Industrial Property and Copyright Law, vol. 13, p. 170 (1982).

29/ Although many leading Swiss commentators (eg. A. Troller, G. Modiano etc.) opted for the adoption of the law of the licensee and the last Draft of the Swiss Private International Law had contained such a solution, the Parliament chose the Schnitzer theory (the law of the Licensor). The decision of the Swiss legislator reflects the vested interests of the Swiss and multinational transferors of technology. Compare the criticism of the economic assumptions of the Swiss approach by F.J. Unger, "The European Convention on the law applicable to contractual obligations", Virginia Journal of International Law, vol. 22 pp. 123, 134 (1981).

30/ For instance, Yugoslavia and Austria adopted such a solution. Compare Zakono Rjesovanjy Sukoba Sakonu, Rabels Zeitschrift, vol. 49, p. 544 (1985) (a German translation); The Austrian Private International Law was published in Rabels Zeitschrift vol. 43, p. 383 (1979).

31/ R. Schroder, "License Agreement Provisions Relating to Choice of Law", in: Domestic and Foreign Technology Licensing (1984), ed. by T. Arnold, p. 767; Compare also R. Goldscheider, "Minimizing Disputed Licensing Agreements", in: Licensing Handbook, ed. by R. Goldscheider and G. Maier (1986), p. 65; A. Wise, Trade Secrets and Know-How Throughout the World (1981), vol. 3, pp. 3-4.

32/ E. Jiménez de Aréchaga, "International Law in the Past Third of a Century, Recueil des Cours, vol. 159, p.31 (1978), see also, J. Castañeda, Legal Effects of United Nations Resolutions, (Columbia University Press, 1969), chapter 7.

33/ United Nations Centre on Transnational Corporations, Transnational Corporations in World Development: Third Survey, (published in co-operation with the United Nations by Graham & Trotman Ltd., London, United Kingdom, 1985), pp. 119-128.

34/ United Nations Centre on Transnational Corporations, The United Nations Code of Conduct on Transnational Corporations, UNCTC Current Studies, Series A, No. 4, Annex II. C (1986).

35/ Derek W. Bowett, "Claims between States and private entities: The twilight zone of international law, Catholic University Law Review, vol. 35, p. 929 (1986).

36/ TD/CODE TOT/47; UNCTAD/TT/Misc.70; Wilner, "Applicable law and dispute settlement in the transfer of technology code", Journal of World Trade Law, 389 (1983); and Roffe, "Transfer of technology: UNCTAD's draft international code of conduct", The International Lawyer, vol. 19, 689, (1985).

37/ Julian Lew, Applicable Law in International Commercial Arbitration, p. 77 (1978).

38/ Bowett, op. cit. p. 932.

39/ TD/CODE TOT/47, appendices.

40/ See Roffe, op. cit., p. 704.

41/ On the concept of jus cogens, see, e.g., Brownlie, Principles of Public International Law (3rd Edition, Oxford University Press, 1982), pp. 512-5, where it is stated, on p. 513: "Other rules which may have this special status [of jus cogens] include the principle of permanent sovereignty over natural resources and the principle of self-determination."