Vanderbilt Journal of Transnational Law

Volume 14
Issue 2 *Spring 1981*

Article 8

1981

Antitrust and International Know-How

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ANTITRUST AND INTERNATIONAL KNOW-HOW LICENSING

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I. INTRODUCTION

It has been rumored that some political strategists would like to channel negotiations between developed countries of the North and developing countries of the South toward a trade-off allowing unrestricted access to Northern technology in exchange for decartelized supplies and prices for Southern raw materials. Each side would give away some of its heritage in exchange for improved access to the primary asset of the other. The negotiations have faltered. In regard to many crucial issues they have never really begun, and in some respects the two sides have moved further apart over time.[1] The classical economist sees no reason why either side should fear such a trade-off. In theory the free flow of goods and technology will make markets less imperfect, increase innovation, and give Northern and Southern consumers greater choice at lower prices. Governments and private firms, however,

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1. *See, e.g., The North South Dialogue,* 80 DEP'T STATE BULL. No. 2042, at 24 (1980); Cooper, *A New International Economic Order for Mutual Gain,* 26 FOREIGN POL'Y 66, 106-10 (1977); Leff, *The New Economic Order: Bad Economics, Worse Politics,* 24 FOREIGN POL'Y 202, 206-10 (1976).

are hesitant to act in accord with this thesis. Most nations value export promotion, job protection, and self-sufficiency at least as much as they do free trade and consumer welfare. Most private firms are unwilling to develop or transfer technology without guarantees of sufficient exclusivity to limit competitive risks and ensure an adequate return on their research and development investment.

Antitrust, the handmaiden of classical economics, can be used to police restrictive clauses in technology transfer agreements. Such restrictions are frequently restraints of trade in two senses. They limit trading freedom of the licensee and often restrain international trade in the products produced with the transferred technology. The Sherman Antitrust Act prohibits agreements that restrain trade among the states or with foreign nations. United States courts, however, early recognized that every contract restrains and that many business transfers vital to commerce and competition will occur only if accompanied by conditions designed to protect the continuing interests of the transferor and the newly created interests of the transferee.[2] United States judges, therefore, have distinguished between naked restraints of trade, which are treated as per se violations of the Sherman Act, and restraints ancillary to the transfer of valuable business assets for legitimate purposes, which are permitted if of reasonable scope and duration.[3]

It has long been established that trade secrets and other useful forms of know-how are valuable assets that may be either protected against unauthorized disclosure or licensed and subjected to appropriate conditions on use.[4] Virtually all of the states of the

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2. Foundry Services, Inc. v. Beneflux Corp., 110 F. Supp. 857 (S.D.N.Y. 1953), *rev'd on other grounds*, 206 F.2d 214 (2d Cir. 1953); Thoms v. Sutherland, 52 F.2d 592 (3d Cir. 1931); U.S. DEP'T OF JUSTICE, THE REPORT OF ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY ANTITRUST LAWS (1955) at 88. *See generally* United States v. Addyston Pipe & Steel Co., 85 F.2d 271, 282 (6th Cir. 1898), *aff'd as modified*, 175 U.S. 211 (1899); United States v. Columbia Pictures Corp., 189 F. Supp. 153, 178 (S.D.N.Y. 1960).

3. *See* R. BORK, THE ANTITRUST PARADOX, 263-79 (1978); L. SULLIVAN, ANTITRUST, 165-71 (1977).

4. MacDonald, *Know-How Licensing and The Antitrust Laws*, 62 MICH. L. REV. 351, 358-60 (1964); *see* Aktiebolaget Bofors v. United States, 194 F.2d 145, 148 (D.C. Cir. 1951) ("[O]ne who has lawfully acquired a trade secret may use it in any manner without liability unless he acquired it subject to a contractual limitation or restriction as to its use.").

United States and most countries extend at least some protection to trade secrets.[5] The United States Supreme Court has ruled that state protection of an unpatentable trade secret is compatible with the federal patent system.[6] It follows that the licensing of genuinely secret and valuable know-how is ordinarily a legitimate, pro-competitive transaction entitling any ancillary restrictions to rule of reason analysis rather than per se condemnation. In a number of recent cases, and in the Justice Department's Antitrust Guide for International Operations, the rule of reason approach to know-how licensing restrictions has been consistently supported in ways that generally uphold most licensor-imposed conditions. Nevertheless, there are still complaints that the law and government enforcement policies have left major uncertainties in this field.[7]

Uncertainties do persist. In some circumstances, use of know-how restrictions may still expose firms to antitrust or regulatory challenge. There appear to be three primary reasons for controversy. First, it is not always easy to determine whether the main purpose of licensing with restrictions supports competition, particularly if cartel-like or monopoly situations are present. Second, it is quite difficult, much more so than in the patent or trademark field, to define or predict the value, scope, or life-span of licensed know-how. Third, tying and export restrictions in international know-how licensing are viewed by many nations as being so detrimental to international trade and development that these clauses raise quasi-political issues and may be condemned by national law, regional agreements, or international codes of conduct, even if they are not violative of United States antitrust law.

II. Legitimate and Illegitimate Purposes

Many courts have suggested that the antitrust legality of technology transfers should turn on an analysis of whether the intent of the parties was legitimate. David MacDonald, a perceptive commentator, dismisses this approach as "chimerical":

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5. *See* A. Wise, Trade Secrets and Know-how Throughout the World (1974).

6. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974). *See also* Goldstein v. California, 412 U.S. 546 (1973).

7. Kirkpatrick and Mahinka, *Antitrust and the International Licensing of Trade Secrets and Know-how: A Need for Guidelines*, 9 Law & Pol'y Int'l Bus. 725, 727 (1977).

> [Both] in the case of a valid license of substantial know-how with an accompanying ancillary restraint, and that of a naked division of territories between competitors, the parties blatantly intend not to compete with each other with respect to the products involved. In both cases, moreover, payment is made from one party to the other in return for the other's promises not to compete. Finally, the agreement in both cases is intended to maximize the profits for each party in its respective territory.[8]

MacDonald concludes that legitimacy must be tested by determining whether the technical data being transferred is substantial, valuable, and secret. Also relevant is an analysis of how difficult it would be for the licensee to make the same product without the transferred know-how.[9]

Analysis and case law indicate that other factors are relevant in analyzing whether a know-how transfer arrangement should be deemed an illegitimate cartel. The presence of cross licenses and cross restraints is one indication. Another factor is whether the licensor and licensee were or would have been significant actual or potential competitors but for the arrangement. A final factor is whether the product, territorial, and temporal coverage is so extensive that it is unjustifiable by any legitimate business purpose and precludes significant competition among the contracting firms.

In five of the great international cartel antitrust cases shortly after World War II, *National Lead,*[10] *G.E. - Carboloy,*[11] *G.E. Lamps,*[12] *I.C.I.,*[13] and *Timken Roller Bearing,*[14] know-how exchanges and patent licenses were a significant part of broadscale, anticompetitive arrangements among leading, competitive, international firms. Elements of sham, misuse, and overreaching were found in each case. Restrictions extended beyond the life of the technology exchanged, covered products not necessarily ema-

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8. MacDonald, *supra* note 4, at 374.
9. *Id.*
10. United States v. National Lead Co., 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd,* 332 U.S. 319 (1947).
11. United States v. General Electric Co., 80 F. Supp. 989 (S.D.N.Y. 1948).
12. United States v. General Electric Co., 82 F. Supp. 753 (D.N.J. 1949), *modified,* 115 F. Supp. 835 (D.N.J. 1953).
13. United States v. Imperial Chem. Indus., Ltd., 100 F. Supp. 504 (S.D.N.Y. 1951).
14. United States v. Timken Roller Bearing Co., 83 F. Supp. 284 (N.D. Ohio 1949), *modified and, as modified, affirmed,* 341 U.S. 593 (1951).

nating from the technology, attempted to limit the rights of subsequent purchasers of these products, and extended to countries where no rights were held. It was not always clear that the exchanged know-how was secret, important, or even paid for. On the basis of these damning facts, the judges concluded that the exchanges' purpose and effect restrained rather than facilitated competition.[15] The opinions do not make clear how the know-how restrictions would have fared in simpler, more ordinary, commercial contexts. Later cases, however, do indicate that many forms of restrictions attached to know-how licenses are legitimate and reasonable in the context of one-way transfers between firms not previously significant competitors. In three private antitrust cases in which one party to a know-how license tried to avoid a territorial restriction by arguing that it violated the antitrust laws, trial courts ruled that the restraint was reasonable and therefore, enforceable.[16] One court justified its holding by noting that this was a single, isolated license among firms not previously in competition with each other.[17] Another stressed that "absent the licensed know-how, [the licensee] is in no condition to compete."[18] In the most recent case, the court summarized the previous law and commentary as indicating that legality should turn on whether: "(1) the subject matter of the license is substantial, valuable, secret know-how; (2) the restraint is limited to the 'life' of the know-how, i.e., the period during which it retains its secrecy; and (3) such restraint is limited to those products only which are made by use of the know-how." (citations omitted)[19]

In a few cases government antitrust challenges to a a restrictive know-how license were rejected. In the *Cellophane Case, United*

15. United States v. Imperial Chem. Indus., Ltd., 100 F. Supp. at 518; United States v. Timken Roller Bearing Co., 83 F. Supp. at 306; United States v. General Electric Co., 82 F. Supp. at 845-48; United States v. General Electric Co., 80 F. Supp. at 1014-15; United States v. National Lead Co., 63 F. Supp. at 524-27. *See also* Kirkpatrick and Mahinka, *supra* note 7, at 737; MacDonald, *supra* note 4, at 373.

16. A. & E. Plastik Pak Co. v. Monsanto Co., 396 F.2d 710 (9th Cir. 1968); Foundry Services, Inc. v. Beneflux Corp., 110 F. Supp. 857 (S.D.N.Y. 1953), *rev'd on other grounds*, 206 F.2d 214 (2d Cir. 1953); Shin Nippon Koki Co. v. Irving Indus., Inc., 1975-1 TRADE CASES ¶ 60,347, 186 U.S.P.Q. (BNA) 296 (N.Y. Sup. Ct. 1975).

17. Foundry Services, Inc. v. Beneflux Corp., 110 F. Supp. at 860-61.

18. A. & E. Plastik Pak Co. v. Monsanto Co., 396 F.2d at 714-15.

19. Shin Nippon Koki Co. v. Irving Indus., Inc., 1975-1 TRADE CASES at ¶ 66,440, 186 U.S.P.Q. (BNA) at 298.

States v. E.I. DuPont de Nemours & Co.,[20] the district court held that cellophane was not an illegal monopoly and that the know-how license from the French inventing firm to Dupont could legally restrict the United States firm to North American manufacture and sales while reserving Europe to the licensor. The Supreme Court affirmed on the grounds that cellophane was not a monopoly in light of competition from other flexible wrapping materials. Chief Justice Warren and Justices Black and Douglas noted in dissent their belief that the know-how license restriction was a per se illegal division of world markets.[21] In *United States v. Westinghouse Electric Corp.*,[22] the district judge dismissed a challenge to an allegedly restrictive patent and know-how arrangement, finding no restrictive agreement. The licensee refrained from competing in the United States only because of its fear of infringing Westinghouse's patent rights there. Both the defendants and the judge apparently assumed that such an agreement by the licensee would have been per se illegal if justified only by the know-how transfer and not by patent rights. The decision is being appealed.

In 1978 the Justice Department accused the Everest & Jennings wheelchair company of having illegally sought to entrench its monopoly position by interpreting its know-how license to require the British licensee to refuse to sell its lower-priced wheelchairs to any United States purchasers. The case was settled on the basis of a consent decree obliging the defendant to allow and even encourage foreign sales to United States customers.[23] Arguably, the cellophane and wheelchair cases are distinguishable since there are major substitutes for the former but not for the latter. In any event, the *Everest & Jennings* case indicates the Justice Department's emphasis on analyzing market structure and effects in selecting which licensing conduct to prosecute.[24]

20. 118 F. Supp. 41 (D. Del. 1953), *aff'd*, 351 U.S. 377 (1956).

21. 351 U.S. at 419 n.7.

22. 471 F. Supp. 532 (N.D. Cal. 1978), 1978-2 TRADE CASES ¶ 62,351.

23. United States v. Everest & Jennings Int'l, 1979-1 TRADE CASES ¶ 62,508 (C.D. Cal. 1979).

24. Address by D. Rosenthal, Department of Justice Antitrust Guide For International Operations On International Know-How Arrangements, ABA Section on Corporation, Banking and Business Law, New York City (Dec. 15, 1978), at 11-12.

III. Determining the Reasonableness of Scope and Duration

There are many reasons why it is not easy to determine whether ancillary restrictions to know-how licenses have reasonable scope and duration. If the restriction is solely on where or how the technology may be used, the restriction will almost undoubtedly be held reasonable in scope. If the restriction extends to use of the products resulting from the know-how, most courts have also treated this as appropriate. It is well-settled law that if a technological process is patented and then licensed, restrictions covering the products emanating from use of the process are a misuse of patent rights and may violate the antitrust laws.[25] While it may not be immediately apparent why unpatented know-how should justify restrictions on the ultimate product, most courts accept such different treatment for the know-how licensor. One rationale is that a know-how licensor is less capable of restricting competition than is a patent holder because the know-how owner has no legal right to prevent competing use of the same process or product, so long as the rival firm is not a licensee and has developed equivalent know-how by means not involving theft of proprietary information.

If the know-how relates only to one stage in a complex manufacturing process or to one minor product component, is it reasonable for the know-how licensor to restrict the use or sale of the final product? Case law is scant on the point. Arguably, the appropriate rule in regard to the product component situation is that significant restraint is justified only if those aspects of the product directly attributable to the know-how constitute a major portion of the product or are crucial to, and inseparable from, the rest of it.

The final issues relating to reasonable scope concern the permissible strictness of restraints on sale. Assuming that it is sometimes reasonable to prohibit a licensor or licensee from exporting to the other's territory, is it also reasonable to require either to refuse to deal with buyers from the protected territory who are prepared to purchase f.o.b. in the other territory in order to save money? Is it reasonable to prohibit either party from selling to a

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25. *See, e.g.,* Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940); United States v. Glaxo Group, Ltd., 302 F. Supp. 1 (D.D.C. 1969), *aff'd in part and rev'd in part,* 410 U.S. 52 (1973). *See generally,* Boston Store of Chicago v. American Graphophone Co., 246 U.S. 8 (1918).

third party known to be likely to resell the product in the protected territory? It does not seem inevitable as a matter of logic or policy that allowing the milder form of market division in the first situation requires toleration of the completely closed territories that would result from the latter two types of restrictions.[26]

The issue of the restriction's reasonable duration does not seem very complex on the surface. The courts define the know-how's life either as the time it remains secret or as the time it would have taken the licensor to have developed it himself. In its Antitrust Guide for International Operations, the Antitrust Division favors the second standard, the "reverse engineering" period.[27] This approach has been criticized by reviewers,[28] who argue that the standard is vague, sometimes inapplicable, and hard to predict.[29] The most obvious alternative, the as-long-as-it-remains-secret rule, is also difficult to predict and less precise than it appears. Present law provides little or no guidance whether the secret is lost if similar but not identical technology is used or published in another country. It is uncertain whose duty it is to find out if the know-how is still secret. If the licensor finds out, is he required promptly to relieve the licensee of all restrictions based on the know-how transfer?

Two United States commentators estimate that most know-how can be reverse engineered in three to five years and suggest a presumption that restrictions over five years are unreasonable unless specially justified by the licensor.[30] A third commentator, Mac-

26. Pitofsky, *The Sylvania Case — Antitrust Analysis of Non-Price Vertical Restrictions*, 78 COLUM. L. REV. 1, 28-29 (1978). *See also* Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36, 58-59 (1977) ("[W]e do not foreclose the possibility that particular applications for vertical restrictions might justify *per se* prohibition under *Northern Pac. R. Co.*"); Cowley v. Braden Indus., Inc., 613 F.2d 751 (9th Cir. 1980), *cert. denied*, 48 U.S.L.W. 3762 (May 27, 1980).

27. U.S. DEP'T OF JUSTICE, ANTITRUST GUIDE FOR INTERNATIONAL OPERATIONS 31 (1977) [hereinafter cited as INTERNATIONAL GUIDE], *reprinted in* 799 ANTITRUST & TRADE REG. REP. (BNA) E, E-9 (1977).

28. *See, e.g.*, Kirkpatrick and Mahinka, *supra* note 7, at 743-44; Seki, *Justice Department's New Guide for International Operations — A Summary and Evaluation*, 32 BUS. LAW. 1633, 1653-54 (1977).

29. *See, e.g.*, Fugate, *The Department of Justice's Antitrust Guide for International Operations*, 17 VA. J. INT'L L. 645, 673-75 (1977); Griffin, *A Critique of the Justice Department's Antitrust Guide For International Operations*, 11 CORNELL INT'L L.J. 215 (1978); Seki, *supra* note 28, at 1654.

30. Adelman and Brooks, *Territorial Restraints in International Technology Agreements After Topco*, 17 ANTITRUST BULL. 763, 771-72 (1972) (three

Donald, argues that once know-how passes into the public domain, restrictions should be unenforceable either because of practical and commercial realities or because the courts will decline to enforce the contract further in light of changed circumstances.[31] Subsequent rulings do not fully bear out this view. In 1979 the Supreme Court held in *Aronson v. Quick Point Pencil Co.* that nothing in federal law requires that a licensee be relieved of the obligation to continue paying royalties for use of unpatentable know-how after it has passed into public knowledge.[32] The Court's opinion noted that the antitrust laws might be offended if the condition had been a significant limitation on competition rather than a small royalty that admittedly did not prevent the licensee from competing in the market. This was not an agreement among competitors.

The issue of reasonable duration is further confounded by the frequent practice of licensing a continuing stream of know-how. If the first year's know-how justifies a five-year competition restriction, does each new year's supply of improvements, lab and test data, or personal guidance justify an additional period of years in which potential competition may be suppressed? One answer would seem to be yes, unless the follow-up is unimportant or even a sham. In a broader sense, however, there must ultimately be a limit on the length or breadth of a major restraint of trade. All protection of inventions or secrets is a bargain between society and inventors. The public benefits most if the law encourages invention, at no greater sacrifice of competition or allowance of monopoly return than is necessary.

The Antitrust Division is unpersuaded by the contention that permanent or open-ended export prohibitions are reasonable because they probably will not last forever. The Division would probably challenge open-ended restrictions that continue beyond a reasonable time if significant United States commerce is affected. The parties can more convincingly demonstrate the reasonableness of their intentions by setting forth a definite time limit after which restrictions fade away.

The relevance of the international context should not be forgotten. The courts will reject challenges to licensing restrictions if such restrictions produce no direct, substantial, and foreseeable

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years). *See also* Seki, *supra* note 28, at 1653n.78.

31. MacDonald, *supra* note 4, at 377.
32. 440 U.S. 257 (1979).

effects on United States commerce. A United States firm's know-how license to Germany with a ban on selling into Sweden would not be cognizable under the Sherman Act, regardless of whether it was unreasonable or not, since the restriction is by its terms on German-Swedish commerce rather than United States commerce. Another feature of the international context is that it may make territorial restrictions less necessary than they might be within the United States. A foreign licensee desiring to compete with his United States licensor in this country must overcome the handicaps of the license fee or royalty, any tariffs that may exist, and freight charges. If the goods are patented or trademarked, sale back into the United States is illegal without a license of the relevant rights. This suggests that such competition will not occur unless the foreign licensee can produce the goods far more cheaply than is possible in the United States. Thus, it is in the consumer's interest for antitrust officials to examine critically the profferred justifications for export-restrictive licenses. Some argue that protecting the United States market is particularly justifiable when the know-how is licensed to a non-market economy country since such licensees are particulary likely to sell goods back to the United States at predatory low prices unrelated to cost. The Justice Department rejects this approach on the grounds that the Anti-Dumping Act of 1921, as amended, provides adequate safeguards against unfair low prices from abroad and has a special clause dealing with imports from socialist countries. For these reasons, private contractual restraints are superfluous and dangerous.[33]

Under United States antitrust law, many offenses other than territorial restrictions may relate to know-how transfers. It is usually a violation of Sherman Act section 1 for a party possessing significant market power in one product to insist that a customer accept other, separable products, assets, or services as a condition of obtaining the desired item.[34] Thus, unjustified package licensing of know-how, patents, or trademarks can constitute an antitrust offense. When a supplier licenses or franchises a trademarked product or service, it may be reasonable to require an

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33. 19 U.S.C. § 160, *as amended by* The Trade Act of 1974, Pub. L. No. 93-618 § 321 (a), 88 Stat. 2043 (1975); *see* INTERNATIONAL GUIDE, *supra* note 27, at E-12.

34. *See* United States v. Loew's Inc., 371 U.S. 38 (1962); N. Pac. Ry. v. United States, 356 U.S. 1 (1958).

ancillary transfer of know-how in order to ensure that the nature and quality of the trademarked item is maintained by the recipient. Packaging may be convenient for both parties. A licensor should not be forced to disclose valuable know-how in response to a buyer's demand to be informed of specifications for a product or service as an alternative to obtaining it from the licensor.[35] In its Antitrust Guide for International Operations, the Justice Department states that a tying clause in an international know-how license is illegal only if it has the effect of foreclosing important foreign markets to rival sellers from the United States.[36]

IV. FOREIGN AND INTERNATIONAL STANDARDS FOR KNOW-HOW RESTRICTIONS

Even if restrictions in international know-how licenses do not contravene United States antitrust law because they are reasonable or have no adverse effect in this country, they may nevertheless raise issues under foreign law or international standards of conduct. Antitrust laws exist in eighteen of the twenty-four Organization for Economic Cooperation and Development (OECD) nations, in a dozen or so of the more important newly-industrializing nations, and in important regional associations such as the European Common Market, the European Free Trade Association, and the Caribbean Compact.[37] In addition, special laws for screening technology transfer arrangements exist in about twenty developing countries and in the Andean Pact Zone.[38] All these

35. *See, e.g.*, United States v. Jerrold Elec. Corp., 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961).

36. INTERNATIONAL GUIDE, *supra* note 27.

37. *See* ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT [hereinafter OECD], GUIDE TO LEGISLATION ON RESTRICTIVE BUSINESS PRACTICES (4th ed., 1976); UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT [hereinafter UNCTAD], Annual Report on Legislative and Other Developments in Developed and Developing Countries in the Control of Restrictive Business Practices, U.N. Doc. TD/B/C. 2/AC. 6/15 (1978) and U.N. Doc. TD/B/750 (1979); UNCTAD, Laws and Regulations Relating to the Control of Restrictive Practices, U.N. Doc. TD/BC.2/AC.5/Misc. 1 (1975); and UNCTAD, Control of Restrictive Business Practices in Latin America (Addendum), U.N. Doc. ST/MD/4/ Add. (1975).

38. These nations include Mexico, Colombia, Venezuela, Equador, Peru, Chile, Argentina, Brazil, the Dominican Republic, India, Japan, Portugal, Nigeria, Korea, Romania, Spain, Yugoslavia, and Zambia. For treatment of technology transfer in the Andean Pact Zone, see Decision No. 24 of the Commission of the Cartagena Agreement, Common Regime for the Treatment of Foreign Capi-

laws and regulations are potentially applicable to know-how licensing restrictions; many are now being used to prevent or control such restrictions. A number of voluntary international codes setting forth rules or standards are also relevant to restrictions in know-how licensing and other technology transfers. One example is the OECD-promulgated guidelines for multinational enterprises of 1977.[39] A United Nations conference agreed to a set of Principles and Rules for the Control of Restrictive Business Practices in May 1980.[40] Another United Nations conference has been attempting for five years to reach agreement on a code of conduct for technology transfer.[41] Though still fragmentary, that code contains some agreed-upon language relating to know-how restrictions to be avoided and some disputed text indicating practices that are objectionable to developing and socialist countries but defended by Western nations. Thus, an international tying clause, such as one requiring a foreign licensee to purchase goods or services not required to assure technically satisfactory exploitation of the know-how in a license, might not violate United States antitrust law because it does not restrain commerce in this country.[42] Yet, this would probably violate national antitrust laws if required of a licensee in Britain,[43] France,[44] or Germany[45] and might violate Common Market antitrust law.[46] Export restrictions

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tal and for Trademarks, Patents, Licenses and Royalties, cited in UNCTAD, Control of Restrictive Trade Practices in Latin America, U.N. Doc. ST/MD/41 Add. 1, at 136-46 (1975); *see* Ebb, *Transfers of Technology in Latin America: The Birth of Antitrust Law?,* 43 FORD. L. REV. 719 (1974).

39. OECD, RESTRICTIVE PRACTICES OF MULTINATIONAL ENTERPRISES (1977) [hereinafter cited as MULTINATIONAL ENTERPRISES].

40. *See* UNCTAD, The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Practices, U.N. Doc. TD/RBP/Conf./10 (1980).

41. *See* UNCTAD, Report of the Committee on Transfer of Technology on Its First Session, U.N. Doc. TD/B 1593-TD/B/C. 6/17 (1976); UNCTAD, Draft International Code of Conduct on the Transfer of Technology, Doc. TD Code TOT/25 (1980). *See also* UNCTAD, Major Issues Arising From the Transfer of Technology to Developing Countries, U.N. Doc. TD/B/AC. 11/10 Rev. 1 (1974); UNCTAD, The Role of the Patent System in the Transfer of Technology to Developing Countries, U.N. Doc. TD/B/AC. 11/19 (1975).

42. INTERNATIONAL GUIDE, *supra* note 27, at 37-39.

43. Report on the Supply of Certain Industrial and Medical Cases, [1956] H.C.P. 13; Report on the Supply and Processing of Colour Film, [1966] H.C.P. 1.

44. Ordinance No. 45-1483 (June 30, 1956), art. 37-1(c).

45. §§ 20(2)(1) and 21, Law Against Restraints of Competition.

46. Treaty Establishing the European Economic Community, Mar. 25, 1957,

are also frequently found objectionable under European laws. Although it does not restrain commerce in this country when a United States licensor requires a Dutch licensee not to sell products produced under German or French know-how, such an export restriction would apparently violate Common Market antitrust rules designed to eliminate barriers to the free movement of goods and services between its member states.[47]

The United States and several foreign antitrust systems are developing rules for patent licensing somewhat more rapidly than for know-how licensing. The Common Market Commission has rendered numerous patent licensing decisions, including some that involve know-how clauses.[48] A number of decisions in German antitrust law apply the same rules to know-how and patent licenses. The most recent decision of the German Supreme Court holds that a perpetual agreement to pay royalties for know-how used to produce a drug does not extend beyond the scope of the licensed technology and, therefore, does not constitute an antitrust violation, so long as the know-how retains its secret character. Whether the know-how retains its secrecy, at least in the drug field, depends not on whether a man of average skill in the art could produce something of like medical character, but on whether he would be able to simulate the same production process using the same material and production steps.[49]

The technology screening laws of developing countries are more stringent in many ways than United States and Common Market antitrust rules. These laws are not necessarily designed to promote competition. The primary objectives are to strengthen the bargaining position of local technology recipients, to promote their countries' development goals, and to improve the balance of payments. This is usually accomplished by a government screening board that reviews all licenses of foreign technology before a license is effective under local law and permission is granted to pay royalties. The Mexican Law on the Transfer of Technology

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art. 85 (1)(e), 298 U.N.T.S. 11.

47. *Id.* art. 84 (1)(c); Consten and Grundig v. E.E.C. Commission [1966] COMM. MKT. L.R. 418.

48. Re Kabel Metal's Agreement, O.J. EUR. COMM. (No. L 222) 34 (1975), [1975] 2 COMM. MKT. L. R. D. 40; Re Davidson Rubber Co., J.O. COMM. EUR. (No. L 143) 31 (1972), [1972] COMM. MKT. L. R. (Rest. Pract. Supp.) D 52; Re Burroughs-Delplanque, J.O. COMM. EUR. (No. L 13) 50 (1972), [1972] COMM. MKT. L. R. (Rest. Pract. Supp.) D 67.

49. Judgment of Feb. 12, 1980, W. Ger. [1980] WuW/E BGH 1693; 11 IIC.

and the Use and Exploitation of Patents and Trademarks, for instance, prohibits restrictions such as requiring grant-backs of improvements to the technology supplier, limitations on the licensee's research or technological development export restrictions contrary to the country's interest, limitations on production volume, and arrangements for the supplier to exclusively purchase goods produced under the licensed technology.[50]

Developing countries find know-how a particularly suspicious form of industrial property. Technology suppliers consider know-how and trade secrets to be legally-recognized proprietary technology that must be licensed with adequate safeguards to protect the owner's rights. Developing countries, on the other hand, argue that unpatented technology cannot be licensed and must be sold to the recipient, thus ending the supplier's proprietary rights at the earliest possible time. The Brazilian technology screening board, known as the National Industrial Property Institute, uses a rule of thumb of five years maximum for know-how protection. After that period, payment of royalties and secrecy obligations expire. Signs of conservatism, however, are emerging. In at least one case Brazil approved a secrecy period of fifteen years.[51] In Mexico the courts have ruled that although the technology screening law requires only that licensed know-how be held secret for the duration of the registered technology transfer agreement, the licensee has a legal obligation not to reveal the know-how as long as the know-how remains secret.[52] Argentina revised its technology laws to protect know-how more fully after an earlier, more stringent law discouraged investment and licensing.[53]

The OECD guidelines suggest that multinational firms should "allow purchasers, distributors and licensees freedom to resell, export, purchase, and develop their operations consistent with law, trade conditions, the need for specialization and sound commercial practice."[54] This obviously implies that export restrictions and tying clauses in know-how licenses are presumptively suspi-

50. *See* ABA SECTION OF INT'L LAW, Technology Transfer: Laws and Practice in Latin America, App. A-1 (1978). [hereinafter cited as TECHNOLOGY TRANSFER].

51. *Id.* at 166, 184.

52. Wise, *Protection of Trade Secrets in Latin America*, in WORLD TRADE INSTITUTE FOURTH ANNUAL SYMPOSIUM ON INTERNATIONAL LICENSING AND DISTRIBUTION (1977).

53. TECHNOLOGY TRANSFER, *supra* note 50, at 219.

54. MULTINATIONAL ENTERPRISES, *supra* note 39, at 69.

cious, but makes clear that such restrictions may be justified.[55]

A recently adopted United Nations voluntary Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices[56] contains no rules dealing expressly with know-how licensing. The rules are, however, universally applicable to all transactions in goods and services, and most know-how transfers probably are involved with such transactions. The rules condemn cartel practices such as market allocation and abuses of dominant positions of market power. Dominant firms are not to impose restrictions on where, or to whom, goods may be exported or to tie goods or services to each other unless justified for reasons of quality, safety, adequate distribution, or service.[57]

In the Draft International Code of Conduct on the Transfer of Technology,[58] a number of provisions relate directly to restrictions in know-how licenses. The Code condemns arrangements that impose acceptance of additional technology, further improvements, or goods or services not wanted by the acquiring party, unless required to maintain the quality of the product when the supplier's name or trademark is used or a guarantee is involved. Export restrictions are also covered by the Code, but the major groups of nations are unable to agree on whether transferred know-how justifies such restrictions. The Western countries would condemn only unreasonable export restrictions and would accept such clauses, *inter alia,* when used to prevent export to countries where the know-how is still secret. The socialist countries did not agree that a know-how transfer justifies export restrictions, but stated that it is legitimate to transfer technology on the condition that exports not be made to another country where the licensor has already granted exclusive rights to use the same technology. The developing countries wished to condemn all export restrictions in technology licenses,[59] though some delegates suggested that an export restriction might be justified if it pre-

55. *Id.*

56. UNCTAD, The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, U.N. Doc. TD/RBP/Conf./10 (1980).

57. *Id.* at Annex, § D(f).

58. UNCTAD, Draft International Code of Conduct on the Transfer of Technology, U.N. Doc. TD/Code TOT.25 (1980) [hereinafter cited as TOT Code].

59. *Id.* at ch. 4, § B.10.

vented sales to a country where the same technology had already been exclusively licensed and had actually led to production there. Another disputed provision concerned restricting the use of know-how after the arrangement's termination or after the know-how lost its secret character. Developing countries condemned all restrictions that continue in these two situations. Western nations were against such restrictions only if the arrangement has terminated, all other obligations of both parties have been met, and the technology has entered the public domain.

A continuing area of uncertainty and controversy in international know-how licensing concerns whether restrictions in licenses to subsidiaries or other affiliated companies should be treated more permissibly than those to companies totally independent of the licensor. In *Timken*[60] the restrictions were contracts with joint ventures and other affiliated companies. This was also true in the recent *Everest & Jennings* case.[61] In both cases, however, abuse of a monopoly position was present, and the affiliate was partially owned by a rival or a potential rival. In its Antitrust Guide For International Operations, the Department of Justice indicates that it will not challenge restrictive arrangements between a parent company and its majority owned or controlled subsidiaries abroad.[62] In one example concerning a know-how license to a joint venture in Japan, the Department treated an exclusive grant-back from an affiliated firm more permissively than one from an independent company. In the *Centrafarm-Sterling Drug* case the Court of Justice of the European Common Market ruled that it is not illegal for a parent company to include in its licenses export restrictions[63] on the products that its subsidiaries manufactured with its technology. On the other hand, some developed countries, such as Canada, reserve the right to prohibit directives by foreign parents preventing exports by local subsidiaries.[64] Those developing countries that screen know-how licenses to remove objectionable restrictions regularly monitor parent-subsidiary licenses just as often as those between independent companies. In the international technology transfer code negotiations,

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60. 83 F. Supp. 284.

61. 1979-1 TRADE CASES ¶ 62,508.

62. INTERNATIONAL GUIDE, *supra* note 27, at 12-13.

63. Centrafarm B.V. v. Sterling Drug, Inc., [1974 Transfer Binder] COMM. MKT. REP. (CCH) ¶ 8246.

64. MULTINATIONAL ENTERPRISES, *supra* note 39, at 35.

there has been a continuing disagreement about whether to have a provision stating that licenses among affiliated firms should be treated differently. The Western nations condemned such restrictions only when they amount to an abuse of a dominant position of market power, for instance, by injuring the competition of an unaffiliated third party. Developing countries allow parent-subsidiary restrictions only when such clauses are viewed by the licensee's country to be in that country's overall interest.[65]

V. CONCLUSION

Antitrust and regulatory officials both in the United States and abroad are certain that know-how transfers will increasingly constitute a very high percentage of all technology transfers and are absolutely crucial to the balanced growth of world trade and development. The importance of the phenomenon, the demonstrated potential for occasional anticompetitive abuse, and the political controversies that major restraints engender, all militate that rules limiting know-how restrictions must be developed. The double dilemma, which remains largely unresolved, is first, how to prevent abuses while encouraging transfers, and second, how to fashion uniform, clear, and predictable rules while retaining the flexibility necessitated by the great variety of fact patterns and competitive or commercial motivations involved. The approach of United States antitrust regulation to this subject has characteristically leaned in a non-interventionist and ad hoc direction. The Justice Department does not require the registration of know-how licenses or screen them in any systematic way. United States case law has applied a rule of reason emphasizing the competitive position of the firms involved and the context of the transfer and restraints. On the other hand, when the demand for clarity and certainty became intense, the Antitrust Division did issue a guide explaining its enforcement attitude toward international know-how restrictions. That publication has nevertheless been criticized for lack of absolute certainty. Thus, the need for careful legal advice and continuing dialogue between government and business, and among governments, remains evident.

65. TOT Code, *supra* note 58, ch. 4, § A.