

THE VALIDITY OF TRANSNATIONAL TECHNICAL KNOW-HOW LICENSING AGREEMENTS IN THE UNITED STATES COURTS

Though many criteria have affected the decision of whether or not a United States company should participate in a foreign know-how licensing program, a new basic factor is the possibility that a transnational technical know-how licensing agreement will not be recognized by the United States courts. In January of 1970, the Antitrust Division of the United States Justice Department organized a special "Patent Unit". The stated purpose of the Patent Unit is to handle "litigation involving restrictive practices in licensing of patents and technology."¹ The drawing of a distinction between patents and technology may signal a readiness of the Justice Department to challenge the protection which has previously been afforded know-how in the United States courts.

This Comment discusses some of the circumstances that may affect the probability of judicial recognition of know-how licensing agreements in the United States courts. In general, judicial recognition of know-how licensing agreements is determined by the courts interpretation of where the balance point should be located between the concepts of protection of a property interest in know-how and that of not permitting parties to maintain an interest in industrial intellectual property beyond the limits established by the United States Congress. Two recent decisions of the United States courts, *Lear v. Adkins* and *Painton and Co. v. Bourns, Inc.*, may greatly affect the probability of judicial recognition of know-how licensing agreements.² Prior to a discussion of these cases and their significance to drafters of transnational know-how licensing agreements, the terminology relating to know-how and patent agreements, the scope of the United States patent laws and their relationship to general antitrust concepts, the nature and use of transnational technical know-how licensing agreements, the developing law of know-how protection, and the cases leading up to *Lear* and *Painton* may be profitably examined.

1. Department of Justice Press Release of January 6, 1970.

2. *Lear v. Adkins*, 395 U.S. 653, 162 U.S.P.Q. 1 (1969); *Painton and Co. v. Bourns, Inc.*, 309 F. Supp. 271, 164 U.S.P.Q. 595 (S.D.N.Y. 1970).

I. TERMINOLOGY

Some of the difficulties in dealing with know-how licensing agreements can be traced to the use of vague terminology. In regard to the transfer of property rights, assignment, as used herein, means a total disposition of the right or rights transferred. A transfer of rights in intellectual property that does not amount to an assignment is a license.³ While the expression, "know-how", is a convenient generic term to describe a variety of different matters, it does not adequately delineate protectable subject matter. Know-how is much broader than, and includes, that information commonly referred to as "trade secrets." Know-how is often used to describe such diverse items as formulae, drawings, patterns, company records, specifications, product and process manuals, quality control techniques, details of shop technique and technical training given to employees, and the experience and craftsmanship of technicians. It is the aggregate of information essential to the functioning of the company as a competitive unit in the industry. It should be noted that know-how encompasses both inventions which are patentable but not patented, and innovations incapable of being patented because they do not rise to the level of invention set by the United States patent law.

II. THE SCOPE OF THE U.S. PATENT LAWS AND THEIR RELATION TO THE ANTITRUST LAWS

Article I, Section 8 of the United States Constitution authorizes Congress to promote the progress of science and the useful arts by granting exclusive rights to inventors.⁴ Exercising this power, the United States Congress enacted the Patent Act.⁵ The Patent Act, in Section 101, grants eligibility for patent protection to inventors of new and useful processes, machines, manufactures or compositions of matter. To be eligible for patent protection an invention may not be subject matter that as a whole would have been obvious, at the time the invention was made, to a person having ordinary skill in the art to which said subject matter pertains.⁶

3. WALKER, *DELLER'S EDITION OF WALKER ON PATENTS* ¶ 366, at 1439-1460 (1937); *see also* W. SURREY & C. SHAW, *A LAWYERS GUIDE TO INTERNATIONAL BUSINESS TRANSACTIONS* 130-146 (general discussion of transnational licensing terminology), 167-169 (sample know-how licensing agreement) (1963).

4. U.S. CONST. art. I, § 8, cl. 8.

5. 35 U.S.C. §§ 1-293 (1964), as amended, 35 U.S.C. §§ 41-288 (Supp. V, 1970) [hereinafter referred to as the Patent Act].

6. Patent Act § 103 (1964); *see also* Patent Act §§ 100-104 (1964).

Assuming the proper and timely disclosure of an eligible invention in a patent application, the applicant receives the right to exclude all others from making, using or selling the invention throughout the United States for a term of seventeen years.⁷ Any infringer of a valid patent may be enjoined from further infringement and is subject to the payment of damages.⁸ The right to license a patent and receive royalty payments is authorized by the Patent Act and has widespread case law support.⁹ In Section 271(d), the Act provides that “no patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . derived revenue from acts . . . [or] licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent. . . .”

Since the passage of the Sherman Antitrust Act in 1890, the federal courts have sought to reconcile that Act with the Patent Act. On the one hand, the Sherman Act states that “[e]very contract . . . in restraint of trade or commerce . . . is hereby declared to be illegal . . .”,¹⁰ and that “[e]very person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of . . . trade or commerce . . . shall be deemed guilty of a misdemeanor. . . .”¹¹ On the other hand, the main feature of a patent is the power it confers upon its holder to exclude others from making, using or selling the patented invention. The granting of patents is based upon the belief that this exception to antitrust policy actually serves free competition by stimulating invention through the creation of rewards for invention, creating economic protection in areas of high initial investment costs, effecting full disclosure of scientific progress, and by stimulating new ideas and the cross fertilization of such ideas.

It is important for our later analysis to note that licensing is a partial release of the patentee’s legally recognized monopoly position. By licensing the invention, a patentee permits someone else

7. Patent Act § 154 (1964), as amended (Supp. V, 1970).

8. *Id.* at §§ 283-85; see *Brand Plastics, Inc. v. Dow Chemical Co.*, 168 U.S.P.Q. 133 (C.D. Cal. 1970).

9. Turner, *Patents, Antitrust and Innovation*, 28 U. PITT. L. REV. 151 (1966).

10. 15 U.S.C. § 1 (1964).

11. *Id.* at § 2 .

to produce the invention. As the number of licensees increases, the number of competitors and products utilizing the invention increases. This results in a cross fertilization of ideas, a more widespread utilization of the invention, and a consequent reduction in the patentee's monopoly position, i.e., his legally recognized exemption from the antitrust laws.

III. THE NATURE AND USE OF TRANSNATIONAL TECHNICAL KNOW-HOW LICENSING AGREEMENTS

There is a widespread practice of licensing know-how analogous to patent licensing. This practice has arisen because the accumulation of information and its integration into a competitive operation generally requires significant expenditures of time and capital. By licensing a proven process and the penumbra of know-how, a company can establish itself as a manufacturer with a minimum of the trials and failure that are inherent in entering a new field of endeavor. An agreement to supply know-how may be the primary basis of a transaction. On the other hand, it may be a mere appendage to a principle agreement involving patents, copyrighted designs, and trademarks. Though licensing agreements generally consist of a combination of intellectual property rights, the most prevalent element in licensing appears to be know-how.¹²

During the last decade, the use of transnational technical know-how licensing agreements has been increasing rapidly as a growing number of United States companies have responded to demands from abroad for technology and know-how. Many United States firms have seen know-how licensing as a means of producing income and of augmenting export sales and investment programs.¹³ Some United States companies specialize in know-how licensing due to a disinclination to commit large amounts of capital abroad.¹⁴ Such licensors depend primarily on continued development to maintain their know-how lead.¹⁵ Other firms commonly contract to supply the necessary know-how for the construction and subsequent operation of manufacturing plants. Such

12. Lightman, *Compensation Patterns in U.S. Foreign Licensing*, 14 IDEA 2 (1970).

13. *Id.*

14. W. FRIEDMAN & G. KALMANOFF, *JOINT INTERNATIONAL BUSINESS VENTURES* 152 (1961).

15. National Industrial Conference Board, *1 Foreign Licensing Agreements* 20 (1958).

contracts for the supply of know-how often provide for the consideration given to be in the form of royalties on goods manufactured through utilization of the transferred know-how.¹⁶ This commercial activity has favorably affected the United States balance of trade. Foreign licensing income to United States businesses amounted to slightly over one billion dollars for 1964, one billion, one hundred and thirty-six million dollars for 1967, and over one and a quarter billion dollars for 1968.¹⁷

IV. THE DEVELOPING LAW OF KNOW-HOW PROTECTION

There is a discernable trend, both in the United States and abroad, to recognize a property right in know-how.¹⁸ In 1961, the International Chamber of Commerce, following a study of the laws and practices of various countries relating to the problems associated with the protection of know-how internationally, concluded, in part, that:

[t]echnological improvements developed by business enterprises whether patentable or not, commonly referred to as know-how, have become . . . tremendously valuable subjects of industrial property supplementing patents and other rights . . . , and are the subject matter of an increasing number of very important agreements between business enterprises.

The protection of know-how . . . is therefore a keenly felt need if the communication of know-how between enterprises to promote economic and technical progress is to be encouraged¹⁹

Know-how has been recognized by the United States courts as a type of property which can be sold, assigned, licensed, taxed and exchanged for equity in a company.²⁰ Protection of know-

16. See W. SURREY & C. SHAW, *A LAWYERS GUIDE TO INTERNATIONAL BUSINESS TRANSACTIONS* 130-146 (1963).

17. Based on figures published by the United States Department of Commerce; see Lightman, *supra* note 12.

18. Fetterley, *Historical Perspectives on Criminal Laws Relating to the Theft of Trade Secrets*, 25 *BUS. LAWYER* 1535 (1970); see European Economic Community Anti-Trust Law, Art. 4(2)(ii)(b) of Regulation No. 17; see also Von Notten, *Know-How Licensing in the Common Market*, 38 *N.Y.U. L. REV.* 525, 531 (1963).

19. International Chamber of Commerce, *Statements and Resolutions 1959-1961*, at 98-99; see International Chamber of Commerce Document No. 450/198 (December 27, 1960); see also Newcomer, *Legal Protection and Licensing of Know-How Internationally*, 7 *AM. BUS. L.J.* 227 (interpretation of the Resolution adopted by the International Chamber of Commerce) (1970).

20. Nash, *The Concept of Property in Know-How*, 6 *PAT. TRDMK. COPY. J.* 289, 294, 295 (1962).

how cases have generally arisen in regard to contract rights and protection has usually been given through the enforcement of those rights. The conduct prohibited is essentially the economic interference with an advantageous competitive position of the plaintiff represented by the value of the know-how to the plaintiff. Remedies have been given where the courts have found such a relationship between the parties as to make it unfair for the defendant to appropriate, misuse or divulge, without authorization from the owner, know-how information communicated by the owner to the defendant or obtained without authorization of the owner.²¹

V. THE PREEMPTION-PUBLIC DOMAIN DOCTRINE PRIOR TO LEAR V. ADKINS

In both *Sears, Roebuck & Co. v. Stiffel Co.*²² and *Compco Corp. v. Day-Brite Lighting Co.*,²³ a patentee brought suit alleging infringement and unfair competition because the defendants were producing lighting fixtures which were substantially similar to those covered by the plaintiff's design patent. In both cases the patents involved were declared invalid. Nevertheless, the defendants were enjoined from selling the products by the state courts on the ground that the likelihood of confusion as to the source of the products resulted in unfair competition. The Supreme Court reversed, holding in both cases that a state may not prohibit simulation of unpatented articles because such prohibitions conflict with the federal patent policy.²⁴ The Supreme Court used the public

21. See, e.g., CAL. PENAL CODE § 499(c) (1967); N.J. REV. STAT. 2A: 119-5.1 (Cum. Supp. 1965); see also Fetterley, *Historical Perspectives on Criminal Laws Relating to the Theft of Trade Secrets*, 25 BUS. LAWYER 1535, at 1538 (1970); see for 1909 *German Law of Unfair Competition*, THE ENCYCLOPEDIA OF PATENT PRACTICE AND INVENTION MANAGEMENT 497, 499, 507 (R. Calvert ed. 1964); *DuPont Powder Co. v. Masland*, 244 U.S. 100 (1917) (Justice Holmes: "The word 'property' as applied to trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes so rudimentary requirements of good faith.")

22. 376 U.S. 225 (1964).

23. 376 U.S. 234 (1964).

24. U.S. CONST. art. VI, § 2. It was stated in *Stiffel*, 376 U.S. at 231-32 that: "Obviously a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents. . . . Just as a State cannot encroach upon the federal patent law directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws."

domain notion that anything not protected by patent, copyright or trademark, may be copied to prevent courts from applying state law of unfair competition, where the result of such application would be to grant monopolies to manufacturers of unpatentable products.²⁵ In determining that the state law of unfair competition must give way to the federal interest in free competition, the Court reasoned that Congress had promulgated a comprehensive national legislative program for the administration of the patent system.²⁶ *Compco* and *Stiffel*, by resting on preemption, held that the state law could not be the basis of monopoly powers similar to those conferred by the Patent Act.²⁷ Justice Harlan, however, in his concurring opinion to *Compco*, suggested that state unfair competition law was not preempted when its purpose was to prevent predatory business practices.

The *Stiffel* and *Compco* cases were generally viewed by state and federal district courts as not being conclusive in determining the viability of know-how protection on the basis that the issue of inequitable behavior in obtaining the design was not present in either case and that copied articles were readily obtainable by the general public.²⁸ Prior to *Lear v. Adkins*, in spite of the *Stiffel* and *Compco* decisions, few persons questioned the fact that know-how could be licensed for consideration. However, when *Lear v. Adkins* was handed down by the Supreme Court of the United States, considerable concern was expressed by members of the know-how licensing field. It was speculated that comments in the dissenting opinion might be the harbinger of a rejuvenated attack by the federal judiciary upon the developing law of know-how licensing.²⁹

VI. LEAR V. ADKINS³⁰

Adkins, an inventor, was hired by Lear to develop a gyroscope of improved accuracy for use in aircraft navigation systems.

25. A comprehensive analysis of the *Compco* & *Stiffel* cases is presented in Treece, *Patent Policy and Preemption: The Stiffel and Compco Cases*, 32 U. OF CHI. L. REV. 80 (1964).

26. 376 U.S. at 228-30.

27. Treece, *supra* note 25, at 96.

28. Milbank, *Finders Keepers, Licensors Weepers*, 52 J. PAT. OFF. SOC'Y 353 (1970).

29. Turner, *U.S. Antitrust Laws and Territorial Provisions in Licensing Foreign Patents and Know-How for Foreign Use*, 24 RECORD 512 (1969).

30. 395 U.S. 653, 162 U.S.P.Q. 1 (1969).

After two years of work, Adkins succeeded in developing a satisfactory device. Lear then began using Adkins' device in production. Adkins filed a patent application on his improvements and entered into negotiations with Lear to conclude a licensing agreement. After three years, an agreement was reached under which Lear undertook to pay Adkins royalties for his improvements. The patent was issued eight years after the application had been filed and five years after Lear agreed to pay royalties on the use of the invention embodied in the patent application. As long as three years before the patent was issued, Lear refused to pay royalties to Adkins for the use of his ideas. Upon issuance of his patent, Adkins brought an action to obtain payment of back royalties. In response, Lear successfully challenged the validity of Adkins' patent.

The Supreme Court, speaking through Justice Harlan, held that technical knowledge in general circulation is open to utilization by anyone, except where it is protected by a valid and unexpired patent. As a result of this holding, the date of issuance of a patent bars a claim for royalties for use of the invention thereafter where the patent is subsequently found to be invalid. The Supreme Court noted the difference in the status of claims for royalties arising from the use of the invention during the period preceding the issuance of the invalid patent. However, the Supreme Court expressly refrained from spelling out the applicable federal principles which state courts should apply in deciding this issue. The Supreme Court stated that it should not attempt to define, even in a limited way, the scope of the state's power to enforce contractual rights of unpatented secret ideas.³¹ Three Justices dissented, in part, on the basis that not state could "authorize any kind of monopoly" by which a "self-styled inventor" could collect royalties for disclosing his know-how. With Chief Justice Warren and Justice Douglas concurring, Justice Black said that agreements under which a licensor can obtain royalties on his innovation while his patent application is pending are invalid:

I still entertain the belief I expressed for the Court in *Stiffel* and *Compco* that no State had a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standard of the patent laws. One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled 'inventors' do not

31. *Id.* at 675.

keep their discoveries secret, but rather disclose them in return for contractual payments, run counter to the plan of our patent laws, which tightly regulate the kind of invention that may be protected and the manner in which they may be protected. The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the State.³²

In spite of the dicta appearing in the dissent of *Lear v. Adkins*³³ to the effect that all know-how licensing agreements are invalid, the Justice Department's special Patent Unit of the Antitrust Division has not sought to invalidate all know-how licenses. Although the Antitrust Division of the Justice Department has not seen fit to launch an all-out attack on know-how licensing, Judge Motley of the Southern District Court of New York decided that such an attack was overdue. If the decision that Judge Motley handed down in *Painton and Co. v. Bourns, Inc.* indicates the interpretation that state courts may give the *Lear v. Adkins* case, it heralds the demise of know-how agreements in the absence of remedial legislation.

VII. PAINTON AND CO. V. BOURNS, INC.³⁴

The transnational know-how licensing agreement which was the bone of contention in the *Painton* case had a provision for the payment of royalties on unpatented articles manufactured utilizing licensed know-how. The court refused to enforce the transnational agreement and commented as follows:

Our patent policy of strict regulation of inventions would be undercut if inventors could enforce agreements for compensation for alleged secret ideas without being required to submit those ideas to the Patent Office, and thereby, eventually have the ideas disclosed to the public. Furthermore, patent policy (reaffirmed by the holding in *Lear Lear* at 656-71) which allows compensation only for ideas which rise to the level of invention would be further undermined by the enforcement of such a contract, since compensation would be awarded for non-inventions

For these reasons, this court holds that federal patent law re-

32. *Id.* at 677.

33. BNA ANTITRUST & TRADE REG. REPT. No. 411 at 10-11, 21-23 (May 27, 1969).

34. 309 F. Supp. 271, 164 U.S.P.Q. 595 (1970).

quires an inventor to submit his ideas to the Patent Office before he can compel consideration for the use of his idea

. . . .³⁵

In view of the fact that the *Painton* holding was *sui sponte*,³⁶ it seems unlikely that the decision could have been made with due consideration for the important domestic and international social and economic factors involved. It would appear, in light of the important social and economic impact of such a holding as was handed down in *Painton v. Bourns*, that at least a token respect to the adversary system was needed to ensure a minimal exposure to the opposing views on the part of the presiding Justice. It should be noted in this regard that through three dissenting Supreme Court Justices in the *Lear v. Adkins* case declared that the State courts could not enforce their laws with regard to know-how agreements, the Justices in the majority opinion specifically refrained from specifying any applicable federal principles in this area. Such restraint in instituting sweeping changes was not felt by Judge Motley, however, as she sought to make a radical departure from the law applicable to know-how agreements.

The principle thesis of the dissenting opinion in the *Lear* case and of Judge Motley's opinion in the *Painton* case was that to allow the licensing of trade secrets would be to permit a violation of the public policy manifest in the United States Patent Code, i.e., that to allow "self-styled inventors" to obtain remuneration for the use of their ideas without making them a part of the public record undermines the patent policy of the United States. To facilitate the examination of this thesis, a distinction should first be made between know-how which is patentable and that which is not patentable. If the public policy factor to be advanced is that of bringing new ideas into the public domain through the issuance of patents, it can only be furthered with regard to those ideas which are patentable. As a consequence, the argument does not apply to know-how comprised of unpatentable innovations and accumulations of data and experience. To say that "self-styled inventors" can not obtain payment for revealing their ideas to another because knowledge in the public domain is available for use by all members of the public without charge is equivalent to saying that a fisherman may not obtain

35. *Id.* at 274.

36. See C. Willian, *Clinic on Unfair Trade Practices Relating to Industrial-Intellectual Property*, 14 IDEA 414 (1970).

payment for a fish he has caught because anyone who might want to buy such a fish could have caught it himself. The obvious affect of such a holding would be that there would no longer be an economic incentive for fishing. Similarly, there would no longer be an economic incentive for those individuals of exceptional talent and ability to search for those bits which, when integrated, comprise the knowledge necessary for operation of an economically competitive manufacturing process. There is obvious merit in the contention that permitting the licensing of information that is patentable frustrates the public policy embodied in the Patent Act. However, the enforcement of know-how agreements embodying patentable know-how does not give the licensor a monopoly in that information. Such an incursion on public policy may be justifiable. Other members, or potential members of the industry, are free to develop and accumulate the same know-how to enable them to effectively compete with the licensor. The only way that a licensor can be assured that he will remain competitive in the industry and have know-how that other members of the industry will wish to license from him is through continued research and development. The creation of a competitor in the industry, the rapid obsolescence of technical know-how and an environment within which secrets are difficult to keep because of the constant flux of employees between employers, generally makes the lifetime of secret know-how a short one. To refuse to enforce know-how agreements is to place an obstacle in the path of companies who would increase the compass of those individuals possessing the know-how and consequently retard its filtering outward through the industry. Without the possibility of economic return, there would be no motivation for a company possessing know-how to reveal it to anyone. Rather than fostering the public policy of encouraging the spread of information, the discouraging of the use of know-how agreements would retard such dissemination.

A company having a patentable innovation, an invention, already has sufficient motivation to seek a patent on that invention under the United States Patent Code. By obtaining a patent on the idea, the company can monopolize the use of that idea, with the sanction of the Federal Government, for a period of seventeen years. No added motivation for seeking patents, in the form of refusal to enforce know-how agreements, is justified in the light

of the adverse effects that such a policy would have both domestically and internationally.

VIII. SOME SUGGESTIONS FOR DRAFTSMEN TO AVOID
LEAR V. ADKINS AND PAINTON V. BOURNS, INC.

Until legislation obviating *Lear* and *Painton* becomes a reality and accumulates a degree of judicial precedent concerning its interpretation, drafters of know-how agreements should consider techniques to avoid the possibility of judicial non-recognition of such agreements. Several conflicting recommendations have appeared in recent literature.³⁷ Utilization of a choice of law or forum clause, or submission of disputes to arbitration are means by which judicial nonrecognition of a know-how licensing agreement might be avoided.

In the field of international arbitration, the United States has joined a growing movement favoring the conclusion of treaties designed to assure validation and specific performance of arbitration agreements, as well as the enforcement of awards recovered by virtue of such agreements, unless contrary to strong public policy.³⁸ Both federal and state courts must apply the United States Arbitration Act³⁹ to transactions involving foreign commerce.⁴⁰ The Act makes valid, irrevocable, and enforceable an agreement of arbitration. The risk of non-enforceability of an arbitration award in foreign jurisdictions is considerably less than the risk in American jurisdictions. However, some reluctance on the part of foreign courts to enforce arbitration awards favoring United States companies may be expected to arise if the United States courts follow a policy of refusing to enforce arbitration awards favoring foreign companies. Utilization of arbitration poses a problem of preventing the general disclosure of the accumulated know-how to the in-

37. PATENT, TRADEMARK & COPYRIGHT SECTION OF THE AMERICAN BAR ASSOCIATION, COMMITTEE REPORT, 29 JOURNAL OF PATENT, TRADEMARK & COPYRIGHT SECTION OF THE AMERICAN BAR ASSOCIATION 217 (Nov. 1970); see also Newcomer, *supra* note 19, at 237-238.

38. See generally Comment, *United States Foreign Arbitral Awards Convention: United States Accession*, 2 CALIF. WEST. INT'L L.J. 67, for a complete treatment of U.S. international arbitration legislation; see also Domke, *Arthur Nussbaum, The Pioneer of International Commercial Arbitration*, 57 COL. L. REV. 8 (1957); Benjamin, *The Work of the Economic Commission for Europe in the Field of International Commercial Arbitration*, 7 INT. COMP. L.Q. 22 (1958).

39. 9 U.S.C. §§ 201-208 (1970).

40. *Reynold Jamaica Mines v. Societe Navale Caennaise*, 239 F.2d 689 (4th Cir. 1956).

dustrial community. Because of the need for preserving the secrecy of know-how, the courts have devised a procedure to prevent publication as a result of litigation. The judicial solution was for the parties to agree on an expert, or a small list of experts, to whom disclosures could be made on behalf of the court.⁴¹ A similar procedure should be provided for in any agreement contemplating the resolution of disputes by submission to arbitration.

A number of recent cases have held that the parties can control the forum within which their agreement may be adjudicated by the use of a choice of forum clause.⁴² These cases upholding the parties' choice of forum clause are in accord with the practice generally followed in civil law countries.⁴³ However, a number of difficulties attendant to the utilization of a choice of foreign forum clause, such as a lack of familiarity with the foreign law and the difficulties inherent in litigation in a foreign forum, may make this alternative unattractive to many United States companies.

The use of a choice of law clause raises an issue of party autonomy, i.e., whether the court should give effect to express declarations by the parties that the validity of the agreement should be determined by applying the rules of another forum. There is no general agreement, either among the courts or the legal scholars, whether or not party autonomy should be permitted with regard to the validity of the agreement. A leading text in the field of conflicts finds "authorities . . . in great confusion, with all rules supported by authority."⁴⁴ This situation has arisen because the courts have resorted to a plethora of techniques in attempts to achieve justice. For example, the courts have resorted to the devices of "remedy"⁴⁵ and "public policy,"⁴⁶ have indulged in presumptions in the "absence of proof" of foreign law,⁴⁷ and have

41. *Amber Size & Chemical Co. Ltd. v. Menzel*, 2 Ch. 239, 30 R.P.C. 433 (1913).

42. *Takemura v. The S.S. Tsuneshima Maru*, 197 F. Supp. 909 (S.D.N.Y. 1961); *Skins Trading Corp. v. The S.S. Punta Del Este*, 180 F. Supp. 609 (S.D.N.Y. 1960); *Nieto v. The S.S. Tinnum*, 170 F. Supp. 295 (S.D.N.Y. 1958).

43. Peterson, *Conflict Avoidance Through Choice of Law and Forum*, 45 DENVER L.J. 20 (1968).

44. GOODRICH, *CONFLICT OF LAWS* 321 (1949); see *Lewis v. Jackson & Squire, Inc.*, 86 F. Supp. 354, 360 (1949).

45. *Reed v. Kelly*, 177 F.2d 473 (7th Cir. 1949).

46. Kronstein, *Crisis of "Conflict of Laws,"* 37 GEO. L.J. 483, 506-12 (1949).

47. See, e.g., *Fairbanks, Morse & Co. v. Consolidated Fisheries Co.*, 190 F.2d 817 (3rd Cir. 1951); see also A. EHRENZWEIG, *A TREATISE ON THE CONFLICT OF LAWS* § 129 (1962).

evolved special rules for special purposes.⁴⁸ In regard to the law applicable to determine the basic validity of agreements, there is such divergence in the decisions involving conflicts of laws and party autonomy that virtually any United States court can find local authority for holding either way in regard to whether or not foreign law should be applied. In international conflicts cases, United States courts have been more willing to give predominance to their own invalidating law than they have been inclined to do in interstate cases.⁴⁹ International agreements affecting the national economy fall into a class where this is particularly noticeable.⁵⁰ The accentuation of such trends, however, logically leads to the rise of legal self defense as embodied in manifestations of state sovereign power. The validity or invalidity of a commercial agreement should result from fixed rules of law.⁵¹ A Rule of Validation has been suggested for such agreements.⁵² The Rule of Validation would uphold the agreement if it satisfies the law of any place with which it has a substantial connection, unless performance at the place selected for performance is prohibited.⁵³ The adoption of such a Rule of Validation would be consistent with permitting party autonomy regarding choice of law. Resort to the Rule of Validation by the courts, would only be necessary in the absence of a stipulation in the agreement as to the applicable law. Permitting party autonomy would have the advantage of greater certainty of contract with less chance for misunderstanding between the parties.

Ultimately, the degree of freedom allowed individuals in their agreements depends upon political considerations.⁵⁴ It has been argued that permitting party autonomy in choice of validating law involves a delegation of sovereign power to individuals.⁵⁵

48. Lorenzen, *Validity and Effects of Contracts in the Conflict of Laws*, 30 YALE L.J. 565, 655, 673; 31 YALE L.J. 53 (1920-21).

49. *See* Miltenberg & Samton, Inc., v. Mallor, 1 A.D.2d 458, 151 N.Y.S.2d 748 (1956); *see also* Oscanyan v. Arms Co., 103 U.S. 261, 277 (1880); *see also* Sunbeam Corp. v. Masters of Miami, Inc., 225 F.2d 191 (5th Cir. 1955); *see also* Cabot, *Exchange Control and the Conflict of Laws: An Unsolved Puzzle*, 99 U. PA. L. REV. 476, 496 (1951).

50. Yntema, "Autonomy" in *Choice of Law*, 1 AM. J. COMP. L. 341 (1952); Kronstein, *supra* note 46, at 512.

51. Lorenzen, *supra* note 48, at 658.

52. *See* Ehrenzweig, *supra* note 47, at §§ 175-184.

53. STUMBERG, *CONFLICT OF LAWS*, 238-239 (1951).

54. Yntema, *supra* note 50, at 341.

55. R. HEILMAN, *THE CONFLICT OF LAWS AND THE STATUTE OF FRAUDS* 96 (1961); Goodrich, *supra* note 44 at 326.

However, if the law were that the parties could select the law that should determine the legal significance of their acts, then the parties would not be legislating or exercising sovereign power in designating the manner in which the court should interpret their acts.⁵⁶ In a domestic case, the parties may be precluded from avoiding by agreement, an invalidating prohibition or proscription of the local forum for purposes of enforcing the public policy underlying the requirement. It does not follow that such enforcement should be insisted upon, as in the case of *Painton and Co. v. Bourns, Inc.*, where either a party to the agreement, the place where made, or where it is to be performed is foreign. A diminution of the concept of autonomy of the will of the parties is inconsistent with the goal of an international community of justice. The economic and concomitant social growth of the world community, being served by transnational commercial transactions, necessitates the integration of the private law of nations into a common legal order. The United States courts, in adjudicating transnational disputes, are in a unique position to put into practice the principles of mutual respect for the social and legal systems of other peoples of the world community. In adjudicating the rights of parties to transnational agreements, the courts should not lose sight of the guiding principle of all civilized societies which forms the basis of our legal systems; a respect for the rights of other members of society. Mutual respect for the rights of the citizens of all nations demands that the courts recognize the law which will validate commercial agreements, in the absence of a stipulation by the parties, and the right of the parties to specify the governing law in transnational agreements.

IX. THE NEED FOR CURATIVE LEGISLATION

Curative legislation is needed to dispel the inference of *Lear*, divert the affect of *Painton* upon the developing law of know-how protection, and assure the basic validity of know-how agreements. The Patent, Trademark and Copyright section of the American Bar Association is on record as favoring such legislation to obviate the *Lear* case.⁵⁷ Legislation proposed by Senators McClellan and Scott would prevent the Patent Code from being read to "pre-empt or otherwise affect in any way" state-created rights or obligations in inventions, whether or not pat-

56. HEILMAN, *supra* note 55, at 96.

57. S. 2756, 91st Cong., 1st Sess. § 301 (McClellan) (1969).

entable.⁵⁸ The legislation proposed by Senators Scott and McClellan does not address itself to the problem of making patentable know-how available to the public through publication, as inventions are made available upon publication of patents. However, the legislation of the Senators does forstall an attack on know-how licensing based upon public policy as manifest in the United States Patent Act.

X. A KNOW-HOW REGISTRATION PROGRAM

A study is needed to determine if there is such a significant difference between the rate at which information becomes available to the public through the issuance of a patent, as opposed to the rate at which the public learns of unpatentable know-how, as to justify a distinction between them by the courts. If patentable ideas, embodied in present know-how licensing agreements, disseminate too slowly throughout the industry, then to swell the larder of public knowledge, a know-how registration program could be established. The United States Patent Office is the logical governmental agency under which a branch could be created to carry out such a program. However, the creation of a know-how registration branch would necessitate a large increase in the budget of the Patent Department and would entail a significant added measure of expense to licensors of know-how.

If a thorough study showed that a know-how registration program could be justified, it could be made a requirement that to make that portion of an agreement regarding patentable know-how enforceable, the parties must first register the agreement and submit copies of all relevant technical material transmitted under the know-how agreement to a federal governmental agency. A federal statute instituting such a registration requirement should distinguish between know-how agreements embodying patentable know-how and those which do not cover such know-how to decrease the burden upon the governmental agency. Placing a burden of registration upon the parties, under the onus of non-enforcement of unregistered agreements incorporating patentable know-how, would require a determination by the licensor as to the patentability of such innovations. Examiners could also be designated to examine the registered know-how. If portions of it were found to be patentable, publication of the patentable portion of the know-

58. S. 2756, 91st Cong., 1st Sess. (McClellan) (1969); S. 2756, 91st Cong., 2d Sess. 56 amend. 578 (Scott) (1970).

how would be made by the registration branch of the Patent Office, after the expiration of a time period, upon the authorization of the judiciary. The possibility of such publication occurring without patent protection to the registrant would place a further burden of initial recognition of potential inventions upon the registrant. So allotting this burden would force the registrant to seek patents where they would be potentially obtainable and thus decrease the work load on the know-how examiners. It presents a serious problem when know-how, though patentable, would not be patented by the licensor because a patent would not enable the patentee to effectively protect his interest in the invention. Utilization of a two-stage time period might be considered to resolve the major problems inherent in publication of patentable know-how which could not be effectively protected by a patent. The time period could have, as the first stage, a time limit within which a registrant would be able to interrupt the process leading to publication through the filing of a patent on the invention embodied in the know-how agreement. If the registrant failed to make application for such a patent within the first stage of the time period, the patentable know-how would be published by the registration branch after the termination of the second stage of the time period upon authorization of the judiciary. The length of the second stage being determined by weighing the relative merits of placing the information in the public domain and of encouraging licensing of the invention to permit the discoverer of the idea a reasonable time within which to recover research and development expenditures and make a reasonable profit through exploitation of the invention.

XI. CONCLUSION

Curative legislation is needed to assure the validity of know-how agreements. Further study is needed to determine whether attempts to distinguish patentable and unpatentable know-how, and a know-how registration program based upon such a distinction, could be justified.

Until the United States law becomes more settled in the field of technical know-how licensing, United States companies should proceed cautiously in entering into know-how licensing agreements. Prudence dictates that the licensing policy be one of restraint because of the risk that control over valuable know-how may be lost. If a decision is reached to license know-how, the drafters of

the licensing agreement should consider specifying that disputes in regard to the agreement are to be settled by adjudication in a foreign forum under foreign law and/or that disputes are to be resolved by submission to arbitration. If foreign litigation or arbitration clauses are included in the agreement, then procedures to be followed should be included to ensure protection of the confidentiality of the know-how.

Christopher G. Root