

## COMMENTS

### **“BLACK BOX” AGREEMENTS: THE MARKETING OF U.S. TECHNICAL KNOW-HOW IN THE PACIFIC RIM**

#### INTRODUCTION

The United States is struggling to compete in the world market and one of its biggest, most under-utilized assets is the technical creativity of its people.<sup>1</sup> U.S. corporations are marketing this knowledge throughout the world. And yet, often the people who are negotiating with potential foreign partners are not familiar with the possible legal ramifications should their negotiations be unsuccessful.

Very few people are willing to make a major purchase sight-unseen. Cars are test-driven, houses are inspected for structural integrity, and law-schools are ranked one against another. Therefore it is not surprising that the potential buyer of rights to an innovative technical process requires some preview of that process before beginning negotiations. However, unlike the purchaser of a car, a house, or a law school education, the buyer of technology can often misappropriate the information revealed by this preview. The question of how to protect the interests of the seller before and during negotiations without unduly burdening the buyer is known as the “black box problem.”<sup>2</sup> This question becomes particularly acute when the buyer and seller are nationals of two different countries because of the difference in legal systems and underlying cultural attitudes towards the ownership rights of the innovator.

Although many articles have been written about technology transfer across national boundaries, the authors have started with the premise that the buyer and seller have arrived at an agreement that protects each party’s

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1. Technical creativity can be regarded as encompassing all of intellectual property which includes copyrights, patents, trade secrets, “know-how” and “show-how”. A 1987 survey reflecting the intellectual property assets of 245 U.S. companies revealed that 80% of their total \$1.114 trillion sales worldwide could be attributed to their intellectual property rights. Thomas C. Dabney, *Executive Summary to 1988 USITC Report on Foreign Protection of Intellectual Property Rights*, in REPRESENTING THE GROWING TECHNOLOGY COMPANY 837, 838 (ALI-ABA Course of Study No. C492, 1989).

2. Marcus B. Finnegan & Alfred A. D’Andrea, Jr., *The Black Box Problem: Using Pre-Negotiation Secrecy Agreements to Govern Disclosure of Technology to Potential Licensees*, in 1979 LICENSING LAW HANDBOOK 7-1, 7-1 to 7-2 (1979) [hereinafter *Black Box Problem*].

rights.<sup>3</sup> The problems that may arise after negotiations have failed have been almost ignored.<sup>4</sup> In addition, these authors have emphasized the transfer of a physical product, not the intangible process—the “know-how”—of producing or using a product.<sup>5</sup> This Comment attempts to narrow that gap in the legal literature by analyzing the legal implications of the black box problem when marketing U.S. know-how in various Pacific Rim countries.<sup>6</sup>

The possibility of intellectual property “theft” in the Pacific Rim countries should not be underestimated. In 1986, 104 U.S. companies reported losing \$23.8 billion worldwide due to inadequate intellectual property protection.<sup>7</sup> Of that total, \$3.1 billion was lost as a result of the companies making their technology available through licensing agreements with foreign nationals.<sup>8</sup> Taiwan, South Korea, and Japan are considered by most studies to have poor records of protecting patents and trade secrets.<sup>9</sup> The United States Trade Representative’s 1989 report listed all of the Far East countries, with the exception of Hong Kong and Singapore, as lacking significant intellectual property protection.<sup>10</sup> Another study in 1989 conducted by a group of international companies and senior executives

3. For a general introduction to the problems of transnational technology transfer, see Marshall A. Leaffer, *Protecting United States Intellectual Property Abroad: Toward a New Multilateralism*, 76 IOWA L. REV. 273 (1991); David Silverstein, *Patents, Science and Innovation: Historical Linkages and Implications for Global Technological Competitiveness*, 17 RUTGERS COMPUTER & TECH. L.J. 261 (1991); Thomas G. Field, Jr., *Pharmaceuticals and Intellectual Property: Meeting Needs Throughout the World*, 31 IDEA: J.L. & TECH. 3 (1990); Gerald J. Mossinghoff, *Research-based Pharmaceutical Companies: The Need for Improved Patent Protection Worldwide*, 2 J.L. & TECH. 307 (1987); and Jacqueline A. Daunt, *Avoiding Legal Pitfalls in High Tech International Distribution*, in REPRESENTING THE GROWING TECHNOLOGY COMPANY, *supra* note 1, at 637.

4. Only one article has mentioned possible problems in a transnational setting when the negotiations fail to produce a contract. Crispin Marsh, *When Agreements Fail*, 18 LES NOUVELLES, *reprinted in* 1 THE LAW AND BUSINESS OF LICENSING: LICENSING IN THE 1980’S 3D-71, 3D-72 (1984). However, Mr. Marsh only mentions the subject, focusing instead on failures involving the licensing agreement itself.

5. Two recent articles which explain the issues involved with know-how licensing are Michael A. Epstein & Stuart D. Levi, *Protecting Trade Secret Information: A Plan for Proactive Strategy*, 43 BUS. LAW. 887 (1988); and Larry W. Evans, *The Art of Process Licensing*, in TECHNOLOGY LICENSING 1987 123 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 235, 1987).

6. Japan, North and South Korea, the People’s Republic of China, Hong Kong, Taiwan, Macau, Vietnam, Laos, Cambodia, Thailand, Myanmar (formerly Burma), Malaysia, Singapore, Indonesia, the Philippines, Australia, and New Zealand are the major countries on the eastern side of the Pacific Rim. This Comment focuses on technology trade in Japan, South Korea, Hong Kong, Taiwan, Thailand, Malaysia, Singapore, and Indonesia, collectively known herein as Asia. The author has specifically excluded the Asian countries still under communist governments due to the rapid changes which are taking place in communist ideology.

7. Dabney, *supra* note 1, at 838.

8. *Id.* at 839.

9. *Id.*

10. John Boarman, *Intellectual Property Problems Detailed in USTR Report*, in E. ASIAN EXECUTIVE REP., May 15, 1989, at 20.

included Hong Kong as well.<sup>11</sup> This study also revealed that two-thirds of the 164 companies responding were in litigation over intellectual property rights.<sup>12</sup>

Because most of the countries in the Pacific Rim are civil law countries<sup>13</sup> and infrequently publish their cases,<sup>14</sup> the backbone of this Comment consists of previous studies written about technology transfer in the region. Since the problems inherent in transnational licensing negotiations, particularly when those negotiations fail, have not been addressed in any depth by any of the previous authors,<sup>15</sup> this Comment will combine existing literature with the statutory analysis of regional legal experts to examine the risks of the black box problem in the Pacific Rim countries.

The first section provides background by analyzing the relevant U.S. laws. The Comment then focuses on the legal problems a U.S. company may face when suing for unauthorized use of its technology in various Pacific Rim countries.<sup>16</sup> Next, this author proposes the pre-negotiation agreement as a basic means of protecting the know-how and suggests specific provisions as possible preventive measures. The final section identifies specific difficulties a U.S. company may encounter because of the cultural differences between Asia and the United States.

## I. BACKGROUND

Know-how encompasses a wide range of technology involving products from household detergents, to candy wrappers, to liquid fingernail harden-

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11. *News & Comment: Briefs*, 38 Pat. Trademark & Copyright J. (BNA) No. 934, at 153 (June 8, 1989).

12. *Id.* This number includes lawsuits filed world-wide.

13. Hong Kong and Singapore continue to rely on the English common law established when they were British Crown Colonies. G.W. Bartholomew, *English Law in Partibus Orientalium*, in *THE COMMON LAW IN SINGAPORE AND MALAYSIA* 1, 13-27 (A.J. Harding ed., 1985). In addition, the English common law influence is present in Malaysia but to a much lesser degree. *Id.*

14. Law in civil law countries is primarily statutory and case law is not *stare decisis* but only persuasive authority. The role of lawyers in civil law countries is to interpret the law, not to discover it through research of prior cases. The judge trying a case has discretion to interpret the law according to the specific facts presented and is not bound by judicial precedent on the same subject. In non-criminal matters, the judge's decision alone determines the outcome of the case. Therefore, publication of previous cases is not considered a legal necessity and few decisions are available. RENE DAVID & JOHN E.C. BRIERLEY, *MAJOR LEGAL SYSTEMS IN THE WORLD TODAY* 63-67, 97-100, 136-39 (1985).

15. Even in the United States, there is little information or case law, particularly in the pre-negotiation area. *Black Box Problem*, *supra* note 2, at 7-3.

16. Japan serves as the model patent system for Asia, *INTELLECTUAL PROPERTY PROTECTION IN ASIA*, §§ 2.01-.02 (1991) [hereinafter *IP ASIA*], therefore Japanese patent law will be used throughout this Comment to illustrate patent issues which arise in the civil law countries of the Pacific Rim. Even Singapore and Hong Kong, which base their patent laws on those of the United Kingdom, share many common concepts and attitudes with Japan. *Id.* §§ 4.02 (Hong Kong), 8.09 (Singapore). Specific differences among the various systems will be noted where appropriate.

ers.<sup>17</sup> It has been defined by a U.S. District court as: “factual knowledge not capable of precise, separate description but which . . . gives to the [owner] an ability to produce something which he otherwise would not have known how to produce with the same accuracy or precision found necessary for commercial success.”<sup>18</sup> Such knowledge may or may not be proprietary. However, it is most valuable when known only to a limited number of people since unique knowledge gives the commercial owner an edge over his or her competitors.<sup>19</sup> This proprietary nature also makes the knowledge a marketable asset.<sup>20</sup>

### A. U.S. Legal Protection for Know-how

Proprietary know-how may be protected in the United States in one of two ways. First, the know-how may be a manufacturing process or a production method protectable by federal patent law.<sup>21</sup> The patent prohibits others from using the patented technology without the owner’s permission for seventeen years.<sup>22</sup>

Alternatively, the know-how may be protectable under trade secret law.<sup>23</sup> Unlike patents, trade secrets are governed by state law.<sup>24</sup> In 1979, the ABA approved the Uniform Trade Secrets Act which was subsequently adopted by a majority of the states.<sup>25</sup> The remaining states that have trade

17. *Black Box Problem*, *supra* note 2, at 7-2 to 7-3.

18. *Hooker Chem. Corp. v. Velsicol Chem. Corp.*, 235 F. Supp. 412, 424 (W.D. Tenn. 1964).

19. *Black Box Problem*, *supra* note 2, at 7-3.

20. *Id.*

21. In order to be patentable, the “invention” must be novel, useful, and non-obvious. 35 U.S.C.A. §§ 101-103 (West 1992).

22. Patent rights are often called negative rights since the patent owner can prohibit anyone from making, selling or using the subject matter of the patent. 35 U.S.C.A. § 154 (West 1992). On the other hand, the law does not require the patent owner to make, sell or use it, so the owner could suppress his or her invention for the entire seventeen year term by refusing to exploit the patent or to allow anyone else to do so. 35 U.S.C.A. § 271(d)(4).

23. The same know-how cannot be protected under both patent and trade secret laws since federal patent law requires the information be disclosed in the patent application which is then published as the issued patent document, and a trade secret *must not* be publicly disclosed if it is to be protected. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484 (1974). However, the patent law does not require that all of the know-how connected with the patented process be included in the patent application. *In re Gebauer-Fuelnegg*, 121 F.2d 505, 507-08 (1941). Therefore federal patent law does not preempt state trade secret law protection for know-how which is not revealed in the patent application.

24. MICHAEL A. EPSTEIN, *MODERN INTELLECTUAL PROPERTY* 2 (2d ed. 1991).

25. Uniform Trade Secrets Act § 1(4) defines a trade secret as “information, including a formula, pattern, compilation, program, device, method, technique, or process that:

- (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means, by, other persons who can obtain economical value from its disclosure or use, and
- (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” 14 U.L.A. 437 (1992).

secret laws<sup>26</sup> use the Restatement of Torts definition.<sup>27</sup> Despite the differences in the two approaches to trade secret, both require the owner of the know-how to attempt to keep the information confidential. Once the information becomes publicly known through any means, the protection vanishes.<sup>28</sup> On the other hand, if the information remains confidential, trade secret law will protect the know-how indefinitely.<sup>29</sup>

### *B. Licensing Agreements and Negotiations*

When a U.S. company ("licensor") cannot, or does not want to utilize its know-how itself, it may decide to license the rights to use or sell the technology to others ("licensees").<sup>30</sup> Licenses can be either exclusive or non-exclusive, and are often for a specific territory.<sup>31</sup> Also, these agreements frequently are for a limited term with the rights reverting to the original owner upon expiration.<sup>32</sup>

In an international setting, the licensor may decide to enter into agreements with foreign licensees only in certain countries while retaining the rights to use or sell its technology in the remaining countries, or it may choose to retain no rights to its technology outside the United States instead licensing all its rights to use and sell to a foreign national. Sometimes licensing is a part of a global strategy to develop markets that will be assumed by the licensor when the license expires.<sup>33</sup>

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As of 1992, the following states had enacted part or all of the UTSA: Alabama, Alaska, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Oklahoma, Oregon, Rhode Island, South Dakota, Utah, Virginia, Washington, West Virginia, and Wisconsin. 14 U.L.A. 71 (Supp. 1992).

26. Georgia, Massachusetts, North Carolina, Ohio, Pennsylvania, Tennessee, and Texas have codified trade secret acts which differ from UTSA. William E. Hilton, Comment, *What Sort of Improper Conduct Constitutes Misappropriation of a Trade Secret*, 30 IDEA: J.L. & TECH. 287, Appendix B (1990). The remaining states, Arizona, Michigan, Missouri, New Jersey, New York, South Carolina, Vermont, and Wyoming do not have trade secret statutes. *Id.*

27. "[A] trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers." RESTATEMENT OF TORTS § 757 cmt. b (1939).

28. "[It is public] policy that matter once in the public domain must remain in the public domain. . . ." *Kawane*, 416 U.S. at 484.

29. *United States v. Dubilier Condenser*, 289 U.S. 178, 186 (1933).

30. S. Russel La Paglia, *Basic Consideration in Licensing from the Business Perspective*, in TECHNOLOGY LICENSING, *supra* note 5, at 99, 112-14.

31. *Id.* at 113. A territory may range from a single country, or part of a country, to an entire region of the world.

32. *Id.*

33. *Id.*

Prior to reaching a licensing agreement, the potential licensee must decide if it wants the know-how and the parties must negotiate their respective rights under the contract. It is during the pre-negotiation and negotiation phases that the black box problem arises. A pre-negotiation "peek" into the black box can produce three results:

- 1) the potential buyer decides it does not want to negotiate for the rights to the technology;
- 2) the parties negotiate but the negotiations fail; or
- 3) the parties successfully negotiate a technology transfer agreement.<sup>34</sup>

If the negotiations result in a technology transfer agreement, the agreement provides for compensation to the owner for the licensee's right to use and/or sell the technology. However, when the owner of the know-how and the prospective licensee are unable to reach an agreement, the owner must be concerned about the other party's potential use of the technology learned during the negotiations. It is impossible for the potential licensee to erase all the knowledge revealed by its peek into the black box.<sup>35</sup>

### C. Black Box Litigation in the United States

In the U.S., if the owner suspects the other party is using the technology disclosed, the owner may have either a cause of action for patent infringement or for trade secret misappropriation.<sup>36</sup> Patent infringement is grounded in the owner's right to exclude others from using the patent.<sup>37</sup> Therefore, if the owner can prove another person either made, used, or sold the patented technology without the owner's permission, that person has infringed the patent.<sup>38</sup> Under U.S. law, the person also infringes if he or she makes, uses, or sells an improved version of the technology without permission from the owner of the original patent.<sup>39</sup>

Trade secret misappropriation is more complicated since it combines principles from property, tort, agency, trusts, and contract law.<sup>40</sup> U.S.

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34. *Black Box Problem*, *supra* note 2, at 7-25.

35. *Id.* at 7-11.

36. Infringement and misappropriation are terms of art describing the illegal use of the protected technology. In this Comment they are used interchangeably except when dealing with the elements required to establish the prima facie case for each. This Comment only addresses direct infringement of patents, although some Asian jurisdictions recognize forms of patent infringement similar to the U.S. theory of contributory infringement. IP ASIA, *supra* note 16, §§ 4.04 (Hong Kong), 5.12 (Japan), 6.25 (Korea), 8.05 (Singapore).

37. 35 U.S.C.A. § 154 (West 1992). DONALD S. CHISUM, PATENTS, § 16.01 (1992).

38. *Id.*

39. If another person improves a patented invention, the second inventor must have a license from the first to make, use or sell the new invention. *Cantrell v. Wallick*, 117 U.S. 689, 695 (1886). U.S. law allows the first inventor to refuse to license. 35 U.S.C.A. § 271(d)(4) (West 1992).

40. ROBERT A. CHOATE, ET AL., CASES AND MATERIALS ON PATENT LAW 8 (3d ed. 1987).

courts have most frequently relied upon contract theory to find trade secret misappropriation when the recipient agreed to maintain the confidentiality of the information disclosed by the owner and then failed to do so.<sup>41</sup> The courts have accepted implied, as well as express, agreements as sufficient to establish the plaintiff's cause of action for misappropriation.<sup>42</sup>

An alleged misappropriator has three categories of defenses available to it: non-infringement, invalidity of the patent or trade secret, and protection unen-forceability.<sup>43</sup> When the infringement charge arises from a pre-negotiation disclosure which did not result in a license, the reasons the defendant did not license become grounds for these defenses.<sup>44</sup> The prospective licensee may have declined to license because it already had legal rights to the information through another source, it had developed the same technology independently, or it believed the know-how was not proprietary.<sup>45</sup>

First, the defendant will likely argue it did not infringe the technology. If the know-how is protected by trade secret laws, the defendant might assert it did not use the information disclosed in the negotiations, but had developed similar know-how through independent research<sup>46</sup> or by "reverse engineering."<sup>47</sup> Trade secret law allows another party to independently develop the same technology and use it without being liable for misappropriation.<sup>48</sup> On the other hand, the patent laws prohibit a subsequent developer from using patented know-how without permission regardless of how he or she acquired it, therefore to escape a patent infringement charge the defendant must prove its technology was substantially different from the plaintiff's.<sup>49</sup>

Second, the defendant could challenge the validity of the protection by claiming the information was not proprietary to the plaintiff, i.e., it was public knowledge or the defendant already owned it. If the know-how was patented, either argument might invalidate the patent.<sup>50</sup> Alternatively, if the

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41. *Hoeltke v. C.M. Kemp Mfg. Co.*, 80 F.2d 912, 923 (4th Cir. 1935), *E.I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 101 (1917), *Burten v. Milton Bradley Co.*, 592 F. Supp. 1021, 1030-31 (D.R.I. 1984).

42. *Burten*, 592 F. Supp at 1030-31.

43. 35 U.S.C.A. § 282 (West 1992). *CHISUM*, *supra* note 37, § 19.01.

44. *Black Box Problem*, *supra* note 2, at 7-25.

45. *Id.* at 7-21.

46. *Kewanee*, 416 U.S. at 476.

47. Reverse engineering refers to the process of taking a product and working backwards to determine how it was made. *Id.*

48. *Id.*

49. *CHISUM*, *supra* note 37, § 18.06(1).

50. The invalidity challenge arises from 35 U.S.C.A. § 282(2) which states that a patent may be invalidated on any "ground specified in part II of this title as a condition for patentability." Part II requires that to be patented in the United States, the invention must be original, novel, and nonobvious. An invention is deemed to be unoriginal if it is "as concept derived from any source or person other than the person or persons named as the [inventor]." *CHISUM*, *supra* note 37, § 2.01. *Chisum* notes that novelty means that the "invention must be new at the time of [its] discovery by the original inventor." *Id.* § 3.01. He defines

information was protected by trade secret law, the non-proprietary arguments aim at the heart of the protection, that is, the requirement that the technology be secret.<sup>51</sup>

The third defense, applicable only to patented know-how, is that the patent is unenforceable. Several arguments are available under this defense including inequitable conduct which is usually grounded in antitrust or fraud theories.<sup>52</sup>

## II. FOREIGN MISAPPROPRIATION OF TECHNOLOGY

The black box problem will take on a greater international dimension as U.S. companies engage in more technology transfer negotiations in other countries. The recent case of *Honeywell Inc. v. Minolta Camera Co. Ltd.*<sup>53</sup> is illustrative.

In 1979, Honeywell showed its patented autofocus technology to various camera makers, including Minolta, in an attempt to license the technology. In 1985, Minolta introduced the Maxxum camera using what Honeywell alleged was its technology. Honeywell filed suit in April, 1987, after negotiations for a licensing agreement failed. Minolta was found liable for patent infringement on February 7, 1992.<sup>54</sup> Although Honeywell was successful, by the time the lawsuit was settled the patent on the technology had nearly expired.<sup>55</sup>

### A. Legal Protection for Know-How in Asia

The *Honeywell* case was based on infringement of U.S. patents. However, a U.S. patent provides protection only in the United States.<sup>56</sup> Similarly, since U.S. trade secret law is state law, its protection is likewise restricted to the United States.<sup>57</sup> Therefore, prior to commencing transna-

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nonobviousness in terms of § 103 of the Patent Act: an invention meets the nonobviousness test if it is not obvious to "one with ordinary skill in the art to which the subject matter pertains at the time of the invention and in light of the teachings of the prior art." He differentiates nonobviousness and novelty in that nonobviousness is "distinct from novelty in the sense that the invention may be obvious even though it is not identically disclosed any where in the prior art." *Id.* § 5.01

51. By definition, a trade secret must have some degree of secrecy to be protected, but more than one person can own it as long as the information is not so widely disseminated as to provide no competitive advantage to any of the owners. La Paglia, *supra* note 30, at 102-03.

52. Chisum, *supra* note 37, § 19.01.

53. No. 87 Civ. 4847 (D.N.J. Feb. 7, 1992).

54. *Award of \$95 Million in Lawsuit "Victory" in Patent Protection, Executive Says*, Daily Report for Executives (BNA) at A-8 (Feb. 11, 1992).

55. The term of a U.S. patent is seventeen years. 35 U.S.C.A. § 154 (West 1992). Thirteen years had elapsed between the time Honeywell disclosed the technology and the settlement of the lawsuit.

56. *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915).

57. See *supra* notes 24-27 and accompanying text.



tional negotiations, a U.S. company should determine the appropriate foreign legal protection available.

If the know-how is patented in the United States, the company may assume it should also patent in the target country. This is not always the most cost-efficient route, nor is it always available.

In Japan, for example, it is not unusual for three to seven years to elapse between filing the application and the issuance of the patent.<sup>58</sup> The actual examination by the Japanese Patent Office (JPO) cannot begin until eighteen months after the filing date.<sup>59</sup> In fast-moving technical areas such as biotechnology and computers, waiting this long can mean the technology is obsolete by the time it is patented.

Because only Japanese citizens living in Japan are allowed to file patent applications and the application must be in Japanese, the U.S. company must hire a Japanese patent administrator to shepherd the process.<sup>60</sup> The application process alone can be expensive, but in addition, Japan requires maintenance fees for the life of the patent which is normally fifteen years.<sup>61</sup>

Finally, even if the patent is granted, the inventor may not be able to recover its costs because the JPO discloses the contents of the application to the public during the examination period.<sup>62</sup> This public disclosure allows others to use the information in the application to design around the patent.<sup>63</sup> If the JPO considers the changes valuable improvements, it will likely require that the inventor grant the "improver" a license to use the patent.<sup>64</sup> The licensee is then in competition with the licensor and the licensor may receive no more than minimal royalties for its efforts.<sup>65</sup>

Even if the U.S. company is willing to expend the time and money necessary to obtain a patent in Asia, the technology may be unpatentable under local law. First, all Asian countries incorporate an "absolute novelty" bar in their patent statutes.<sup>66</sup> The absolute novelty requirement means if the U.S. inventor had publicly disclosed the invention prior to filing in the U.S., the invention is considered public knowledge and cannot be patented. This bar can prevent patenting in Asia since the U.S. patent statute allows the inventor a "grace period" of twelve months to apply for a patent after public

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58. IP ASIA, *supra* note 16, § 2.02, noting average time "between laying open of the application and the issuance of the patent is two to five years." Adding the mandatory eighteen month waiting period between filing and the laying open of the application results in a total of approximately three to seven years.

59. *Id.* § 5.06.

60. *Id.* §§ 5.03-5.04.

61. *Id.* § 5.09.

62. *Id.* § 5.06.

63. *Id.*

64. *Id.*

65. See the discussion, *infra* part II.D., on compulsory licenses.

66. IP ASIA, *supra* note 16, § 2.01.

disclosure.<sup>67</sup> Therefore inventions patented in the U.S. under our grace period exception will be considered disclosed to the public in Asia and cannot be patented.<sup>68</sup>

Second, most of the Asian countries forbid patents on certain technology.<sup>69</sup> Thailand, for example, does not allow for the patenting of pharmaceuticals, justifying the exclusion on "the urgent need to make medicine affordable to the people. . . ."<sup>70</sup> In February, 1992, the National Legislative Assembly passed an amended patent statute which would have extended protection to pharmaceutical products, active pharmaceutical ingredients, and biotechnological inventions beginning in September.<sup>71</sup> However, the anti-government demonstrations in May resulted in three changes in government and an indefinite postponement of the effective date of the new patent act.<sup>72</sup>

In the event that the U.S. company's know-how cannot be patented in the target country or if the company decides against foreign patent protection, the alternative of trade secret protection may be available since all of the Asian countries recognize some form of trade secret.<sup>73</sup> Although the trade secret laws of the region differ in some specifics from country to country, all require the owner make diligent attempts to keep the information secret.<sup>74</sup>

Some markets in the Pacific Rim require extra scrutiny in light of the secrecy requirement. Public disclosure of a trade secret can prove to be

67. 35 U.S.C.A. § 102(b) (West 1992).

68. The fact that the information is considered publicly disclosed under these circumstances disallows trade secret protection in Asia as well.

69. See generally IP ASIA, *supra* note 16, §§ 4.01-4.03 (Hong Kong), 5.01-5.08 (Japan), 6.04-6.20 (Korea), 7.01-7.03 (Malaysia), 8.04 (Singapore), 9.02-9.10 (Taiwan), 19.02-10.11 (Thailand).

70. IP ASIA, *supra* note 16, § 10.03. *Intellectual Property Rights*, THE WASHINGTON POST, Apr. 5, 1989, at A26. (Letter from Vitthya Vejajiva, Thailand's Ambassador to the United States) This ban probably extends to production or treatment methods connected with pharmaceuticals as well.

71. *Thailand: Amendments to Patent Law Will Take Effect in September*, BNA PAT. TRADEMARK & COPYRIGHT L. DAILY, July, 29, 1992, available in LEXIS, BNA Library, BNAPTD File.

72. *USTR Delays Action Against Thailand for Lack of Patent Protection*, BNA PAT. TRADEMARK & COPYRIGHT L. DAILY, Oct. 15, 1992, available in LEXIS, BNA Library, BNAPTD File.

73. IP ASIA, *supra* note 16, §§ 4.48 (Hong Kong), 8.56 (Singapore), 9.44 (Taiwan), 10.33-.36 (Thailand). TERRENCE F. MACLAREN, ECKSTROM'S LICENSING IN FOREIGN AND DOMESTIC OPERATIONS: JOINT VENTURES MA-52 (1991) [hereinafter ECKSTROM]. Kazuko Matsuo, *Recent Amendment to the Unfair Competition Prevention Law for the Protection of Trade Secrets*, 9 U.C.L.A. PACIFIC BASIN L.J. 78, 82 (1991). C. Leon Kim, *Korea: Trade Secret, Semiconductor Proposals Move Forward*, 5 WORLD INTELLECTUAL PROPERTY REP. 178, 179 (July, 1991). Hoesein Wirindinata & Bruce Johnston, *Indonesia: Intellectual Property Protection Expanding*, 2 ASIA L. & PRAC. 17, 19 (Mar. 12, 1992).

74. See *supra* note 68. The secrecy requirement also disallows trade secret protection for an invention whose Asian patent is rejected because the application has been publicly disclosed during the examination period. An invention patented in the U.S. under the "grace period" exception suffers the same fate because the information is considered publicly disclosed in Asia and no longer secret. See discussion, *supra* part II.A., on intellectual property protection in Asia.

especially injurious in areas such as the ASEAN countries<sup>75</sup> where information passes quickly from country to country.<sup>76</sup> The U.S. company may find itself precluded from using trade secret law in all of those countries, not just the one in which the secret was disclosed.<sup>77</sup> Furthermore, in Japan and Korea, one company may be only a small part of a larger association of companies<sup>78</sup> that normally may legally share information and make joint decisions.<sup>79</sup> If the proprietary information is exchanged too freely among these affiliated companies it may lose its secrecy status.

Despite its best efforts at protecting its technology in the negotiation stages, the U.S. company runs the risk its know-how will be used without its consent. In order to be prepared for this possibility, the company must understand the legal procedures of Asian courts. The causes of action in the local court that are open to the U.S. company will depend upon how the technology was protected.

### B. Available Causes of Action

The Pacific Rim countries treat patent infringement much like the U.S., with the exception noted below for compulsory licenses.<sup>80</sup> In all Asian countries that recognize patent rights, the plaintiff's prima facie case consists of proving ownership and showing the alleged infringer used the patented technology without the owner's permission.<sup>81</sup>

No countries in Asia currently have distinct trade secret statutes that would correspond to the U.S. Uniform Trade Secrets Act.<sup>82</sup> Instead, trade secrets are protected under a variety of legal theories.

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75. ASEAN stands for the Association of South East Asian Nations. Parties to the treaty are Thailand, Singapore, Malaysia, Indonesia, Brunei and the Philippines. Amin Azeharie, *Current Regulations on Foreign Investment in Indonesia*, in LEGAL ASPECTS OF BUSINESS TRANSACTION AND INVESTMENT IN THE FAR EAST 113, 118 (Dennis Campbell & Arthur Wolff eds., 1989).

76. See generally Ralph H. Folsom, *An ASEAN Regional Market is Still Only a Dream*, E. ASIAN EXECUTIVE REP., Feb. 15, 1986, at 16, discussing economic cooperation within the region. IP ASIA, *supra* note 16, § 1.02.

77. Joel R. Reidenberg, Comment, *U.S. Software Protection: Problems of Trade Secret Estoppel under International and Brazilian Technology Transfer Regimes*, 23 COLUM. J. TRANSNAT'L L. 679, 680 (1985). This comment addresses the loss of trade secret for computer software in particular but the principle is applicable to any intangible know-how.

78. The association is called a *keiretsu* in Japan and a *chaebol* in Korea. William R. Boulton, *Japanese Approach to Innovation*, 25 LES NOUVELLES, reprinted in THE LAW AND BUSINESS OF LICENSING: LICENSING IN THE 1990'S 715-16 (1991).

79. Alan S. Gutterman, *A Legal Due Diligence Framework for Inbound Transfers of Foreign Technology Rights*, 24 INT'L LAW. 976, 987 n.33 (1990).

80. An understanding of the intricacies of obtaining foreign patents in Asia is not necessary to grasp the significant issues involving patent infringement. For those readers who are interested in an introduction to the subject, see generally IP ASIA, *supra* note 16, §§ 4.01-4.03 (Hong Kong), 5.01-5.08 (Japan), 6.04-6.20 (Korea), 7.01-7.03 (Malaysia), 8.04 (Singapore), 9.02-9.10 (Taiwan), 19.02-10.11 (Thailand).

81. *Id.*

82. See *supra* note 73. The new amendments to both Japan's and Korea's unfair competition laws are similar in some sections to the UTSA but are not separate statutes.

In Hong Kong, Malaysia and Singapore, the trade secret owner can rely on common law which protects trade secrets through an express, or implied, duty of confidentiality.<sup>83</sup> In Japan and South Korea, which have no trade secret statutes or common-law, the U.S. company can sue on the grounds of unfair competition.<sup>84</sup> Thailand and Taiwan provide the plaintiff with recourse under the criminal law.<sup>85</sup>

The easiest way to recover for trade secret misappropriation, regardless of the legal basis for the protection, is on grounds of breach of a contract requiring confidentiality.<sup>86</sup> The theory applies whether the foreign company revealed the trade secret to a third-party or used the information itself.<sup>87</sup> Singapore, Malaysia, and Hong Kong recognize a breach of implied contract when the circumstances suggest the defendant should have known the information was confidential.<sup>88</sup>

### C. Evidence

Proving that a foreign company is using the U.S. company's proprietary know-how can be very difficult.<sup>89</sup> For example, consider a foreign company that has stolen a U.S. company's proprietary drug-making process. The infringer may use that technology to produce the same drug or it may incorporate the technology in manufacturing other drugs. Examining the drugs themselves gives no clue as to how they were made.<sup>90</sup>

Japan, Korea, and Taiwan presume a patented process has been used to manufacture the product if that product was not available in the country prior to the patent being granted.<sup>91</sup> This presumption shifts the burden of proof

83. IP ASIA, *supra* note 16, §§ 4.01, 8.56.

84. Japan extended its Unfair Competition Act in 1990 to include trade secrets. See generally Matsuo, *supra* note 73. The Korean Industrial Property Office was also drafting a new statute in 1991 which is similar to the revised Japanese Unfair Competition Act. Kim, *supra* note 73, at 179.

85. IP ASIA, *supra* note 16, §§ 9.44 (Taiwan), 10.34 (Thailand).

86. See *supra* note 73. This is the only grounds for suit in Indonesia. Wiriandinata, *supra* note 73, at 19.

87. See *supra* note 73.

88. IP ASIA, *supra* note 16, § 4.48.C (Hong Kong). ECKSTROM'S, *supra* note 73, at MA-52, SI-41.

89. Srisanit Anek, *Legal Aspects of Trade and Investment in Thailand*, in LEGAL ASPECTS OF BUSINESS TRANSACTION AND INVESTMENT IN THE FAR EAST *supra* note 75, at 141, 178.

90. Laboratory tests will reveal what ingredients were in the drugs. However, if the misappropriated know-how is a key to manufacturing the drug, such as a requiring a specific temperature at a certain step in the process, the only way to determine if the technology is being used is to see the manufacturing process in action. ROBERT GOLDSCHIEDER, TECHNOLOGY MANAGEMENT: LAW/TACTICS/FORMS 17-1 (1991).

91. IP ASIA, *supra* note 16, § 5.11 (Japan), 6.25 (Korea), 9.13 (Taiwan). Given the similar policy rationales which underlie protection for both patents and trade secrets, the trade secret owner should argue in favor of applying the same presumption in trade secret misappropriation cases.

to the defendant to prove it did not use the patented process.<sup>92</sup> However, a process may have many applications and an infringer might use the process to produce a previously available product. The presumption would not apply in this situation. When the burden remains with the plaintiff, the chances of prevailing is usually slight.<sup>93</sup>

In Singapore and Hong Kong, the plaintiff can ask for an "Anton Piller" order that allows its solicitors to raid the alleged infringer's location and seize suspicious goods and incriminating documents.<sup>94</sup> It also requires the defendant to name all people involved in the operation.<sup>95</sup> The order is usually issued along with an ex parte injunction.<sup>96</sup> However, Anton Pillar orders are not granted routinely. The plaintiff must be able to show:

- 1) a strong prima facie case for infringement;
- 2) irreparable damage, either actual or future; and
- 3) that the alleged infringer has incriminating documents and/or materials which it will likely destroy.<sup>97</sup>

In Singapore there is an additional requirement that the plaintiff must show it can compensate the defendant for any losses caused by a wrongfully issued order.<sup>98</sup> While Anton Piller orders may give the plaintiff some advantage, they are most useful when looking for physical evidence, not when trying to learn if the alleged infringer is using intangible know-how.

#### *D. Infringer's Defenses*

Although information is sparse in this area, the policy justifications for rights in patents and trade secrets in Asia are the same as those underlying

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92. *Id.*

93. *See supra* notes 89-90 and accompanying text.

94. IP ASIA, *supra* note 16, §§ 4.06 (Hong Kong), 8.65 (Singapore).

95. *Id.* § 4.06.

96. This is generally similar to a U.S. temporary restraining order. *Id.* §§ 4.06.A-B (Hong Kong), 8.66 (Singapore).

97. *Id.* §§ 4.06 (Hong Kong), 8.65 (Singapore).

98. Additionally, the defendant in Singapore can resist the order by challenging it on grounds of self-incrimination. This unique defense was advanced by a defendant attempting to avoid the Anton Pillar order requiring him to name his suppliers and customers for items with the plaintiff's trademark. The court accepted his argument that the disclosure would violate his privilege against self-incrimination since he was charged with violating the plaintiff's trademark. *Id.* § 8.65.

United States law.<sup>99</sup> Therefore, the three categories of defenses discussed in part I.C. (Black Box Litigation in the U.S.) can be used by analogy.

Just as in the United States, an Asian defendant will likely try to prove it did not infringe the patent or misappropriate the trade secret. As before, one possible argument is that the defendant developed the technology independent of the U.S. company. Independent development can be a successful defense if the know-how was protected by trade secret using the same logic as applied in the United States.<sup>100</sup> However, unlike in the United States, in Asian jurisdictions, the independent development defense may be available in patent cases as well. If the defendant can prove it used the patented technology and made improvements, the court may require the patent owner to grant a license to the independent developer.<sup>101</sup> In many cases, the defendant need only prove it made minor modifications in order to get the license.<sup>102</sup> Usually the licensee must pay a fee determined by agreement of the parties, by the government, or by the court.<sup>103</sup> While this fee may be seen as fair in the eyes of the licensee, the involuntary licensor may not agree.<sup>104</sup> In the worst case scenario, a U.S. company could, therefore, find itself shut out of the market by an improved version of its process by its court-ordered licensee with only minimal royalties to show for its efforts.

If the defendant can prove the information was publicly known, that proof will invalidate patent and trade secret protection in the same way as it would under U.S. law.<sup>105</sup> In addition, if the same technology was available in the foreign country before the U.S. company began marketing it, neither patent or trade secret protection is available.<sup>106</sup>

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99. Trade secrets are protected in the United States to "encourage invention" by providing the inventor a limited advantage over the competition in exchange for allowing the public to benefit in some fashion from the invention. *Kewanee*, 416 U.S. at 481. However, the protection is not total because the value of the invention to the public is less since it is maintained as a secret. On the other hand, the patent statute is also designed to encourage invention but it grants the inventor a limited, exclusive monopoly on his or her invention in exchange for full disclosure and dedication of that invention to the public. 35 U.S.C.A. § 112 (West 1992).

100. See *supra* notes 46-48 and accompanying text.

101. IP ASIA, *supra* note 16, § 2.01. In either Asia or the United States, if another person improves a patented invention, the second inventor must have a license from the first to make, use or sell the new invention. However, contrast the Asian countries compulsory licensing provisions with U.S. patent law which allows the inventor to refuse to license to anyone. See *supra* notes 22 and 39.

102. IP ASIA, *supra* note 16, § 2.02.

103. *Id.* §§ 6.23 (Korea), 7.05 (Malaysia), 8.08 (Singapore), 9.12 (Taiwan), 10.12 (Thailand). Arbitrators are used in Japan when the parties cannot agree. *Id.* § 5.14.

104. In Malaysia, if the government determines that the patented invention is necessary for the "good of the country", the state may use the invention without paying the owner at all. ECKSTROM, *supra* note 73, at MA-44.

105. See *supra* notes 50-51. Public knowledge includes "reverse engineering" the product or process from publicly available data.

106. This would defeat both the novelty requirement of patents and the secrecy requirement of trade secrets.

Even though the defendant appears to have stolen the technology outright, it may still argue allowing the U.S. company to monopolize the know-how would be contrary to the public policy of the Asian country.<sup>107</sup> The basis of this catch-all defense is similar to the inequitable conduct defense raised in U.S. patent cases in that the foreign government wants to encourage access to vital technology.<sup>108</sup> Although there is little information available on the use of a public policy defense in trade secret misappropriation cases in Asia, it is likely the patent infringement arguments could be used here as well if based on an anti-monopoly theory.

While the concept of inequitable conduct may be a facet of a public policy defense, public policy arguments may reach much more broadly. Unfortunately, public policy is a term of art which does not have a single definition applicable in all countries.<sup>109</sup> In Asia, the scope of public policy usually encompasses the same areas as the U.S. legal theory of "police power:" the protection of the public health, safety, welfare and morality. Examples of public policy arguments against protecting the know-how are:

- 1) the technology is not sufficiently available due lack of licensing;<sup>110</sup>
- 2) the end product is unavailable in sufficient quantity;<sup>111</sup>
- 3) the technology or the end product's price is excessive;<sup>112</sup> or
- 4) if patented, the owner has failed to use the technology in the country after a specified period.<sup>113</sup>

Public policy defenses can be the hardest to counter because they concern the most fundamental issues of a legal system, issues that are inextricably tied to the underlying culture.<sup>114</sup>

If the Asian court rules for the defendant on the basis of public policy it may order the plaintiff to grant a license to the defendant.<sup>115</sup> These compulsory licensing orders may apply to any technology considered vital to the public, such as pharmaceuticals and medical treatments.<sup>116</sup> As dis-

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107. Steven C. Nelson, *Planning for Resolution of Disputes in International Technology Transfers*, VII B.C. INT'L & COMP. L. REV. 269, 271 (1984).

108. Chisum, *supra* note 37, § 19.04[2].

109. Edith Friedler, *Party Autonomy Revisited: A Statutory Solution to a Choice-of-Law Problem*, 37 U. KAN. L. REV. 471, 513-16 (1989).

110. IP ASIA, *supra* note 16, §§ 6.23 (Korea), 8.08 (Singapore).

111. *Id.* § 7.05 (Malaysia), 8.08 (Singapore), 10.12 (Thailand).

112. *Id.*

113. *Id.* §§ 5.14 (Japan), 6.23 (Korea), 7.05 (Malaysia), 8.08 (Singapore), 9.12 (Taiwan), 10.12 (Thailand). This is often referred to as "working the patent" or "practicing the invention."

114. *See* discussion, *infra* part IV.

115. IP ASIA, *supra* note 16, § 2.01. Compulsory licensing of patent rights is an accepted way of doing business in Asia.

116. *Id.* § 5.14 (Japan), 6.23 (Korea), 7.05 (Malaysia), 8.08 (Singapore), 9.12 (Taiwan), 10.12 (Thailand).

cussed previously, the fee may be set by the court or another neutral party, but is likely to be less than the U.S. company would have received from a negotiated license.

Compulsory licensing for public policy reasons may also be granted where there is an existing licensing agreement but the court determines the need for the technology is not being met by the contract terms.<sup>117</sup> In this case, the defendant could be the existing licensee who is using the public policy defense to acquire expanded rights under the contract or to void the contract entirely, or a third party who is arguing it should be allowed access to the technology as well. Because of the negative consequences of compulsory licensing upon its potential profits, a U.S. company should determine if its know-how falls into one of the local public policy categories before engaging in negotiations. If the technology is vulnerable to government intervention based on public policy arguments, then the risk of losing control over the know-how must be balanced against the possible gains from licensing the technology in that country.

### E. Remedies

When weighing the risks of entering into negotiations with a Pacific Rim company, the U.S. company should factor in the remedies available in the local courts should its potential licensee misappropriate its technology.

Prior to beginning trial the U.S. company can request the Asian court order a preliminary injunction.<sup>118</sup> If the U.S. company proves its proprietary know-how was misappropriated, the court may then issue a permanent injunction against the defendant.<sup>119</sup> These injunctions are defined in much the same way as in the U.S.<sup>120</sup>

Assuming its lawsuit is successful, the U.S. company will be able to recover damages.<sup>121</sup> The measurement of damages varies from country to country. In Singapore, the plaintiff may recover his actual loss of profit, or the defendant's profit from the illegal use, or an amount equivalent to a reasonable royalty for the defendant's use of the technology.<sup>122</sup> Although

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117. *Id.*

118. *Id.* §§ 4.06.A-B (Hong Kong), 5.13 (Japan), 6.25 (Korea), 7.07 (Malaysia), 9.13 (Taiwan), 8.66 (Singapore). ECKSTROM, *supra* note 73, at IN-59 (Indonesia). In Hong Kong and Singapore, temporary injunctions are often issued along with Anton Piller orders. See discussion, *supra* part II.C.

119. Permanent injunctions are granted in most of the Asian countries when the defendant has been found liable. IP ASIA, *supra* note 16, §§ 4.05.C (Hong Kong), 5.13 (Japan, patents) 9.44 (Taiwan), 8.66 (Singapore). Matsuo, *supra* note 73, at 91 (Japan, trade secrets).

120. See *supra* notes 118-119.

121. IP ASIA, *supra* note 16, §§ 4.08, 4.48 (Hong Kong), 5.13 (Japan, patents), 6.25 (Korea, patents), 7.08 (Malaysia), 8.69 (Singapore), 9.14, 9.44 (Taiwan), 10.37 (Thailand). ECKSTROM, *supra* note 73, at MA-52 (Malaysia). Matsuo, *supra* note 73, at 82 (Japan, trade secrets). Kim, *supra* note 73, at 179 (Korea, trade secrets).

122. IP ASIA, *supra* note 16, § 8.69.



Japan does not allow recovery of lost profits, the laws do allow the plaintiff to recover monetary damages for loss of reputation.<sup>123</sup>

Finally, Thailand and Taiwan may impose criminal sanctions upon the defendant.<sup>124</sup> Although criminal sanctions do not directly benefit the injured company, they may have a deterrent effect in some instances.<sup>125</sup> However, in others the nominal fine is no more than a slap on the wrist.<sup>126</sup>

### III. PRE-NEGOTIATION AGREEMENTS

In order to avoid reliance on the varying legal theories and uncertain remedies offered by the Pacific Rim countries, a peek into the know-how black box should be covered by a written contract between the parties, often called a "pre-negotiation agreement."<sup>127</sup> Its protection should extend throughout the negotiations and for a certain period beyond.<sup>128</sup> Six provisions are recommended for pre-negotiation agreements: limited use, non-disclosure, disclosure of reasons for rejection, choice of law, choice of forum, and alternate dispute resolution. Limited use, non-disclosure, and disclosure of reasons for rejection clauses give the licensor contractual protection from misappropriation under Asian law. Both limited use and non-disclosure clauses are often suggested to prevent problems in a licensing contract.<sup>129</sup> However, it is important they be used in the negotiation context as well.<sup>130</sup> The choice of law, choice of forum, and alternate dispute resolution clauses permit the licensor some control over what law will govern the agreement.

#### A. Limited Use

Since one of the concerns during licensing negotiations is that the potential licensee will use the technology without paying for it, the U.S. company should include a limited use provision in the pre-negotiation agreement. This provision should state that the technology revealed before and during negotiations is only to be used for the purposes of evaluation.

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123. *Id.* §§ 5.13, 5.75.

124. *Id.* §§ 9.14 (Taiwan), 10.34.B, 10.37.B (Thailand).

125. In Thailand, patent infringement carries the highest penalties, US\$ 12,000 and up to three years imprisonment. *Id.* § 10.37.B.

126. Trade secret misappropriation is given very little punishment in Thailand: imprisonment for up to six months and/or a fine of approximately US\$ 40. *Id.* § 10.34.B.

127. *Black Box Problem*, *supra* note 2, at 7-20.

128. *Id.* at 7-4. However, the time frame must be limited since indefinite restraints may be considered against public policy even if the parties had agreed to the limitation. See discussion, *supra*, part II.D.

129. *Id.* at 7-11.

130. *Id.*

This provision is not critical if the technology is protected by a local patent because the patent law itself provides protection against infringement.<sup>131</sup> However, it allows the U.S. company to bring suit on breach of contract instead of, or in addition to, patent infringement.

On the other hand, this provision is the crux of a suit to recover for misappropriation of trade secrets in those countries which only protect trade secrets under a contractual theory.<sup>132</sup> Although some jurisdictions may imply a use restriction based on the relationship between the negotiating parties,<sup>133</sup> an express provision makes proving the prima facie case easier.

### B. Non-disclosure

When relying on trade secret protection in Asia, the plaintiff must prove it used due diligence to keep the information secret.<sup>134</sup> One way to prove diligence is to have non-disclosure provisions in the pre-negotiation agreement. Five provisions suggested are:

- 1) a statement that the technology is to be considered confidential information between the parties;
- 2) a list of those on the potential licensee's staff who are to receive and evaluate the information;
- 3) a detailed description of what will be disclosed and what form (documents, samples, etc.) the disclosure will take;
- 4) a requirement that all disclosed information be returned or destroyed at the end of the negotiations; and
- 5) the length of time the prospective licensee agrees to hold the information in confidence after the termination of negotiations.<sup>135</sup>

In general, Asian courts view non-disclosure provisions as binding only the people who actually sign the agreement; employees are not bound as agents of the prospective licensee.<sup>136</sup> Therefore, a U.S. company that wishes to recover damages for any unprivileged disclosure must execute separate, individual pre-negotiation agreements with each person who has access to the proprietary know-how.<sup>137</sup> This procedure may be unwieldy in negotiations over revolutionary technologies which require large teams of

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131. IP ASIA, *supra* note 16, §§ 4.04 (Hong Kong), 5.11 (Japan), 6.25 (Korea), 7.07 (Malaysia), 8.05 (Singapore), 9.13 (Taiwan), 10.37 (Thailand). Wiriandinata, *supra* note 73, at 17 (Indonesia).

132. Only Japan and Korea have trade secret statutes. *See supra* note 73.

133. IP ASIA, *supra* note 16, §§ 4.48 (Hong Kong), 8.56 (Singapore). ECKSTROM, *supra* note 73, at MA-52 (Malaysia).

134. *See supra* note 73.

135. *Black Box Problem*, *supra* note 2, at 7-15 to 7-19.

136. ECKSTROM, *supra* note 73, at IN-59 to IN-60 (Indonesia), JA-65 (Japan), TA-56 (Taiwan), TH-82 (Thailand).

137. *Id.*

scientists and engineers to evaluate properly. Unfortunately, these are the very situations where the protection of individual pre-negotiation agreements would prove most useful.

There are two possible methods to alleviate the problems inherent in multiple pre-negotiation agreements. The first is to include a clause in the non-disclosure provision holding the prospective licensee liable for any breach by its employees.<sup>138</sup> While this procedure may allow the know-how owner to collect damages in case of disclosure, it still leaves the U.S. company vulnerable to the third-party problem discussed below because of the number of people with access to the technology.

The second alternative is to designate an independent person who is trusted by both sides as an intermediary.<sup>139</sup> The intermediary then examines the know-how being marketed and reports his or her opinion of its worth to the potential licensee.<sup>140</sup> This solution reduces the problem of confidentiality to only one individual, the intermediary. However, finding an individual who is competent to judge the technology (particularly in a rapidly evolving field such as biotechnology), is fluent in both English and the native language, and who is acceptable to all concerned is a large undertaking.<sup>141</sup> The search itself may be as difficult as ensuring the proper parties sign pre-negotiation agreements. In addition, the U.S. company could still find itself with a third-party problem as discussed below if the intermediary should disclose the technology to another who later uses it. However, the potential for harm is less than when using either multiple non-disclosure agreements or a company liability clause because only one person is involved.

Although the use of a non-disclosure clause is a recommended safeguard, it is not as critical where the technology is protected by a local patent. The information in a patent is made public during the patenting procedure<sup>142</sup> and further disclosure of the data contained in the patent application will not be harmful. However, techniques necessary to practice the patented technology may be revealed during the negotiations and therefore should be protected by the non-disclosure clause.<sup>143</sup>

None of the preventative measures discussed above may be sufficient to protect a trade secret owner in some Asian countries if the misappropriation is by a third-party who acquires the technology through a breach of the

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138. ECKSTROM, *supra* note 73, at IN-59 (Indonesia), JA-66 (Japan), TA-56 (Taiwan), TH-82 (Thailand).

139. GOLDSCHIEDER, *supra* note 90, at 13-4 to 13-5.

140. *Id.*

141. *Cf.* Nelson, *supra* note 107, at 275 (discussing the difficulty in finding a neutral party to act as arbitrator).

142. *See supra* note 62 and accompanying text.

143. *See supra* note 68.

confidentiality agreement.<sup>144</sup> Most jurisdictions will not enjoin such third-party use, although they may award damages to the U.S. company.<sup>145</sup> In addition, the U.S. company may be able to collect damages from its original negotiating partner or the individual for breach of contract.<sup>146</sup> However, monetary relief may be wholly inadequate if the infringer can establish sufficient market share to force the U.S. company out of the competition. As with compulsory licensing, this possibility is one which must be considered in a risk-benefit analysis of doing business in the Pacific Rim.

### C. Disclosure of Reasons for Rejection

As discussed above in part II.C, Infringer's Defenses, what may appear to be illegal use of the know-how actually may be legitimate. Because Asian countries do not have a pre-trial discovery process,<sup>147</sup> the U.S. company may not learn the use is considered legal until the trial. The know-how owner could, therefore, get to court only to discover it does not have a case. One method suggested to deal with this predicament is to have the legal exceptions to the confidentiality requirement set out in the agreement, i.e., the technology was in the public domain or independently developed by the prospective licensee before the disclosure.<sup>148</sup> This provision should further require that the prospective licensee inform the technology owner if it is refusing to license under one of the exceptions and make a good faith showing the exception applies.<sup>149</sup>

If the prospective licensee demonstrates the know-how is either non-proprietary or was developed independently, the U.S. company has benefitted on two counts. Not only has it saved itself a possible lawsuit but it has also gained insight into whether further attempts at licensing that technology in that country is worthwhile.

On the other hand, if the prospective licensee cannot show the know-how was either non-proprietary or was developed independently, the U.S. company has gained information which could be used to refute those defenses if a misappropriation lawsuit should arise. In addition, the prospective licensee's refusal on other grounds may reveal a public policy bias of which the U.S. company was unaware, thereby adding another factor into its risk analysis.

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144. This is because all Asian countries except Japan and Korea base the cause of action for trade secret misappropriation on a breach of contract theory and there is no privity between the trade secret owner and the third-party. See *supra* note 73.

145. Hong Kong and Singapore courts will impose liability but not enjoin the use. IP ASIA, *supra* note 16, § 4.48.C (Hong Kong), 8.55 (Singapore).

146. *Id.*

147. In civil law countries, evidence is collected through the court, either by judges or appointed officials. RUDOLF B. SCHLESINGER ET AL., *COMPARATIVE LAW: CASES, TEXT, MATERIALS* 443-44 (5th ed. 1988).

148. *Black Box Problem*, *supra* note 2, at 7-21.

149. *Id.* at 7-21 to 7-24.

This provision does not cover the situation where the negotiations fail and the prospective licensee does not invoke one of the exceptions but later uses similar technology. However, if the parties agree confidentiality extends past the negotiation period, the solution here is to require that the foreign company prove it either acquired or developed the information without infringing if the similar technology is used during the time frame of the agreement. Even though the agreement has lapsed, the U.S. company can still use it to prove a confidential relationship existed between the parties but will not be able to ground its case on breach of contract.<sup>150</sup>

#### *D. Choice of Law*

Where there is unlicensed use or disclosure of its technology, the pre-negotiation agreement provides the U.S. company with an additional, and more certain, cause of action for breach of contract. Nonetheless, the U.S. company may want to insist any such disputes be resolved using the law of its home state. This requirement can be inserted in the contract through a "choice of law" clause. On the whole, Asian courts honor choice of law clauses when dealing with contractual issues.<sup>151</sup> There are two difficulties of which the U.S. company must be aware, however.

First, consider that the foreign court will be applying United States contract law, probably the U.C.C. This means the foreign judge must decide what the appropriate law is, how to interpret that law, and how to apply it to the facts of the case. Some jurisdictions permit the litigants to present proof, often contradictory, to the judge regarding which law and interpretation should be used.<sup>152</sup> Other court systems rely on court appointed experts to tell the judge what law should apply.<sup>153</sup>

Second, once the judge has decided the case using U.S. law, he or she will then determine if the result is against the public policy of the forum.<sup>154</sup> The public policy arguments in this instance are similar to those used as public policy defenses, in that, they are concerned with the general public

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150. The U.S. company that tries to use an implied contract theory in Hong Kong, Singapore, or Malaysia will be faced with a similar problem due to the public policy against unreasonable restraints.

151. Karen D. Untiedt, Comment, *International Contracts Under the Conflict of Laws Rules of Great Britain and Japan*, 7 *LOY. L.A. INT'L & COMP. L.J.* 193, 202 (1984). Patent infringement can only be determined under the local law, however, since patents are viewed as a form of property right. Stanislaw Soltysinski, *Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions*, in 196 *RECUEIL DES COURS D'ACADEMIE DE DROIT INTERNATIONAL* 239, 271 (1986).

152. It is easy to underestimate the problems two different translations of precedents may present. Just researching U.S. law presents a challenge to lawyers trained in civil law methodology since they do not rely on cases to establish law and are most familiar with researching statutes. CLAIRE M. GERMAIN, *GERMAIN'S TRANSNATIONAL LAW RESEARCH: A GUIDE FOR ATTORNEYS* § 2.07 (1991).

153. John R. Brown, *44.1 Ways to Prove Foreign Law*, IX *TUL. MAR. L.J.* 179, 183-86 (1984).

health, safety, welfare and morality. Furthermore, commentators note that courts often include the forum's mandatory statutes and regulations, such as rules against unfair competition (anti-trust) and undue restrictions, under the heading of public policy.<sup>155</sup> If a contract provision violates one of the "mandatory norms" of the forum, the court may use the forum's law to void the offending clause but still apply the chosen law to the remainder of the agreement.<sup>156</sup> Nonetheless, this could dramatically change the judgment if the clause was critical.

On the other hand, the court may decide applying the law specified in the contract would produce a result that violates one of these public policy standards. In that case, the court will refuse to render the judgment.<sup>157</sup> The court will then use its conflict laws to determine what law should apply.<sup>158</sup> For example, Japanese courts view the default law governing a contract between parties in two different countries as the law of the place where the offer was made.<sup>159</sup> This may be the forum's law. Therefore, the U.S. company must include the local law as it might be applied to the pre-negotiation agreement as a factor in its risk analysis.

### E. Choice of Forum

Despite the law used, litigating in a foreign court may not be a desirable option because of the lingering national bias of the courts, particularly in the area of trade secrets.<sup>160</sup> Therefore, the U.S. company should consider including a provision requiring that a specific U.S. court will have jurisdiction over all disputes<sup>161</sup>. Although choice of forum clauses are widely accepted in Asia,<sup>162</sup> the U.S. court might refuse jurisdiction on the grounds of forum non conveniens.<sup>163</sup> The court could cite the facts that the misappropriation has taken place in a foreign country so all the evidence and

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155. Soltysinski, *supra* 151, at 273. Extended confidentiality requirements may fall into this category as well. Gutterman, *supra* note 79, at 991.

156. Untiedt, *supra* note 151, at 224.

157. *Id.* at 220.

158. Brian G. Brunsvold & David K.J. Jeffrey, *Choice of Law and Selection of a Forum for International Licensing Disputes*, in 1981 LICENSING HANDBOOK 319, 330-31 (M.B. Finnegan ed., 1981).

159. This is known as *lex loci contractus*. Zentaro Kitagawa, *Transnational Litigation*, in 7 DOING BUSINESS IN JAPAN XIV 5-54 to 5-55 (1990), interpreting HÖREI [Act Concerning the Application of Laws] art. 9, para 2. (1990).

160. James Pooley & Hans Troesch, *International Aspects of Trade Secret Protection*, in PROTECTING TRADE SECRETS 1989 713, 721 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 269, 1989). See discussion, *infra*, part V.

161. Brunsvold, *supra* note 158, at 337-38.

162. Asian Law Centre, University of Melbourne, DOING BUSINESS IN ASIA ¶¶ 21.523 (Hong Kong), 33.613 (Indonesia), 39.674 (Japan), 45.093 (Korea), 75.402 (Taiwan), 81.973 (Thailand) [hereinafter DOING BUSINESS].

163. However, parties are usually estopped from invoking the doctrine if they agreed to the forum in advance. *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 15 (1972).

witnesses are there, and that the defendant would have to travel from Asia to the United States to defend the case.

Assuming the plaintiff clears that hurdle and the U.S. court is willing to hear the case, further obstacles remain. The court must still obtain personal jurisdiction over the foreign defendant<sup>164</sup> and the plaintiff faces the difficult task of procuring evidence abroad.<sup>165</sup> A misstep in either obtaining jurisdiction or evidence means a foreign court is unlikely to recognize and enforce any judgment a U.S. court renders.<sup>166</sup> Thus, unless the defendant has significant assets in the U.S., the plaintiff has gained only a moral victory while the defendant is free to continue to use the technology.

A choice of law clause should be combined with a choice of forum clause, otherwise the U.S. court's own conflict rules might require the court to apply foreign law.<sup>167</sup> The substantive law to be applied would be determined by either the country in which the contract was signed, the place where the negotiations took place, the location of the performance called for by the contract, the place where the subject matter was located, the domicile of the parties, or a combination of all these factors known as the "center of gravity" of the contract.<sup>168</sup>

#### *F. Alternate Dispute Resolution (ADR)*

One Japanese attorney has observed that the Japanese approach to litigation may be deliberately inefficient to give the parties many opportuni-

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164. The U.S. Supreme Court in *Volkswagenwerk Aktiengesellschaft v. Schlunk*, 486 U.S. 694, 706-708 (1988), held that a U.S. court has jurisdiction over a foreign defendant if there has been valid service of process on either a U.S. subsidiary or agent of the defendant. If service of process cannot be accomplished in either instance, the U.S. plaintiff can use the procedures set out in the Hague Convention on the Service of Process Abroad, Nov. 15, 1965, 20 U.S.T. 361, 658 U.N.T.S. 163, T.I.A.S. No. 6638. However, of the Asian nations discussed in this Comment, only Japan is a signatory to the convention.

165. Although the U.S. plaintiff may try to obtain evidence under the Hague Convention on the Taking of Evidence Abroad, Mar. 18, 1970, 23 U.S.T. 2444, 847 U.N.T.S. 231, T.I.A.S. No. 7444, only Hong Kong and Singapore are signatories. Both states made reservations under Article 23 which allows them to enact "blocking" statutes forbidding their officials from complying with U.S. discovery orders. SCHLESINGER, *supra* note 147, at 446.

166. Most recognition and enforcement bilateral treaties require that the procedure of the country where the judgment is to be recognized and enforced must be followed. This included any judicial treaties in force between the two countries. George A.L. Droz & Adair Dyer, *The Hague Conference and Main Issues of Private International Law for the Eighties*, 3 NW. J. INT'L L. & BUS. 155, 178 (1981).

167. U.S. courts have proved reluctant to apply foreign law. As an opinion from a New York court noted: "Basically it is our law that governs from the mere fact that the litigation is before us; it is a truism that a case before the courts of New York is to be decided by New York law." *Chinchilla v. Foreign Tankship Corp.*, 91 N.Y.S.2d 213, 218 (1949).

168. RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 188 (1971). Some states use the RESTATEMENT OF CONFLICT OF LAWS § 332 (1934) which may yield a different result because contractual rights and obligations are governed by the "place of contracting" under the first restatement while the "place of contracting" is only one of five factors used by the second restatement to determine what law governs.

ties to settle their dispute outside the courtroom.<sup>169</sup> This attitude is common throughout Asia<sup>170</sup> and lends itself to alternate dispute resolution methods such as arbitration, mediation, and negotiation.

Japan, Indonesia, Korea, Taiwan, Thailand, Singapore and Hong Kong have established arbitration systems.<sup>171</sup> Formal procedures for conciliation and mediation are available in Hong Kong, Japan, Korea and Taiwan.<sup>172</sup> Other countries in Asia recognize informal conciliation and mediation arrangements based on an agreement between the parties.<sup>173</sup> Negotiation is the preferred solution to disputes in Indonesia,<sup>174</sup> and the cultural bias of all the Asian countries against litigation means a negotiated settlement is accepted everywhere.<sup>175</sup>

ADR methods are particularly useful when the issue involves the misappropriation of a trade secret since Asian courts do not have *in camera* proceedings and the secret would likely be revealed in public hearings.<sup>176</sup> In most Asian countries, ADR sessions are confidential by default.<sup>177</sup> However, the resolution to keep the sessions confidential should be reflected in the pre-negotiation agreement.

A further benefit of using ADR is that the U.S. company can avoid the interminable delays inherent in most Asian court systems in intellectual property litigation. As one Japanese commentator admitted, "Japan now has a machine for the protection of trade secrets, but we do not have sufficient oil to run it."<sup>178</sup> This is true of patent infringement in Japan as well<sup>179</sup> and is generally the situation throughout Asia.<sup>180</sup> On the other hand, ADR allows the parties to control most aspects of the process without the impediment of judicial schedules.

If the parties are willing to resolve potential disputes through alternate means, the pre-negotiation agreement should reflect that choice. Failure to do so may mean compounding the dispute if one party insists upon ADR after the alleged infringement has taken place.

169. IP ASIA, *supra* note 16, § 5.12 (addressing patent litigation in particular).

170. *Id.* § 1.05.

171. DOING BUSINESS, *supra* note 162, at ¶¶ 21.552 (Hong Kong), 39.702 (Japan), 33.642 (Indonesia), 46.021 (Korea), 69.942 (Singapore), 75.404 (Taiwan), 82.001 (Thailand).

172. *Id.* ¶¶ 21.411 (Hong Kong), 29.733 (Japan), 46.053 (Korea), 75.434 (Taiwan).

173. *Id.* at 69.974 (Singapore), 87.032 (Thailand).

174. *Id.* at 33.674.

175. IP ASIA, *supra* note 16, § 1.05.

176. Indeed, the Japanese Constitution requires public trials and open records. Matsuo, *supra* note 73, at 94.

177. The parties must specify that they want confidential arbitration in Korea, Thailand, and Singapore. DOING BUSINESS, *supra* note 162, at 46.051 (Korea), 83.031 (Thailand), 69.973 (Singapore).

178. Matsuo, *supra* note 73, at 94.

179. IP ASIA, *supra* note 16, § 5.12.

180. *Id.* §§ 5.12 (Japan), 6.25 (Korea), 10.37 (Thailand).



#### IV. POTENTIAL CULTURAL DIFFICULTIES

While a written pre-negotiation agreement is a logical solution to the black box problem, it may receive a chilly reception from the prospective Asian licensee. Historically the norm in Asia has been to leave contractual provisions vague, working on just a handshake.<sup>181</sup> Mr. Matsuo, a prominent Japanese patent attorney, recognizes the need for more "Western" style contracts but is concerned "Japanese society will be contaminated with an overabundance of 'contracts' in place of the loyalty, mutual respect, and duty that so far has prevailed in Japanese society."<sup>182</sup>

Knowing the prospective Asian licensee might balk at signing a pre-negotiation agreement, a U.S. company can do a risk determination before approaching potential licensees. In the event a pre-negotiation agreement is rejected, at least the U.S. company's negotiator will be able to make an informed decision as whether to continue the negotiations.

Furthermore, a U.S. company must be aware of the risk of transferring know-how to Asia with or without a pre-negotiation agreement. The difficulty relates to the underlying culture of the Asian countries. A nation's legal system is merely a reflection of the morality and traditions of its people. In the case of intellectual property, the cultural viewpoints between the Western and Asian worlds are vastly different, although the chasm is closing.

For example, the United States believes the way to make new and useful inventions available to the public is through strong protection of the inventor's right to earn a return on his or her investment of time and energy.<sup>183</sup> On the other hand, the Japanese government believes the purpose of intellectual property is to immediately benefit society and so it makes the technology available to all through extensive licensing measures.<sup>184</sup> Patent claims are interpreted very narrowly which allows others to use a similar process without infringing.<sup>185</sup> There are signs of change however. In October of 1991, the Osaka District Court found Toyobo Company guilty of infringing a Japanese patent issued to Genetech overruling Toyobo's defense that the technology was common knowledge.<sup>186</sup> And in

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181. Anna Han, an American lawyer who develops joint ventures between China and U.S. clients, says "The Chinese are always asking why we want so much detail. . . . They say, 'Can't we just shake hands? If we have a problem, we'll work it out.'" Rob Ross, *S.F. Firms Make Presence Felt in Chinese Capital*, Los Angeles Daily J., Nov. 3, 1981, at 1, 16.

182. Matsuo, *supra* note 73, at 96.

183. See discussion, *supra* part I.A.

184. Samson Helfgott, *Cultural Differences Between the U.S. and Japanese Patent Systems*, 72 J. PAT. TRADEMARK OFF. SOC. 231, 234-35 (1990).

185. Richard A. Eastman & Peter del Vecchio, *Japan: Technology Transfer a Key to Success*, 2 ASIA L. & PRAC., Mar. 12, 1992, at 21, 21. The practice of applying for patents on all these similar inventions is called "patent flooding" and often results in the original inventor being unable to keep the others from practicing what is essentially his or her invention. *Id.*

186. *Japan's Court Rules Toyobo Infringed U.S. Medical Patent*, JAPAN ECONOMIC NEWSWIRE, Oct. 30, 1991, available in LEXIS, Asia Pacific Library, JEN File.

March, 1992, after Honeywell announced it had settled its case against Minolta, the Japan Patent Office warned Japanese manufacturers to "exercise extreme caution in avoiding violation of foreign patents."<sup>187</sup>

Similarly, the Chinese culture has long considered it an honor to have one's ideas and inventions copied by another.<sup>188</sup> Nonetheless, there is growing awareness in predominately Chinese countries that intellectual property deserves protection. For example, the Taiwanese government is attempting to educate its people, as well as its judiciary, on the subject.<sup>189</sup> However, foreign plaintiffs continue to report discrimination in the courts in Taiwan saying the judges often view them as "a big bad U.S. company trying to beat up the small local entrepreneur."<sup>190</sup>

Korea is another example of a country that had a cultural view of intellectual property antithetical to that of the Western world. In 1986, Kyung-Won Kim, then-ambassador to the United States said

Historically, Koreans have not viewed intellectual discoveries or scientific inventions as the private property of their discoverers or inventors. New ideas or technologies were "public goods" for everybody to share freely. Cultural esteem rather than material gain was the incentive for creativity.<sup>191</sup>

Since that statement, Korea has made or proposed major changes in its laws on patents and trade secrets which may bring them more in line with Western concepts of private ownership of intellectual property.<sup>192</sup>

## CONCLUSION

The intellectual property protection in Asia is improving as evidenced by the number of new patent, copyright, and trade secret laws passed in the last five years.<sup>193</sup> However, these changes are apparently in response to external pressures from the United States and Europe rather than due to

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187. *Quick Settlement of Minolta Dispute Shocks Industry*, JAPAN ECONOMIC NEWSWIRE, Mar. 4, 1992, available in LEXIS, Asia Pacific Library, JEN File.

188. Grant G. Erickson, *Intellectual Property in Taiwan: "False Face Must Hide What False Heart Doth Know"*, 4 TRANSNAT'L LAW. 291, 297 (1991).

189. *Patent and Trademark Protection*, 1991 BUSINESS INTERNATIONAL: INVESTING AND TRADING, Sept. 1, 1991, available in LEXIS, Asia Pacific Library, BUSINT File.

190. Mark Magnier, *Fighting Asian Software Piracy Still a Hit-and-Miss Proposition*, CHICAGO TRIBUNE, June 18, 1990, Business, at 7, available in LEXIS, Nexis Library, CHTRIB File.

191. Kyung-Won Kim, *Business Forum: A High Cost to Developing Countries*, NEW YORK TIMES, Oct. 5, 1986, § 3, at 2.

192. Patent Act (1990), ECKSTROM, *supra* note 73, KO-54 to KO-56, and Unfair Competition Act (1991), Kim, *supra* note 73, at 179.

193. Indonesia: Patent Act (1991), Wiriandinata, *supra* note 73, at 19; Korea: Patent Act (1990), ECKSTROM, *supra* note 73, KO-54 to KO-56, and Unfair Competition Act (1991), Kim, *supra* note 73, at 179; Japan: Unfair Competition Act (1990), Matsuo, *supra* note 73, at 82.

internal cultural changes.<sup>194</sup> Until the people of the Pacific Rim countries place a higher value on individual intellectual property rights, enforcement of these new laws will continue to be unpredictable.<sup>195</sup>

Given the potential problems involved in negotiating know-how licenses in the Pacific Rim, a U.S. company must compile and adhere to a check-list of provisions for each country in which it intends to do business.<sup>196</sup> The provisions suggested in this Comment can serve as a framework. The check-list may be created with the help of lawyers in the foreign country, foreign lawyers assigned to various trade missions in the United States, or U.S. lawyers who have extensive experience in the specific countries.<sup>197</sup> The number of intellectual property lawyers familiar with Asia is still small, so the U.S. company must be prepared to involve, not only its own legal staff, but also its technical organization. The marketing group must be made aware of the risks of revealing the technology without adequate protection before its staff begins negotiations. U.S. companies are becoming more sophisticated in dealing with other cultures from a business standpoint, now they must become knowledgeable from a legal standpoint as well.

*Sue Holloway\**

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194. Erickson, *supra* note 188, at 297. A contrary theory has been proposed which asserts that all newly-developing countries pass through a stage in which they do not respect intellectual property rights but that they eventually recognize their own self-interest in strong laws when they have evolved to the point of having technology to sell. Leaffer, *supra* note 3, at 281-84.

195. IP ASIA, *supra* note 16, § 2.01.

196. Suggested check-lists can be found in *Black Box Problem*, *supra* note 2, at 7-25 to 7-31 and Pooley, *supra* note 160, at 713-720.

197. Robert Goldscheider suggests asking the attorney for the prospective licensee for a formal opinion letter that the terms of the pre-negotiation agreement are legal and enforceable under local law. GOLDSCHIEDER, *supra* note 90, at 9-11. This approach is suggested even if the agreement contains a choice of law clause since it might be overruled by the court.

\* This Comment is dedicated to my husband, Virgil Rittenhouse, who, despite his many hours of proofreading, always chuckled at my law school allusion in the introduction. Thank you, dear, you are greatly appreciated.

