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Special Considerations in International Licensing Agreements

Elmer J. Stone and Kenneth H. Slade*

Licensing agreements are typically complex business arrangements which are heavily negotiated by the parties involved. Not surprisingly, when one of those parties is based in a country other than the United States, such agreements become even more complex.

This article highlights key issues which commonly arise in international licensing agreements. Although all of these issues do not arise in every international licensing agreement, these issues are generally indicative of the special concerns United States based parties must address when granting licenses to, or receiving licenses from, foreign based parties.

I. CHOICE OF LAW

In a licensing agreement between two United States based parties, the law chosen by the parties to govern their agreement is usually not a hotly contested issue. Although law in the United States does vary from state to state, most provisions in a domestic licensing agreement would not be drastically affected by whether the law chosen to govern the agreement is the law of the licensor's state, as opposed to the law of the licensee's state.

In contrast, in an international licensing agreement a crucial issue may very well be which party's law governs the interpretation of the

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agreement. The law of the nation of the foreign based party may be
drastically different from that of the United States based party. In
France, for example, courts generally uphold provisions preventing
a licensee from using unpatented licensed technology to compete with
its licensor after termination of their license agreement. In California,
a similar provision cannot be enforced unless it either falls within
specific statutory exceptions or else it can be phrased in terms of
protecting the confidential nature of the information provided.

To clarify which of those differing laws will be used to interpret
their agreement, the parties to an international licensing agreement
will typically designate a governing law. Care must be taken to insure
that such choice of governing law will be respected under the laws
of the jurisdictions of each of the parties and, where the chosen law
is from a neutral location, under the laws of such neutral location.
For example, California and French parties may think that choosing
New York law would be a fair compromise, particularly if the French
party has entered into other agreements under New York law. How-
ever, if the transaction is not worth at least $250,000, that choice of
law would not be respected under New York law.

At the same time, even where parties agree to apply the laws of
some state of the United States, their choice of such law might still
not prevent foreign law from applying to disputes which arise under
their agreement. For example, if one of the parties is based in the
European Community, the non-competition provisions of the Treaty

provided, every contract restraining one from engaging in a lawful profession, trade, or
business of any kind).

2. A person selling the goodwill of a business, shareholders selling all of their shares,
and, under certain circumstances, a shareholder selling all or substantially all of the operating
assets of the corporation or all of the shares of a subsidiary, may agree to refrain from
carrying on a similar business in the same geographical areas. Id. § 16601. Partners may,
upon or in anticipation of a dissolution of a partnership, agree that they will not carry on a
similar business within a certain area where the partnership business had been transacted, so
long as any other member of the partnership (or its successor) carries on a like business in
that area. Id. § 16502.

that:

The parties to any contract . . . relating to any obligation arising out of a transaction
covering in the aggregate not less than two hundred fifty thousand dollars, . . . may
agree that the law of this state shall govern their rights and duties . . . , whether or
not such contract, agreement or undertaking bears a reasonable relation to this state.
This section shall not apply to any contract, agreement or undertaking (a) for labor
or personal services, (b) relating to any transaction for personal, family or household
services, or (c) to the extent provided to the contrary in subsection two of section
1-105 of the uniform commercial code.

Id.
of Rome will apply with respect to activities in the European Community, even if the parties attempt to specifically provide otherwise in their agreement.  

Such involuntary choices of law are not unique to the European Community; some United States laws, such as its antitrust laws, as well as some state laws, will automatically apply if the transaction involves or affects a United States based party, even if the parties specifically disclaim reliance on United States law.


5. As the 10th Circuit explained:

The principal purpose of the anti-trust laws is protection of American consumers and American export and investment opportunities . . . . To support jurisdiction of an American court [in efforts to enforce such laws], plaintiff must first show that the challenged activity had an actual effect on United States commerce. Then we must decide if “the interests of, and links to, the United States—including the magnitude of the effect on American foreign commerce—are sufficiently strong, vis-à-vis those of other nations, to justify an assertion of extraterritorial authority . . . .” Montreal Trading Ltd. v. Amax, Inc., 661 F.2d 864, 869 (10th Cir. 1981) (quoting Timberlane Lumber Co. v. Bank of America, 549 F.2d 597, 613 (9th Cir. 1976)).

In order to balance United States and extraterritorial contacts and interests, various sets of factors have been proposed, none of which have included the parties' choice of law. See RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 40 (1965); K. BREWSER, ANTITRUST AND AMERICAN BUSINESS ABROAD 446 (1958); and Mannington Mills, Inc. v. Congoleum Corp., 595 F.2d 1287, 1297-98 (3rd Cir. 1979). It is interesting to note, however, that the parties can determine who will hear antitrust claims. See Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, 473 U.S. 614 (1985) (contractual clauses providing for foreign arbitration can be upheld, even if the dispute involves a U.S. antitrust claim).

6. For example, trying to avoid California's Franchise Investment Law by choosing the law of a state without a similar law would probably be void, at least as far as California is concerned. See CAL. CORP. CODE § 31512 (West 1987) (voiding any condition, stipulation, or provision purporting to waive compliance with any provision of the California Franchise Investment Law). Similar provisions are common in consumer protection legislation.

Incorporating an entity in one state will not necessarily prevent the application of the corporate laws of other states. The California Corporations Code applies to foreign (non-California) corporations which conduct a specified percentage of their business or operations in California and which have more than one-half of their outstanding voting securities held by persons having addresses in California. Id. § 2115.

In addition, some states have taken steps to limit the ability of out-of-state parties to force their residents or corporations to choose out-of-state law. See, e.g., TEXAS BUS. & COM. CODE ANN. § 33.53 (Vernon 1987) (effective Sept. 1, 1987). Avoidance of Texas law, particularly if a party is unaware of section 33.53, is made more difficult by this section, which requires that when any "element of the execution of the contract" occurs in Texas and when one of the parties to that contract is either an individual resident in Texas or an association or a corporation existing under Texas law or having its principal place of business in Texas, then any provision of that contract which makes that contract (or any conflict arising therefrom) subject to the laws of another state, to litigation in courts of another state, or to arbitration in another state, must be set out in boldfaced print in that contract. Id. If such a provision is not so set out, the new Texas statute declares that the provision is voidable by the party against which it is sought to be enforced. Id. The phrase "another state" will presumably be read broadly enough to include the laws, courts, and arbitral locations of foreign nations.
To the other extreme, treaties between the parties’ countries may impose certain automatic choices of law, unless the parties clearly provide otherwise. On January 1, 1988, the United Nations Convention on Contracts for the International Sale of Goods (the UNCISG) became effective. As the United States has ratified the UNCISG, that treaty will automatically apply to sales agreements (at least for “goods”) between United States based parties and foreign parties based in countries which have also ratified the UNCISG. Although specific contractual provisions can supersede provisions of the UNCISG, and prevent the UNCISG from applying at all, where an agreement is silent the UNCISG shall control on many issues involving the respective rights and remedies of the parties.

II. CHOICE OF FORUM

Closely related to the choice of law is the choice of forum. If a dispute between the parties arises and results in either litigation or arbitration, where will such proceedings be conducted? Each party would have an obvious logistical advantage if the proceedings were conducted in its home jurisdiction, particularly if the proceedings are conducted there in its native language. In addition, the cost for any party to conduct a litigation or arbitration in a foreign country and in a foreign language is obviously much greater than the cost of conducting such proceedings in its own country and in its native language.

Very often the parties may compromise and stipulate that proceedings will be held in a neutral location. Once again, care must be taken to insure that the choice of forum will be respected under the laws of the jurisdictions of each of the parties and, where the chosen forum is a neutral location, under the laws of such location.

8. The following countries have ratified the UNCISG effective January 1, 1988: Argentina, Egypt, France, Hungary, Italy, Lesotho, the People’s Republic of China, Syrian Arab Republic, United States, Yugoslavia, and Zambia. THE CONVENTION FOR THE INTERNATIONAL SALE OF GOODS: A HANDBOOK OF BASIC MATERIALS 65 (R. Kathrein and D. Magraw 1987). In addition, the UNCISG has been ratified by Austria, Finland, Mexico, and Sweden, effective January 1, 1989. Countries which have signed the UNCISG, but not yet become parties to it, include Austria, Chile, Czechoslovakia, Denmark, Finland, Federal Republic of Germany, German Democratic Republic, Ghana, the Netherlands, Norway, Poland, Singapore, Sweden, and Venezuela. Id. at 66-67. Other countries likely to ratify in the near future include Australia and Romania.
9. For example, under New York law, a foreign corporation or non-resident can choose a New York forum if: (1) the contract contains a New York choice of law clause; (2) the foreign party agrees to New York jurisdiction in that contract; (3) the disputed transaction involves at least $1,000,000; and (4) the dispute arises out of that contract. N.Y. GEN. OBLIG. LAW § 5-1402 (McKinney Supp. 1984-1985).
III. FOREIGN REGISTRATION OF INTELLECTUAL PROPERTY RIGHTS

Protection and registration of a United States licensor’s intellectual property rights in the United States does not entitle it, without other action being undertaken, to protection of those rights in other countries. Likewise, from the United States licensee’s perspective, protection and registration of a foreign licensor’s intellectual property rights in a foreign country does not, by itself, entitle the licensor or its United States licensee to protection of those rights in the United States.

The non-registration of intellectual property rights in the country where those rights are intended to be used can be catastrophic. For example, when a foreign patent is issued, it is typically published in some official gazette or similar publication. As soon as that foreign publication occurs, that invention may no longer be patentable in the United States.\footnote{35 U.S.C.A. § 102 (1984) (entitling a person to a patent unless the invention was patented or described in a printed publication in this or a foreign country). The international registration of patents is facilitated by the Patent Cooperation Treaty (PCT), to which the United States and most other industrialized nations are parties. 35 U.S.C.A. §§ 351-376 (1984). Under the PCT, when an inventor files his first patent application for a particular invention, he can also list other PCT countries in which he intends to file for patent protection. As long as those other applications are filed within twenty months after the inventor’s first filing on that invention, the invention can still be patented in those countries, even if the initial application already resulted in an issued, published patent.}

Similarly, the failure of a party to register its trademark in a jurisdiction may give a savvy individual the opportunity to commit “trademark blackmail.” For example, unlike the United States, most European countries allow trademarks to be registered before they are used on a product. One enterprising Briton registered the trademark “McDonalds” in England and then waited for that franchise operation to attempt to enter the British market and thus have to purchase or license the right to use what it had thought was its own trademark.\footnote{Unwilling to be blackmailed, McDonalds has opted instead to identify its restaurants in the United Kingdom as “McDonalds Golden Arches Restaurants.”}

IV. GOVERNMENT APPROVALS

In many more cases than one might think true, governmental approvals must be obtained before an executed license agreement can
become effective. If a United States company is exporting military items, for example, the State Department's Office of Munitions Control must approve the agreement if the United States based party wants to avoid the costly procedure of applying for a separate export license each time it is required to export such items under that agreement. In fact, for certain items, a United States based party must obtain that agency's consent before even proposing such a transaction to a foreign based party.

In many countries, licensing agreements must be registered with a government ministry. In Japan, for example, all international licensing agreements must be registered with the Japan Fair Trade Commission. That commission has the power to declare an agreement invalid and/or to order the parties to the proposed agreement to eliminate provisions which it believes are inconsistent with Japanese law.

Most international licensing agreements involving Japanese based parties must also be submitted to the Ministry of International Trade and Industry (MITI) and the Minister of Finance. Although the approval of MITI and the Minister of Finance is not required per se, those agencies and officers are empowered to alter, or even suspend, the licensing agreement. If a foreign based party negotiates with a prospective Japanese licensee without taking account of the Japanese Government's eventual participation in the licensing process, that foreign based party may find itself in what appears to be an entirely new round of negotiations after it had seemingly finalized the license with its licensee.

One way of ensuring that all required government approvals are in place is for the United States-based party to require the foreign party to represent and warrant in the agreement that all consents of government officials necessary for the agreement to become effective have been obtained, or will be obtained as of a certain date. In some circumstances, additional steps may be warranted, such as requiring the foreign based party to provide an opinion from foreign legal counsel, retaining one's own foreign legal counsel, or making such

13. Id. § 126.8.
15. Id.
16. Id. at JA-2.
17. Id.
government approvals a condition to the agreement's effectiveness.

V. ROLE OF FOREIGN ATTORNEYS

A United States based party to an international licensing agreement may very well, at some point in the course of negotiating or performing under its agreement, be required to retain the services of a foreign attorney. In that regard, the United States based party should be aware of some of the differences in training and experience that often exist between United States and foreign attorneys.

United States attorneys are trained to analyze transactions and serve as advisors to their clients on legal considerations arising in business contexts. In fact, most United States law schools teach aspiring attorneys by the case method, where actual cases are dissected and analyzed as the legal equivalent of cadavers. United States attorneys tend to define legal advice very broadly, so as to include corporate and tax planning and the general structure of the business transaction. Most United States attorneys do not hesitate to make observations about the structure of a transaction, even without being asked. For this reason, the line between legal advice and business advice is a somewhat difficult line to draw in the United States.

Foreign attorneys, on the other hand, often are trained in a more academic and theoretical surrounding. They thus tend to be used by their clients more strictly as legal advisers. As a result, foreign attorneys have a quite different relationship with their clients than do United States attorneys.

Just as foreign based parties are not as experienced in working with United States counsel as are United States based parties, so are United States based parties somewhat inexperienced in working with foreign counsel. Rather than retaining foreign counsel directly to advise on a particular international agreement, the United States based party is usually better served by using its United States counsel as a liaison with foreign counsel. United States attorneys, and particularly those specializing in international transactions, have extensive experience in working with foreign counsel, and vice versa.

VI. ARBITRATION OR LITIGATION

Another key issue in international licensing agreements is whether the parties should adopt an arbitration clause which provides that any controversy arising out of their agreement be settled by arbitration. If the licensing agreement does not include such an arbitration
clause, the parties’ controversies would probably have to be resolved through litigation.

Many factors must be considered when deciding whether to opt for arbitration or litigation as a means for dispute resolution. Arbitration is less adversarial, and more confidential18 than litigation. Japanese companies have a particularly strong dislike of litigation; they tend to consider the initiation of litigation to be tantamount to a public admission that the parties have failed to act reasonably. In contrast, Japanese companies believe that arbitration is much more conciliatory, by its very nature, and thus consistent with developing and maintaining a healthy business relationship.

Many parties opt for arbitration due to its perceived speed, convenience and cost advantages, as compared to litigation.19 In some cases, enforcing an arbitration award in another country may be easier than enforcing a court judgment in that country, as enforcement of arbitral awards is facilitated by an international convention known as the “New York Convention.”20

However, there are also many drawbacks to using arbitration. Discovery is limited, no formal sanctions are available to admonish party misconduct, and the cost of arbitration may in some circumstances be higher than the cost of litigation. Furthermore, an exclusive choice of arbitration will preclude a party from seeking injunctive or similar relief.21

18. Arbitration hearings are usually closed to those persons who are not involved in the proceedings. See International Chamber of Commerce Rules art. 15, § 4 [hereinafter ICC Rules]; United Nations Conference on International Trade Law Rules art. 25, § 4 [hereinafter UNCITRAL Rules]; American Arbitration Association Rules § 25 [hereinafter AAA Rules]. Even the resulting arbitration award may, in some cases, be made public only with the consent of both parties. UNCITRAL Rules art. 32 § 5.

19. Some attorneys, however, question whether arbitration is really cheaper and quicker than litigation. As an initial step, litigation may be necessary to compel a party to arbitrate a particular issue. See AT&T v. Communications Workers of America. 475 U.S. 643, 649. In some instances, arbitration may actually add steps to the litigation process. In England, for example, under its former arbitration law some arbitrators’ awards can be taken to an appeals board within the relevant trade association, and then to the regular courts—first the High Court, then the Court of Appeal and finally to the House of Lords—thus adding two additional steps, as compared to appellate procedures for litigated judgments. See Meek and Feltham, Foreign Sales Distribution, Licensing and Joint Venture Agreements, 17 DE PAUL L. REV. 46, 56 (1967).

20. 1958 United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, 21 U.S.T. 2517, TIAS No. 6997, 330 U.N.T.S. 38 (implemented in the United States by 9 U.S.C.A. §§ 201-208) (1984). Fifty nations have entered into the Convention, which provides that each contracting state shall recognize arbitral awards as binding and enforce them if they were rendered in another contracting state. Grounds for resisting enforcement of foreign arbitral awards are strictly limited by the Convention.

21. An exclusive choice of arbitration will preclude a party from going to court to enjoin
The alternative means of resolving disputes between the parties is to submit such disputes to the courts of some country. As discussed above, choosing a country other than the home jurisdiction of one of the parties to the agreement is costly, and sometimes not even possible, depending on the choice of forum rules of the chosen neutral jurisdiction. As for litigating in the home jurisdiction of either party to the agreement, national bias and possible political influence over the courts may hinder a United States based party's ability to receive a fair trial in a foreign court. Likewise, and quite understandably, foreign based parties tend to be reluctant to submit themselves to United States' courts, and view arbitration as a more impartial and neutral way to resolve disputes. Uncertainty regarding the procedural and substantive rules to be applied, and possible difficulties in enforcing the judgment upon assets in different countries, make litigation even less attractive. Thus, in many foreign countries, most disputes between parties of different nationalities are handled through arbitration.

If the parties choose to include an arbitration clause in their agreement, many more decisions must be made. An arbitration clause should at least indicate the language in which the arbitral proceedings will be conducted, the site of the arbitration, the governing procedural rules and a restatement of the choice of governing law. If it is the intent of the parties that arbitration, as described in their agreement, shall be the exclusive forum for resolving their disputes, then the arbitration clause should specifically so state.

One of the most critical and yet difficult decisions is what procedural rules should be chosen to govern the arbitration proceeding.

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22. Judgments from United States' courts are either not enforceable, or only enforceable if certain conditions are met, in nearly two-thirds of the countries of the world. See D. Wilson, INTERNATIONAL BUSINESS TRANSACTIONS IN A NUTSHELI 394 (1984).

23. Some popular arbitral sites outside the United States are Paris, Geneva, Stockholm, and London. Alternatively, the parties may choose to rely on some international arbitration protocol to determine where an arbitration should be conducted. See, e.g., The Japan-American Trade Arbitration Agreement of September 16, 1952 (between the Japan Commercial Arbitration Association and the American Arbitration Association), reprinted in 7 ARB. J. 151-52 (1952). According to this agreement, if a contract does not specify where the arbitration is to occur, a location will be selected by a three-person committee, consisting of a representative of the Japan Commercial Arbitration Association, a representative of the American Arbitration Association, and a third person who is not a member of either association.
The most commonly chosen procedural rules are those of the American Arbitration Association, the ICC and UNCITRAL.24

For the United States based party, choosing AAA procedural rules is probably preferable, because they follow the familiar Federal Rules of Civil Procedure more closely than do any other procedural rules. Precisely for that reason, the foreign based party may insist on either ICC or UNCITRAL rules in order to follow more "neutral" procedures.

In any event, neither party should blindly choose a set of procedural rules merely because they are familiar or neutral. Each set of rules has its good and bad points, which must be considered in light of the most likely scenarios under which an arbitral proceeding might arise between the parties. For both parties, this exercise involves a bit of sooth-saying, as arbitral procedural rules must be chosen, if at all, during the negotiation of the license agreement, when the prospect of any serious disputes between the parties usually seems remote, at best.

The AAA procedural rules provide for cross-examination of witnesses, whereas the ICC and UNCITRAL do not.25 Also, AAA arbitrators in certain circumstances have the authority to subpoena documents and witnesses.26 However, the importance of an oral hearing under the AAA Rules27 may increase the cost of arbitration.

The UNCITRAL Rules are somewhat similar to the AAA Rules. The UNCITRAL Rules specifically provide that "the arbitral tribunal shall apply the law designated by the parties as applicable to the substance of the dispute."28

The ICC Rules stress efficiency;29 a speedy resolution of a dispute is thus perhaps more likely under this system. However, the arbitrator's fees in ICC proceedings are assessed according to the amount of the claim,30 which can make an ICC arbitration much more


27. See AAA Rules § 37 (providing that the parties may waive oral hearings only by written agreement).


29. See, e.g., ICC Rules art. 14 (ordering the arbitrator to proceed within as short a time as possible to establish the facts of the case).

30. ICC Rules art. 20, app. III.
expensive than arbitrations under the AAA or UNCITRAL Rules. Furthermore, it is the arbitrator, and not the parties, who determines the language in which an ICC arbitration proceeding shall be conducted.  

VII. JOINT VENTURE LAWS

In order to encourage licensors to introduce their technologies or ideas into new markets, many countries, particularly in the Eastern Bloc and the Third World, have enacted joint venture laws. Those statutes are designed to provide foreign companies with assurances as to how they will be treated if they enter into joint venture arrangements with parties based in those countries. Such assurances are particularly helpful in the Eastern Bloc and the Third World, where the local legal systems are not well known for their even-handed treatment of foreign companies.

Any licensor considering the possibility of entering into a joint venture outside the United States would be well advised to review the joint venture law of its foreign partner's country before beginning to negotiate. Such laws often go into great detail on issues which, in domestic licensing arrangements, are left to private contractual arrangements between the parties.

For example, the Polish joint venture law of 1986 discusses the structure of joint venture companies, the maximum percentages which can be owned by foreign based parties, how control can be allocated between the parties, types of businesses in which the joint venture company can engage, what government permits must be secured, use of foreign employees, use of state-owned land, foreign exchange requirements, reserve fund requirements, distribution of profits, establishing accounts in local banks, taxes, arbitration, guaranties by the Central Bank, transfer of interests in the joint venture company and dissolution of the joint venture.  

The Chinese Equity Joint Venture Law requires joint ventures to take the form of a limited liability company. Ownership and representation on the company's board of directors are both determined by the proportion of equity invested by each joint venturer. How-

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31. ICC Rules art. 15, § 3.
34. Id. at ¶ 6-550(34).
ever, China has only recently adopted joint venture laws.\textsuperscript{35} Many Chinese policies regarding joint ventures have evolved rapidly and dramatically during the past decade, and will likely continue to change in the near future. For example, in 1979 the Chinese envisioned joint ventures exclusively as a means of earning much needed foreign currencies.\textsuperscript{36} Consequently, they set up nearly insurmountable obstacles to domestic sales by such joint ventures.\textsuperscript{37} In contrast, the Chinese Government now allows joint ventures to sell in the domestic Chinese market.\textsuperscript{38}

At perhaps the other end of the spectrum, joint ventures in Australia are governed purely by contract law. Australian joint ventures are unincorporated associations and are unregulated, as such, by either federal or state governments. Investors may find one element of Australian law concerning joint ventures particularly appealing: liability to third parties is limited to the amount of a party's investment in the joint venture.\textsuperscript{39}

Even licensor who are not considering the possibility of entering into joint ventures outside the United States should review such joint venture laws (or the lack thereof), both to confirm that their proposed transactions would not be covered by such laws and to evaluate their proposed transactions against what could be done if a joint venture were established. It is sometimes a rather fine line between a licensing arrangement which gives the licensor a percentage of the licensee's profits and a joint venture between the licensor and licensee. In fact, some royalty-paying licensing arrangements are referred to as "non-equity joint ventures."

If a United States based party wants to enter into a joint venture, it is critical that it evaluate the relevant foreign joint venture law as soon as possible. A foreign based party's willingness to participate in discussions about a possible joint venture cannot be taken as proof that such a joint venture would, in fact, be feasible under the joint venture law of that party's country. For example, Indian companies have been known to engage in discussions about possible

\textsuperscript{37} Id. at 856.
\textsuperscript{38} Id. at 858-59.
joint ventures, knowing full well that the Indian Government would not issue the required foreign exchange permits. Thus, they received the opportunity to review confidential information to which they would otherwise have been denied access.

VIII. TECHNOLOGY TRANSFER LAWS

Many countries, again in the Eastern Bloc and the Third World, have enacted technology transfer laws which empower specified government agencies to set conditions on the importation of technology into those countries. One interesting example of such laws is Poland’s Technology Order of 1986, which outlines criteria used by Poland’s Ministry of Foreign Trade in evaluating proposed technology transfer agreements.40

At least in Poland, those criteria consider whether an agreement specifies how rights should be transferred between parties to a license agreement. Those criteria also provide that an agreement should specify the licensor’s obligations if a license infringement occurs, and designate the applicable law and arbitration procedures.41

Poland’s Technology Order of 1986 also states that a Polish licensee should attempt to secure certain provisions in a technology import agreement. The agreement should describe the scope of the technology being licensed and the scope of the patent protection being offered. The agreement should also list all earlier licensees and the possibility of the technology’s use after the agreement’s expiration. In addition, the agreement should give the licensee sublicensing rights in Poland.42

A foreign based party licensing to a Polish entity is expected to guarantee the technology’s performance. The licensor should also assist the licensee in installing and operating the technology. The licensor should grant the licensee most favored licensee status, and bear responsibility for any third-party infringement on the licensed technology.43

Poland’s Technology Order of 1986 requires that technology agreements not damage Poland’s economic and technological progress, or its international technology trade. Accordingly, a license agreement

40. That order was issued pursuant to the Council of Ministers Decree No. 184, dated November 15, 1985. See Janiszewski, New Rules Concerning Technology Transfer in Poland, 20 J. WORLD TRADE L. 571 (1986).
41. See id. at 573.
42. Id.
43. Id.
should not prevent the licensee from adopting or developing other technologies. The license should not require licensees to grant back rights to technology which they develop during the term of the license. The license should allow the licensee to contest the validity of the licensor's intellectual and industrial property rights.44

Similarly, a license agreement should not fix the price of goods manufactured in accordance with the licensed rights. The license should not require the licensee to exclusively use the licensor's marketing organization. The license should not limit the licensee's export rights. The license should not require the licensee to buy certain goods and services, unless those goods and services determine the products' quality, the technology's performance, or the grant of trademark rights.45

The Technology Order of 1986 limits the ability of parties to a license agreement to restrict a licensee after the license expires. The license should not restrict a licensee's post-expiration use of the licensed technology. The license should not require the licensee to make payments to the licensor for more than three years after the license's expiration.46

Where these and similar criteria are strictly followed, such technology transfer laws severely limit contractual restrictions which most licensors routinely impose on their licensees. Agreements which pass muster under these criteria will give foreign licensees the right to keep, develop, and export technologies obtained through licenses. Although licensors normally attempt to prevent licensees from becoming competitors in the licensor's home market and in third countries, licensors may not be able to do so when licensing under these conditions.

By way of comparison, the Argentine Technology Transfer Law (TTL) applies to cases where technology is exchanged for consideration. Where there is no consideration for the transfer of know-how, the TTL is inapplicable.47 Under the TTL, license agreements even between affiliated companies require prior governmental approval.48 This approval is routinely granted.49

44. See id. at 574.
45. Id.
46. Id.
49. Id.
The Chinese laws concerning technology transfer are codified in the Regulations on Administration of Technology Import Contracts of the People’s Republic of China\(^\text{50}\) and the Procedures for Examination and Approval of Technology Import Contracts.\(^\text{51}\) The combination of the two statutes provides a “fairly comprehensive but flexible regulatory scheme . . . .”\(^\text{52}\)

Article 9 of those regulations requires that foreign investors obtain special authorization from the Ministry of Foreign Economic Relations and Trade before any of nine restrictive clauses can be incorporated into a technology transfer contract.\(^\text{53}\) The nine restricted clauses include restrictions on sales channels and export markets which are considered unreasonable and restrictions on the Chinese based party’s ability to make purchases from third parties.\(^\text{54}\)

The regulations also contain provisions favorable for foreign investors. For example, Article 7 requires that the Chinese based party maintain the confidentiality of any trade secrets disclosed to it by the foreign investor.\(^\text{55}\)

Of course, transfer of technology from a United States licensor to a Chinese licensee is further complicated by United States export control laws and the changing political relationship between the United States and China. In 1984, China was, for the first time in recent history, put in the same category, for export control purposes, as some of the United States’ closest allies.\(^\text{56}\) Apparently, the goal of that re-categorization was to facilitate United States investment in China.\(^\text{57}\) Those liberalized policies will likely last as long as the political atmosphere between the two countries remains friendly.

Technology transfer laws may also effect the foreign based party’s ability to export technology to the United States and other countries. For example, Japan has severely restricted the export of technology from Japan which relates to offensive military products.

\(^{50}\) Promulgated May 24, 1985, \textit{reprinted in} China Laws for Foreign Business (CCH) ¶ 5-510.

\(^{51}\) \textit{Id.} ¶ 5-573 (effective Sept. 10, 1985).


\(^{53}\) China Laws for Foreign Business (CCH) ¶ 5-570(a) n. 22E.

\(^{54}\) \textit{Id.}

\(^{55}\) \textit{Id.}

\(^{56}\) 15 C.F.R. § 385.4(c) (1984). Other countries in this category include those in Western Europe, Japan, and Australia.

IX. METHODS OF PAYMENT

Sellers of goods and services in domestic transactions in the United States have, relatively speaking, an easy time describing how they are to be paid. Both parties transact business in the same currency; how that currency fluctuates relative to other currencies is largely irrelevant. To the extent the seller extends credit to its purchaser by shipping prior to being paid, it can usually rely on a purchase money security interest in order to secure payment by the purchaser. There are no governmental limitations on the flow of capital between the parties, regardless of where they may be located in the United States.

Unfortunately, each of these issues must be carefully addressed in an international license agreement. As longer periods are usually permitted in international agreements between the shipment of goods and rendering of services, on the one hand, and payment for such goods and services, on the other, fluctuation in the respective currencies of the parties during that period can make what was a reasonable purchase very cheap or very expensive. In the long term, however, the risk of harm from such fluctuation may be balanced by the chance of profit from fluctuation in the other direction. For small companies, however, they may not be able to last long enough to enjoy that gamble.

Either party may, of course, attempt to avoid such risks altogether by insisting on billing and collecting (or, if a licensee, being invoiced in and paying in) its own currency. Such a position, however, shifts the entire risk of currency fluctuation to the other party. Dividing that risk between the parties will, in contrast, produce complicated and detailed contractual provisions that often are the envy of mathematics professors and the bane of arbitrators or judges who may someday be asked to interpret them.

For a licensee selling products in several different countries and collecting payments in each of several different currencies, the risks are still greater. In what currency (or currencies) must the licensor be paid its royalty on such products? At what time will the licensee be required to convert various sales into a designated currency or currencies for the purpose of calculating such royalties? Will either party be allowed to unilaterally change that designated currency or currencies?

Beyond such currency problems, the licensor in an international licensing transaction must pay particular attention to how it will insure that it will be paid. If a security interest in the licensee's home
country is unavailable or unreliable, the licensor may seek payment pursuant to some type of letter of credit arrangement. Ideally for the licensor, drawing down on that facility will either be automatic as of specified dates, or else subject to the presentation of documents which can be produced unilaterally by the licensor. Depending on the size and credit history of the licensee, however, establishing a letter of credit may be as difficult and costly as paying for the goods, services or rights in advance. Alternatively, payment schedules may provide for frequent payments, so that at no time will the seller get too far ahead of the payments which have already been made.

No matter what currency is selected by the parties as the currency of payment, a foreign licensee may be legally barred from remitting such funds to a United States licensor if that currency is unavailable in the licensee’s country or if the government of the licensee has imposed limits on the ability of its citizens to remit such currency outside its borders. In the Eastern Bloc and the Third World, obtaining a foreign exchange permit to make payments as required under a licensing agreement is very often the most critical condition precedent to the granting of a license.

Such problems are not limited to licensees from less developed countries. In Japan, remittances of U.S. Dollars are still controlled by the Japanese Ministry of Finance. MITI approval of a license agreement, however, assures that such remittances may be made. Until the Conservatives’ election in May 1979, the United Kingdom imposed restrictions on payments in currencies other than Sterling to parties outside its borders. When Francois Mitterrand’s fiscal policies contributed to a rapid decline in the French Franc during his first two years in office, his government was forced to impose strict limits on spending by French nationals outside of France, and effectively barred most Frenchmen from vacationing abroad.

X. EXPORT CONTROL PROBLEMS

The United States regulates the export of goods, services, and related technologies to other countries through a number of different

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59. A $285 limit was placed on the amount of currency which French nationals were allowed to carry with them when traveling outside France. Battle for the Franc, Time, Apr. 4, 1983, at 36.
pieces of legislation. Restrictions vary according to the product and foreign country involved. In some cases, a product can be exported without any prior government approval. In others, the exporter must obtain, prior to shipment, a specific license or similar authorization from the appropriate government agency. In a few cases, due to the sensitive nature of the product or the identity of the destination country (e.g., Libya or Iran), an export may be prohibited altogether.

Making a complicated situation still more complicated is the fact that United States export restrictions tend to change very quickly, with little or no notice, depending on the political situation of the day. Depending on the particular situation, new, more restrictive rules may even be imposed retroactively, affecting transactions already entered into by a United States based party but where goods, services, or technology have not yet actually been exported as required by such agreements.

These abrupt regulatory changes can have a particularly chilling effect on licensing transactions. Even where the United States based party is sending only ideas to the foreign based party, such exports of "technical data" may be barred. In fact, it is such exports of technical data, by which foreign based parties learn how to make sophisticated products on their own, that often attract special interest when political crises result in the imposition of export restrictions.

United States based parties can attempt in a number of ways to shield themselves from such sudden shifts in export regulations. If title to the goods or data passes in the United States, it becomes the foreign based party's duty to obtain the necessary United States export licenses and authorizations. Alternatively, an agreement may

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60. The most important of those export-regulating statutes are the Export Administration Act, 50 U.S.C. app. §§ 2401-2420, which is administered by the Department of Commerce, and the Arms Export Control Act of 1976, 22 U.S.C. §§ 2751-2779, which is administered by the Department of State.

61. If a general license is available, the only requirement a United States party must meet is, at the time of export, to complete properly the required Shippers Export Declaration, indicating what specific type of general license is being relied upon.

62. For example, in April 1980, President Carter issued an executive order prohibiting "[t]he sale, supply or other transfer, by any person subject to the jurisdiction of the United States, of any items, commodities or products ... from the United States ... either to or destined for Iran ...." Exec. Order No. 12,205, Apr. 7, 1980, 45 Fed. Reg. 24,099 (1980), reprinted in 50 U.S.C.A. app. § 1701 (1987).

63. For example, when exports to the Soviet Union were restricted in December 1979 due to the Soviet invasion of Afghanistan, the new regulations specifically banned any further exports of technical data in connection with Kama River and NIL truck manufacturing plant. Apparently, after permitting earlier data exports on assurances that such plant would only produce trucks for agricultural uses, the Carter Administration was disturbed to see news footage of trucks from that plant rolling into Afghanistan, with Soviet troops aboard. 15 C.F.R. § 385.2(e) (1987); 47 Fed. Reg. 9201-01 (1982).
provide that a United States based party's failure to export goods or data because of its inability to obtain the necessary license or authorization is not a breach or violation of that agreement; although the United States based party may not get paid for that particular good or data, the remainder of the agreement can continue to be valid and effective.

XI. FOREIGN TAXES

This article cannot even begin to deal with the various issues that must be addressed under the tax laws of the United States and other countries, as modified by double tax treaties between the United States and such countries. However, several common problems should at least be noted here.

Perhaps the most important of these issues is the taxation of international payments of interest, dividends, and royalties. Tax on these types of income usually is collected by requiring the licensee to withhold tax at fairly high rates on the gross amount of the income, with minimal deductions. However, tax treaties frequently reduce and sometimes eliminate these high rates, so long as the licensor complies with the conditions laid down in the particular treaty.

Another important issue concerns the taxation of related entities. The United States and many other countries impose special rules on transactions involving foreign subsidiaries, particularly those located in "tax havens." These issues are particularly troublesome under United States tax laws when the license agreement is negotiated on something less than an arm's-length basis with an affiliated foreign based licensee.

A further issue which commonly arises concerns the creditability of foreign taxes in calculating the United States based party's United States income taxes. This is both a definitional issue (i.e., is this the type of tax for which a credit is available?) and a computational one (i.e., what limitations are there on the amount of the credit and are there any timing problems?). In many cases, answering these questions will involve sophisticated international tax planning.

International tax planning professionals should be asked at the earliest possible stage to suggest structures to reduce or eliminate withholdings and to advise on other international tax issues.

XII. FINAL THOUGHTS

International licensing agreements often present troubling issues involving choice of law, choice of forum, extraterritorial protection
of intellectual property, need for government approvals, use of foreign attorneys, choice of arbitration or litigation, foreign joint venture and technology transfer laws, fluctuations in exchange rates, securing payment obligations, limits on payments in specified currencies, sudden changes in export control regulations, and taxability of activities under foreign tax laws. Most of those issues have no equivalent in domestic licensing agreements.

Advising on such issues must be done with a knowledge of, and certainly a very strong respect for, how United States and foreign laws can take many of these decisions away from the parties to a license agreement and convert them into issues of national security or economic development that are closely monitored by foreign governments and the United States Government. Licensing in the United States between United States based parties often is largely a private matter, but licensing between United States based parties and foreign based parties is very much a public concern, from the perspective of both foreign governments and the United States Government.