LES / CVCI

Know-How in Technology Transfer Agreements

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This LES seminar on know-how in technology transfer agreements (TTAs) was organized in two parts. In the first part, JACQUES DE WERRA, Professor of contract law and intellectual property law at the University of Geneva, presented an overview of the legal issues surrounding the transfer and licensing of know-how and how these issues may be addressed in TTAs, after a general introduction to the seminar made by Mr. RAYMOND REUTELER on behalf of LES-CH. He focused especially on contractual (I.), regulatory (II.), and enforcement (III.) issues.

Prof. DE WERRA introduced the subject matter by stating that there is no international legal definition of know-how and that the legal protection of know-how is generally not conceived as a property right, so that the contractual protection of know-how is of key importance and must be taken into account when drafting and revising a TTA. He continued with the presentation of the international regulatory framework for the protection of know-how, which may be protected by Article 39 TRIPS (as trade secrets) and Article 10bis of the Paris Convention for the Protection of Industrial Property (under unfair competition law). He also drew the attention to international regulations and trends which may negatively affect the position of owners of know-how (see Article 7 , 8, and 66 para. 2 TRIPS, which promote the transfer of technology to the least developed countries) and on the pending discussion in the context of climate change (see the United Nations Framework Convention on Climate Change [UNFCCC] negotiating text of the twelfth session of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (http://unfccc.int/resource/docs/2010/awglca12/eng/14.pdf), which advocates compulsory and royalty-free licensing of know-how in some circumstances).

He also reminded that it is crucial to take competition law into account when drafting and using TTAs because its application is mandatory and can have a significant impact for the parties (i.e. penalties imposed on the contracting parties and/or declaration of invalidity of the agreement invalid).

I. The part on contractual issues focused on five different elements: the nature and scope of the transfer (1), the definition of the know-how and the confidentiality obligation (2), the transfer of the know-how (3), the defective know-how and infringement claims (4), and the post-contractual use (5).

1. The nature of the transfer is important to define in a TTA given that the technology can be transferred (by way of a full assignment) or merely licensed for use to the contracting party. In most cases, a license on the technology is granted under a TTA. In addition to the substantial and the territorial scope, it is also critical to define the personal scope of the license, i.e. the persons and entities which shall obtain a right of use, including whether the licensor will grant the right to the licensee to sublicense the know-how or if it could be used by another entity in a corporate group (group license).

2. Since there is no international definition of know-how, it must be clearly defined in the TTA (for an example of a contractual definition, see «Monovis v. Aquino», 905, F. Supp. 1205, Dist. Ct. W. Dist. NY 1994). In this respect, it is crucial to implement an enforceable confidentiality clause in the TTA, which should extend beyond the term of the agreement and contain penalties if it is breached. The licensor should also beware of local labor policies which can promote employee mobility and thus insufficiently protect know-how and trade secrets. The risk of the know-how being disclosed that way to third parties can be minimized by imposing on the licensee the adoption of protective non-compete and/or confidentiality clauses in its contractual relations with its employees.

On the other hand, the licensee should beware that it might need to disclose the know-how to a governmental authority to obtain the regulatory approval of the product. An exception to the non-disclosure clause can be drafted for this purpose (see “Merck & Co., Inc. v. Smithkline Beecham Pharmaceuticals Co.”, 1999 Del. Ch. LEXIS 242, Court of Chancery of Delaware, 1999).

3. The licensor has the obligation to disclose (transfer) the know-how to the licensee, but not necessarily the improvements made to it during the term of the TTA if the agreement is silent on this issue. The licensee, on the other hand, may have an obligation to disclose any improvement to the licensor. In this respect, it is important to contractually distinguish the improvement of the know-how from the independent development of the licensee.

4. As a matter of principle, the licensor can be held liable if the transmitted know-how is defective (see ATF 115 II 255 and German BGH 1979, GRUR 1979, 768). To prevent such liability, the licensor should contractually exclude any warranty on the know-how. The licensor could also be liable for infringing third party rights (whereby this can be imposed under certain local technology import-export regulations, see Article 24 of the Regulations on Technology Import and Export Administration of the People's Republic of China). The reverse situation, in which a third party infringes the know-how licensed through a TTA, inquires about the licensee's standing to sue. This should be assessed in the agreement, and it would also be important to contractually allocate the cost of legal procedures. The licensor should support them to entice the licensee to take action for the protection of the know-how.

5. It is recommended to regulate the post contractual use of the know-how by the licensee in the agreement, especially where the relevant law does not provide any solution on this issue. Should the TTA and the law be silent, undesirable effects could arise: "[w]hen the agreement comes to an end, there is no right to acquire further information, but the recipient can go on using that which he has already received. He is not bound to close down the business which he has built up by using it." ("Regina Glass Fibre Ltd v. Werner Schuller", [1972] FSR 141 [England and Wales Court of Appeal]). It should be noted in this respect that royalties for the post patent expiration period termination can be collected by the licensor in cases of hybrid (patent and know-how) TTAs (see Handelsgericht Zurich 1996 [sic! 1998, 97] and "Pitney-Bowes v. Mestre", 517 F. Supp. 52, US Dist. Ct S.D. Florida 1981).

II. Prof. DE WERRA then presented an overview of certain regulatory risks of disclosure and misuse of the know-how in international TTAs. The first risk relates to the process of obtaining market approval by a governmental authority. In some countries (e.g. China), the know-how must be disclosed to the relevant official body before a product can obtain market approval which may cause confidentiality difficulties. Another risk of know-how leakage can come from corporate structures. In certain industries, the setting up of a joint venture with a local company could be imposed (see for example Article 8 of the Chinese Rules of the Supreme People's Court on Related Issues concerning the Application of Law in Hearing Foreign-Related Contractual Dispute Cases Related to Civil and Commercial Matters). Finally, the undesired disclosure and misuse of the know-how could arise, resulting from a restrictive import/export regulation.

III. The effective enforcement of the protection of know-how is of key interest to the contracting parties to an international TTA. It is indeed particularly important to take into account two elements when choosing the forum state and/or the type of dispute resolution for the enforcement of the TTA. Firstly, in some states the judicial procedures are public and/or published, thus potentially leading to the undesirable disclosure of the know-how (which has been heavily criticized with respect to Japan). Secondly, the licensor may want to choose a forum state where courts have jurisdiction to impose permanent injunctive reliefs (for an example see "Monovis v. Aquino", 905 F. Supp. 1205, Dist. Ct. W. Dist. NY 1994). Efficient injunctive remedies are indeed critical in most know-how misappropriation case. The last enforcement issue that was presented related to the efficiency of the ADR mechanism. The ADR clause, to be efficient, should encompass all claims (i.e. not only contractual claims) relating to the contract (for an example of a case in which this was disputed in connection with a "secrecy agreement", see Swiss Supreme Court, sic! 2003, 826).

Prof. DE WERRA concluded his talk by stating that know-how is fragile like an ice cube by reference to the statements made by LORD DONALDSON, in the case "A.G. v Guardian Newspapers Ltd" (England and Wales Court of Appeal 1989) who wrote (about "confidential information", whereby this also applies to know-how): "Give [the confidential information/know-how] to the party who undertakes to keep it in his refrigerator and you still have an ice cube. […] Give it to the party who has no refrigerator and will not agree to keep it in one, and […] you just have a pool of water which neither party wants. It is the inherently perishable nature of confidential information which gives rise to unique problems." The know-how – which, as was reminded, is not a property right – can however be protected by well drafted and tailored TTAs that take into account all the above mentioned issues, especially the fragile nature of the know-how and the differences of local regulations.

The second part of the seminar was dedicated to a more practical approach of know-how with the presentations of industry practitioners coming from different fields who shared their experiences and their views on various aspects of technology transfer.

BEAT WEIBEL, Group Vice President – Head of IP at ABB Group, mentioned that the strategy of ABB Group is not to rely primarily on know-how to protect their intellectual property. They envisage patents (which protect most of their inventions) as the "armoring iron in the Technology Building" and the know-how as the "concrete surrounding it". BEAT WEIBEL also said that – to have a better control over the creation and use of technology and to decrease the risks relating to employee leakages – they have built a corporate structure where the technology and IP is owned by a technology holding company, and where documented and identified confidential know-how is kept in a central database. On the other hand, the "non-qualified know-how" (defined by Mr. WEIBEL as the technical skills of engineers and workers that is not kept confidential and that is not identified), due to its delocalized nature, is not stored in this central database but owned by the local companies.

Dr. LUCIENNE CICUREL, Director of External Affairs at Debiopharm Group, and VANESSA CURRAT, Director of Legal affairs at Debiopharm S.A., explained that, due to their very specific business model they need to pay very careful attention to all intellectual property assets including know-how issues given that they first acquire intellectual property from third parties and then (out)license it after the drug development, thus entering into many TTAs. Intellectual property strategy is therefore unique for each project and all agreements entered thereof are tailor made and adapted to each project's specificity. Mrs. CURRAT presented key issues for two case studies: in-licensing and supply agreements. She insisted on the fact that several clauses have to be carefully monitored and suggested some tips on: definition, disclosure, exclusivity, access to background and foreground intellectual property, specific financial considerations for know-how versus patents, as well as warranty clauses that are definitely of high importance for all types of agreements.

Dr. ANDREW BAUER-MOORE, Patent Counsel at Du Pont de Nemours International S.A., emphasized that, know-how being volatile, it is important to be diligent in choosing the licensee with whom to enter into a TTA. He also explained how Du Pont de Nemours uses know-how to grow their market share in their different business lines. In the polymer most specifically, since most of the polymer patents they owned expired, they offer to transfer know-how relating to polymers without a fee to clients who purchase said polymers from Du Pont. If the clients choose to purchase the polymers from another supplier, and wish to use Du Pont's know-how, they will have to pay some royalties.

Dr. ALAN COOKSON, Licensing Executive at UNITEC, explained that UNITEC's goal is to identify and protect intellectual property arising from academic research, and to preserve, develop and realize the value of such intellectual property. In this respect, he mentioned that UNITEC has to deal with distinct issues, on the one hand, relating to the academic resistance to patent the results of their research (or to protect it as know-how) and to enter into TTAs with private entities, and, on the other hand, relating to the reluctance that some private entities may have to negotiate with academic partners. He discussed some ways to improve technology transfer between public institutions and commercial companies (e.g. to include commercial "thought" straight into the academic research plan or pre-sell the research to commercial entities, thus creating more interactivity between both "worlds").

As the last speaker, MICHÈLE KLINGMAN, Corporate Counsel – Franke Artemis Group, presented the corporate structure of her group and explained how a company of the holding owns all intellectual property assets of the Franke Artemis Group, i.e. including know-how. In exceptional cases, the company only manages centrally these assets. In addition to the creation of intellectual property by its own employees, Franke Artemis uses different strategies to acquire intellectual property from third parties, for example: "direct" acquisition through a TTA, acquisition of other companies, and research and development agreements with universities. Regarding this last case, Mrs. KLINGMAN explained that Franke Artemis Group adopts different approaches depending on the project but mostly it finances the research in exchange of the ownership of intellectual property rights or at least an exclusivity clause which enables them to use the developed intellectual property for at least two years in their business field, thus letting the university use/develop it in other fields.

In sum, this seminar offered a very useful opportunity to present and discuss about the complexities of

the contractual protection of know-how and emphasizes the importance of such protection from the perspective of the industry.

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